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Technical Director  
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Financial Accounting Standards Board  
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**Proposed Accounting Standards Update:  
Financial Instruments - Overall (Subtopic 825-10): Recognition  
and Measurement of Financial Assets and Financial Liabilities**

We appreciate the opportunity to comment on the proposed Accounting Standards Update entitled *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“the Proposal”). BB&T Corporation and its subsidiaries (“BB&T”) offer full-service commercial and retail banking and additional financial services such as insurance, investments, retail brokerage, corporate finance, treasury services, international banking, leasing and trust.

We support the Financial Accounting Standards Board (“FASB” or “the Board”) in its efforts to provide a consistent, comprehensive framework for classifying financial instruments that links the measurement of those assets to the manner in which an entity expects to benefit from the cash flows arising from those assets. We believe that the framework outlined in the Proposal, which focuses on a financial instrument’s contractual cash flow characteristics and the business model used by a reporting entity in managing its financial assets, represents a reasonable approach for recognizing and measuring financial assets.

Notwithstanding our general concurrence with the Board’s proposed approach, we have identified certain issues that warrant the Board’s attention during its re-deliberation process. First, we believe the Board should reconsider whether its constituents have been provided an adequate amount of time to evaluate the consequential amendments to the Accounting Standards Codification (“the Codification”) that were issued on April 12, 2013. In addition, we believe the Board should consider providing clarifying guidance related to the potential impact of the Proposal on the accounting for purchased credit-impaired (“PCI”) assets and investments in affordable housing partnership interests, eliminating certain presentation and disclosure-related requirements, and implementing a less restrictive contractual cash flow criterion.

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In addition, while we recognize that the FASB and the International Accounting Standards Board (“IASB”) have made significant progress towards promulgating a converged approach related to the recognition and measurement of financial assets and liabilities, substantial convergence has not yet been achieved. In particular, we believe the Boards should strive to develop converged application guidance to ensure consistent recognition and measurement of financial instruments, and continue to seek a converged approach related to the accounting for equity investments.

We have provided more specific comments related to the Proposal as follows:

### **The Board should reevaluate how consequential amendments to the Codification are exposed for public comment**

On April 12, 2013, the Board issued a companion document to the exposure draft that summarizes the consequential amendments to the Codification that would arise if the Proposal is ratified in its current form. We believe that the comment period associated with this 341 page document fails to provide the Board’s constituents with an adequate period of time to comprehensively evaluate the Board’s proposed changes to the Codification. This short comment period (approximately 33 days) was further exacerbated by the timing of issuance (i.e., it was issued during the majority of reporting entities’ first quarter reporting periods) and during the comment period for the Board’s Credit Losses exposure draft.

We believe that the short comment period, coupled with the volume of proposed changes to the Codification, will negatively impact the ability of the Board’s constituents to provide comprehensive feedback. We believe this significantly increases the likelihood of unintended consequences. We believe the Board should reconsider whether the companion document has been exposed for comment in a manner consistent with the FASB’s due process steps. In addition, we believe that it would be prudent for the Board to make a concerted effort to expose for public comment, exposure drafts and the related amendments to the Codification, at the same, such that the Board’s constituency has an appropriate period of time to evaluate, and provide feedback on, the Board’s proposals.

### **The Board should provide additional implementation guidance related to evaluating contractual cash flows associated with purchased credit impaired (“PCI”) and non-PCI assets**

Purchases of PCI assets, and to a lesser degree, non-PCI assets, are often made at a discount to the outstanding principal balance or par value of the underlying loan or debt security as a result of estimated credit, interest rate, or liquidity adjustments at the acquisition date. While it appears that the Board gave consideration to acquired assets when developing the proposed definitions of “principal” and “interest” as outlined in ASC 825-10-25-18, we believe that uncertainty exists related to evaluating whether payments received on significantly discounted PCI assets represent solely payments of principal and interest. As a result, we believe that it would be prudent for the Board to provide more explicit implementation guidance related to evaluating how purchase

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discounts or premiums should be considered in evaluating a financial asset's contractual cash flow characteristics.

