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May 15, 2013

Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Via Email to *director@fasb.org*

RE: File Reference No. 2013-220, Proposed Accounting Standards Update, "Financial Instruments – Overall Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)"

Dear Ms. Cosper:

We are pleased to comment on the FASB's Proposed Accounting Standards Update, "Financial Instruments – Overall Recognition and Measurement of Financial Assets and Financial Liabilities." We support the Board's objective to reduce the current complexity that exists today with the mixed attribute model. With this proposal, the Board has made meaningful improvements from its original May 2010 exposure draft. Overall we support the proposal and find it offers improvements in several areas; however, we have three significant matters of concern described below.

The first relates to the asymmetrical treatment that would result for embedded derivatives: assets would be addressed in ASC Topic 825, "Financial Instruments," while liabilities would be addressed in ASC Topic 815, "Derivatives and Hedging." We see no conceptual basis for different treatment. With the addition of a completely separate model for assets, we envision the end result would be two sets of detailed implementation guidance: one for assets contained in Topic 825 and one for liabilities contained in Topic 815.

Secondly, we note the proposed contractual cash flow characteristics test has similarities to the "clearly and closely related" concepts of ASC Topic 815; however, unlike Topic 815, the proposal is principles-based with very few examples. With the contractual cash flow characteristics assessment, which includes a test to determine whether the payments are solely payments of principal and interest as well as modified economic relationships, we envision there would be numerous implementation issues, similar to the issues that arose while implementing FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities."

Lastly, our view is that the bifurcation model is more representationally faithful to the nature of the transaction than the potential classification of an entire instrument at fair value with changes in earnings simply due to the existence of a feature that causes the instrument to be other than "plain vanilla." As such, we recommend retaining the bifurcation model and using the current model for debt and equity securities, contained in ASC Topic 320, "Investments—Debt and Equity Securities," in which the classification is determined based primarily on management's intent. That model has been operational since 1994. As such, we recommend classification be, for financial assets within the scope, be based

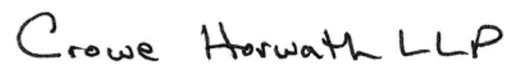
solely on the proposal's business model assessment, which is similar to the existing model in current U.S. GAAP for debt and equity securities.

We understand one reason the Board has proposed this approach is to achieve consistency with the IASB's proposal, "Classification and Measurement: Limited Amendments to IFRS 9." However, we encourage the Board to carefully consider whether the benefits of convergence outweigh the cost and complexity.

Our responses to the proposal's questions are included in the attachment.

Please contact Sydney K. Garmong, Scott G. Lehman or Christopher L. Moore should you have any questions.

Cordially,



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Responses to the Proposal's Questions

Scope

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?

Yes, we agree with proposed scope. In particular, we strongly support the scope exceptions for employer's or plan's obligations, certain life insurance contracts and not-for-profit's contribution receivables and payables.

Question 2: Do you agree with the industry-specific specialized guidance scope exceptions in paragraph 825-10-15-9? If not, why? What would you propose instead?

Yes, we agree with the proposed retention of the industry-specific guidance. We commend the Board for recognizing the uniqueness of certain industry practices and specifically support the retention of the industry-specific guidance for broker-dealers and investment companies.

Recognition

Question 4: Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?

Yes, the principle is understandable in concept, although we disagree with the assessment for two reasons. First, the existence of the contractual cash flow characteristics test will create asymmetrical treatment for embedded derivatives: assets would be addressed ASC Topic 825 while liabilities would be addressed in ASC Topic 815. Our concern is an end result of doubling the amount of literature and effort to account for the same instrument. Investors will use one set of literature, while issuers and borrowers will use another – for the same instrument – and may result in different accounting outcomes.

Secondly, we are concerned with the complexity of the contractual cash flow characteristics test. While relatively simple in concept, we anticipate many instruments that we currently consider "plain vanilla" will fail this test with perhaps unintended consequences. For example, we expect that zero coupon bonds and convertible debt issued by non-public companies will fail the contractual cash flow characteristics tests, but under current literature the structures themselves do not result in fair value accounting. We expect it will take several years between standard-setters, preparers, auditors, and regulators to determine which structures do and do not pass the contractual cash flow characteristics test. Considering the complexity of operating two standards for the same instrument and implementation effort of a similar but different principle, we recommend the contractual cash flow characteristics test be removed from the proposal and instead continue to apply ASC Topic 815 to both financial assets and liabilities.