**Further implementation guidance should be provided related to the accounting for investments in affordable housing tax credit partnerships**

BB&T holds variable interests in affordable housing tax credit partnerships, which are currently accounted for using the equity method of accounting, as it was determined that BB&T is not the primary beneficiary of the underlying variable interest entity. In evaluating the accounting for these investments in accordance with the guidance outlined in the Proposal, we identified two potential issues that we believe should be considered by the Board:

*Impact of the Proposal on Current Accounting for Investments in Affordable Housing Tax Credit Partnerships*

As noted above, BB&T applies the equity method of accounting to its ownership interests in affordable housing tax credit partnerships. Based on the proposed guidance outlined in ASC 323-10-15-20, such investments would likely be considered "held for sale," as exit strategies and expectations related to the timing of an exit from the investment are typically identified at the inception of the investment (i.e., substantially all such investments are exited at the end of the holding period required to retain the resulting tax credits and other benefits by donating the residual ownership interest to the general partner.)

While we understand the Board's desire to adopt "held for sale" guidance related to a reporting entity's equity-method investments, we do not believe that the application of ASC 323-10-15-20 to affordable housing investments provides financial statement users with decision-useful information. As a result, we believe that it would be prudent for the Board to consider promulgating a scope exception related to affordable housing investments that would provide reporting entities with the flexibility to measure such investments consistent with current authoritative guidance (or in accordance with the effective yield method as more fully described below).

*Considerations related to Expansion of the Effective Yield Method*

On March 29, 2013, the Emerging Issues Task Force ("EITF") reached a consensus-for-exposure that would modify the criteria that must be evaluated in determining whether affordable housing partnership investments qualify for the effective yield method of accounting. To the extent that this guidance is ratified, we anticipate that substantially all of BB&T's investments in affordable housing partnerships would qualify for the application of the effective yield method under this revised guidance.

The Proposal does not provide specific guidance related to financial assets accounted for under the effective yield method of accounting. We recommend the Board give consideration to the potential changes that would arise in connection with the ratification

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of the EITF project described above, and consider establishing a scope exception that would provide reporting entities with the flexibility to apply the effective yield method of accounting to qualified affordable housing partnership investments.

### **The Board should eliminate the requirement to present the fair value of financial instruments measured at amortized cost on the face of the financial statements**

While we understand that certain financial statement users believe that fair value information related to financial instruments carried at amortized cost represents decision-useful information, we disagree with the Board's proposal to require the parenthetical presentation of such information on the face of the balance sheet. We believe that the disclosure of more than one measurement model on the face of the balance sheet will lead to unnecessary confusion on the part of financial statement users. This viewpoint appears consistent with feedback previously provided to the Board, as noted in section BC 252 of the exposure draft, which states:

*...Most users who supported disclosure of supplemental fair value information of financial instruments measured at amortized cost prefer that fair value be presented in the notes to financial statements. Many of those users said that presenting fair value on the face of the statement financial position might be confusing; they noted that fair value is not consistent with an entity's business strategy for financial instruments held for collection or payment of cash flows.*

We also believe that presentation of fair value information in the footnotes provides reporting entities with the ability to provide appropriate context related to its fair value estimates, including the information considered in estimating fair value, significant assumptions utilized in the estimation process, the sensitivity of fair value measurements to changes in significant assumptions, etc. Presenting such information in the footnotes also provides reporting entities with the ability to present such information on a more disaggregated basis than otherwise would be provided on the face of the financial statements. Such an approach appears consistent with feedback previously provided the Board as noted in Section BC 256 of the exposure draft, which states the following:

*Stakeholders other than users generally acknowledged that users request fair value information for financial instruments held for collection or payment of contractual cash flows. Most of these stakeholders said that if fair value information is to be provided, it should be presented in the notes to the financial statements.*

We understand that the Board believes that parenthetical presentation of fair value information will lead to more robust processes surrounding the preparation of this information, as indicated by section BC 258 of the exposure draft, which states the following:

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*..increasing the prominence of the fair value information seems to be a valid way of attempting to increase the care in which it is developed, particularly if that also helps to achieve other goals. For example, presenting the fair values of financial instruments on the face of the statement of financial position would make it easier for a user to find and use, facilitating a user's comparison of the fair values of financial instruments with other information about those instruments, including their amortized cost.*

We believe that concerns related to the application of existing authoritative guidance (i.e., fair value disclosure requirements) are best addressed through the issuance of interpretive guidance by appropriate regulatory bodies (e.g., the Securities and Exchange Commission for public reporting entities). Further, we believe that any potential benefit associated with the parenthetical disclosure requirement is more than offset by the confusion that would arise from reflecting more than one measurement model on the face of the balance sheet, and the loss of context that a footnote disclosure provides. As a result, we recommend the Board eliminate the requirement to provide parenthetical disclosure of fair value on the face of the balance sheet.

### **The Board should retain the practicability exception related to the measurement of fair value for certain financial instruments**

As noted above, fair value estimates are dependent upon significant management judgment in the absence of reliable market information. The inherent difficulty associated with estimating fair value in the absence of such information was recognized by the Board through the practicability exception reflected in FAS 107, which was retained in connection with the issuance of FAS 157. While we understand the Board's desire to increase the consistency of fair value measurements by requiring the use of an "exit price" approach, we believe that the absence of reliable market information for certain classes of financial instruments continues to represent a significant obstacle that decreases the likelihood of consistent fair value measurements amongst reporting entities.

We believe the use of an entry price approach strikes a reasonable balance between the desires on the part of financial statement users to understand how current market conditions have impacted financial instruments carried at amortized cost, with the operational challenges associated with estimating fair market value using an "exit price" approach. We believe that the use of an entry price approach to estimate the fair value of financial instruments in the absence of reliable market information is more supportable, comparable, and less subjective than attempting to apply an exit price approach to these types of financial instruments. As a result, we recommend the Board consider retaining the practicability exception related to certain financial instruments measured at amortized cost.

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**The Board should consider modifying certain other presentation requirements**

Aside from the requirement to parenthetically disclose the fair value of financial instruments measured at amortized cost (and the amortized cost of financial instruments carried at fair value through other comprehensive income (“FV-OCI”)), the Proposal significantly expands the level of disaggregation reflected on the basic financial statements. Examples of such disaggregation include the requirement to separately present interest income, changes in expected credit losses and realized gains and losses by measurement approach (i.e., separately for instruments measured at amortized cost, FV-OCI, and fair value through net income, respectively).

We believe that it would be prudent for the Board to solicit additional feedback from financial statement users related to these requirements as a means of reevaluating whether this level of disaggregation represents an improvement over current reporting requirements (i.e., increases the transparency of financial reporting.) We also believe that additional clarification is necessary related to the requirement to separately present realized gains and losses from sales or settlements. We have been unable to determine how this requirement would be applied to short-sale transactions, since the loss realized on these types of settlements is charged against the allowance for credit losses.

**The Board should eliminate the proposed disclosures related to core deposit liabilities from the scope of the Proposal**

While we recognize the Board’s objective related to the proposed disclosures related to core deposit liabilities (i.e., provide financial statement users with additional insight into the relative value of a financial institution’s core deposit franchise), we do not believe that the required disclosures will provide financial statement users with decision-useful information as a result of the significant management judgment that must be applied in complying with the disclosure requirements. Significant judgments include determining which deposits qualify as core deposits (by significant type of deposit liability), estimates of the weighted average expected life, and the costs that should be considered in estimating the all-in-cost-to-service rate.