Question 5: The proposed amendments define *principal* as the amount transferred by the holder at initial recognition. Should the definition of *principal* be expanded to include repayment of the principal amount at maturity or other settlement? If so, what instruments would fail (or pass) the contractual cash flow characteristics criterion as a result of this change?

Yes, the amount transferred by the holder at initial recognition should be expanded to accommodate all contractual repayments of principal. Without such an accommodation, pre-payable instruments with a premium or discount might unnecessarily fail the contractual cash flow characteristics test.

Adding to the complexity of the contractual cash flow characteristics test is the use of the term principal. The term "principal" is pervasively used and is defined in practice as the amount owed under a contract. Introducing this term to describe the initial amount transferred simply adds unnecessary confusion. Rather, we recommend simply using the term "initial amount transferred," which may or may not represent principal.

Question 6: Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?

While the application guidance and illustrations are understandable, our sense is they would not be sufficient, particularly given the diversity of financial instruments. Because the proposal includes a contractual cash flow characteristics test, we envision numerous implementation issues, similar to the issues that arose while implementing FASB Statement 133, which would render the proposed application guidance and illustrations insufficient. As we stated in our response to Question 4, we do not agree with inclusion of the contractual cash flow characteristic test in the determination of an instrument's classification.

Question 7: Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?

As stated in our response to Question 4, we do not agree with including a contractual cash flow characteristic test. Because the modified economic relationship guidance is part of the contractual cash flow characteristics test, we do not agree with its inclusion either. We propose the contractual cash flow characteristics test, along with the modified economic relationship test, be removed completely.

Question 8: Do the proposed amendments contain sufficient application guidance in paragraphs 825-10-55-17 through 55-20 on assessing a modified economic relationship? If not, why?

While the application guidance and illustrations are understandable, they do not appear to be sufficient. In our response to Question 6, we expressed concern with the contractual cash flow characteristics test and we do not believe the modified economic relationship test to be any different, given that it is a component of the contractual cash flow characteristics test. As we stated in our response to Question 7, we do not agree with inclusion of the modified economic relationship, nor the contractual cash flow characteristic test, in the determination of an instrument's classification.

Question 9: For beneficial interests in securitized financial assets, the proposed amendments would require an entity to look through to the underlying pool of instruments in determining whether the tranche contains payments of solely principal and interest. Do you agree with this look-through approach? If not, why? What would you propose instead?

Notwithstanding our comments on Question 4, yes, we agree with the look-through approach for beneficial interests in securitized financial assets. While we expect this will be a challenge for some entities and legacy instruments, at least initially, we expect the industry will adapt and overcome that challenge with time.

Question 10: Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?

Yes. We support the business model assessment and the guidance. The proposed model assessment aligns with how entities typically manage their financial instruments. With the proposed business model assessment, the Board has acknowledged that certain instruments are held for purposes (such as interest rate risk and liquidity management) whose end disposition is not determinative at inception. In other words, the instrument might be held until maturity or it might be sold, depending on the circumstances. We commend the Board for aligning the financial instrument classification with how the management of financial assets typically occurs.

Based on the business model assessment, it seems that a fair value option is being essentially retained as management could assert, apparently without repercussion, that a financial asset does not meet the criteria of the amortized cost or fair value with changes in OCI categories. We recommend the Board simply explicitly retain the unconditional fair value option that exists in current U.S. GAAP, particularly since we are unaware that the use of the option has created any practice issues.

Question 11: Do the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the proposed guidance provided to describe those business models? If not, why?

Yes, we agree with the application guidance and illustrations.

Question 12: Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?

We commend the Board for recognizing the long standing issue of tainting and agree the issue should be addressed. However, we do not believe that the proposed guidance solves the issue. While the proposal addresses the issue on existing financial assets, subsequent acquisitions would still be subject to tainting. Rather than include any tainting notion at all, one alternative would be simply to permit reclassifications, without impacting the classification of either the existing financial assets or future acquisitions. In addition, all reclassifications would have to be robustly disclosed in order to inform readers of the change in business strategy. Such an approach would allow readers to independently evaluate changes in management's intent and address tainting.

Question 13: The proposed amendments would require loan commitments, a revolving line of credit, or a commercial letter of credit (the potential creditor) to be measured on the basis of the likelihood of exercise of the commitment and the classification of the underlying loan that would be made upon exercise of the commitment. Do you agree with the proposed classification of loan commitments? If not, why? What would you propose instead?