We also believe the concept of disclosing an all-in-cost-to-service rate is flawed, as it appears to attribute all costs associated with maintaining a branch network to the benefits derived from deposits held in the branch network. Such an approach fails to give appropriate consideration to the loan activity generated within the branch network and other revenue streams that benefit from the branch network (e.g., wealth management services, insurance brokerage, etc.) Based on these weaknesses in the concept, we fail to understand how a financial statement user would derive a significant benefit from the disclosure of this information.

While we believe that the Board’s proposed disclosures related to core deposit liabilities should be eliminated, we believe that a disaggregated disclosure of the weighted-average cost of interest-bearing deposits potentially provides financial statement users with

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decision-useful information. Such a disclosure would be consistent with the current disclosure requirements related to long-term debt, and would provide financial statement users with valuable insight into a reporting entity's management of its costs of funding.

**The Board should consider adopting a less restrictive contractual cash flow criterion**

We recognize the importance of evaluating the nature of contractual cash flows in determining the measurement approach that should be applied to financial assets held by a reporting entity. We concur with the Board's conclusion that the amortized cost measurement approach should be limited to financial assets that represent payments of principal and interest. However, we believe that the Board should reconsider whether it would be appropriate to expand the population of financial instruments that meet the contractual cash flow criterion by adopting one (or both) of the following approaches:

- Modify the contractual cash flow criterion to include financial assets with contractual cash flows that predominately represent payments of principal and interest.
- Reconsider whether the embedded derivative guidance in Subtopic 815-15 may be used to bifurcate an embedded derivative from the host instrument prior to evaluating the contractual cash flow criterion.

In accordance with the Board's Proposal, the contractual cash flow criterion would require that the contractual cash flows "solely" represent payments of principal and interest. We believe that the inclusion of the term "solely" could potentially result in many traditional debt instruments being measured at fair value through net income, as a result of relatively minor features (e.g., interest rate reset features) that may disqualify the financial instrument from meeting the criterion as written. We do not believe that such a limitation is beneficial to financial statement users as the measurement basis (i.e., fair value through net income) would not be consistent with the reporting entity's business model (i.e., collection of contractual cash flows).

We also believe that it would be appropriate for the Board to reconsider whether the current embedded derivative guidance could be incorporated into its recognition and measurement proposal. Incorporating this guidance into the Proposal would allow reporting entities to bifurcate certain embedded derivatives from the host instrument prior to applying the contractual cash flow criterion evaluation. We believe that such an approach would provide financial statement users with a more transparent depiction of the rights and obligations associated with a financial instrument (i.e., more appropriately align the measurement of the components of the instrument with the reporting entity's anticipated business model).

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**The Board should consider providing additional implementation guidance related to circumstances where sales of assets classified at amortized cost are allowable**

We recognize the challenges associated with establishing guidelines related to circumstances where sales of financial instruments measured at amortized cost are allowable. These guidelines must strike an appropriate balance between maintaining the integrity of the amortized cost measurement model and providing reporting entities with the ability to maximize the collection of cash flows in the event of credit deterioration or the occurrence of other specified events (e.g., changes in regulatory requirements.) While we believe the Board has largely accomplished this objective, we believe that certain incremental changes to the guidance should be considered during the re-deliberation process.

We agree with the Board's conclusion that sales from the amortized cost measurement model should be allowable in the event of significant deterioration in the issuer's creditworthiness. However, we believe that "significant credit deterioration" must be clearly defined by the Board, and should be defined in a manner that provides reporting entities with the ability to maximize cash flows (i.e., if the significance trigger is set too high, the ability to maximize cash flows will be significantly impaired).

In addition, we believe that reporting entities should be provided with additional flexibility in identifying the assets that will be sold in the event of such deterioration (e.g., in certain circumstances, cash flows may be maximized by selling all loans within a relationship, as opposed to only selling loans with a specified borrower within the relationship.) We believe that such flexibility maintains the integrity of the amortized cost measurement model, while at the same time providing reporting entities with the ability to maximize cash flows from the underlying financial assets.

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We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,



Henry R. Sturkie, III  
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