No, we believe this approach will make financial disclosures less readable, understandable and, comparable than as currently reported. We recommend retaining the current accounting for loan commitments.

Initial Measurement

Question 14: Do you agree with the initial measurement principles for financial instruments? If not, why?

Yes, we agree initial measurement principles which we note are consistent with existing current practice. Specific to the initial measurement principles for investment companies, we support the retention to measure the initial measurement at transaction price instead of fair value. A high percentage of the investments in most types of investment companies are level 3 investments. In many instances, the fair value measurements after initial recognition will only change from transaction price if substantial changes in operations or activities have taken place. Therefore, we agree with retaining the concept of using the original transaction price at initial recognition for investment companies, when appropriate.

Subsequent Measurement

Question 16: Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?

Yes. We believe all liabilities should be carried at amortized cost if management's intent is to hold those liabilities for payment, because the amount recorded should reflect the amount contractually owed to the counterparty. We agree with this significant departure from the Board's May 2010 proposal which would have required virtually all financial liabilities to be carried at fair value.

Question 17: The proposed amendments would require a nonrecourse financial liability that is settled with only the cash flows from the related financial assets (see paragraph 825-10-35-11) to be measured on the same basis as those assets. Do you agree with the proposed amendments? If not, why? What would you propose instead?

Yes, we believe the accounting for non-recourse financial liabilities should follow the accounting of the underlying assets.

Question 18: The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain, until the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?

Yes. Given the intent of the amortized cost category, the expectation is that sales would not occur. In turn, any gains that would result from a sale should not be recognized until the sale is complete. We also agree with the proposed presentation guidance (825-10-45-7 and 8) which would require a separate line for those assets which are identified for sale.

Question 19: The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?

Yes, we agree with the practicability exception for equity investments without a readily determinable fair value. We also believe permitting upward adjustments based on observable data, which recognizes the reality that impaired investments can recover and increase in value, is an improvement by the Board. We also concur with the removal of the other-than-temporary impairment model and replacing it with a one-step, more likely than not, impairment test and threshold.

Question 21: Under the amendments in this proposed Update, hybrid financial assets would not be required to be analyzed for bifurcation under Subtopic 815-15 and would be assessed in their entirety on the basis of the proposed classification requirements. In contrast, hybrid financial liabilities would be assessed for bifurcation and separate accounting under Subtopic 815-15, and the financial liability host contract would be subject to the proposed amendments. Do you agree with this proposal? If not, why? What would you propose instead?

No, we believe the duplicity of evaluating financial assets under ASC Topic 825 while evaluating financial liabilities under ASC Topic 815 is unnecessarily burdensome, and recommend the bifurcation model of ASC Topic 815 for financial assets should be retained. The bifurcation model is more representationally faithful to the nature of the transaction than the potential classification of an entire instrument at fair value with changes in earnings simply due to the existence of a feature that causes the instrument to be other than “plain vanilla.” We also believe the primary test for classification and measurement, other than for derivatives, should be based on the business model and not an instrument’s structure.

Question 22: The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?

Yes, we agree with the proposed guidance. We commend the Board for departing from the May 2010 proposal, which would have prohibited reclassifications, and recognizing that changes can occur to an entity’s business model. As noted in our response to Question 12, one solution to address tainting would be to simply permit reclassifications. With robust disclosures, readers would be able to independently evaluate changes in management’s intent.

Furthermore, we concur with the Board’s proposed accounting for the reclassifications.

Disclosures

Question 29: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?

We do not agree with the core deposit liabilities disclosures for public companies, given the initial and ongoing costs associated with complying. The costs will be primarily driven by the fact that many public companies do not currently use the weighted-average maturity period or the service-rate inputs. We question whether the benefit of this proposed disclosure would outweigh the cost.

We also agree with removing the requirement for nonpublic entities to disclose the fair value of financial instruments which are not measured at fair value.

Transition and Open Effective Date Information

Question 30: Should an entity be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option under the proposed requirements? If not, why?

Yes, early adoption should be permitted for changes in instrument specific credit risk for hybrid financial liabilities under the fair value option.

Question 31: Should the effective date be the same for both public entities and nonpublic entities?

No, we recommend separate effective dates for public and nonpublic entities. However, our view is primarily based on the proposed guidance which includes the contractual cash flow characteristics test. Because the existence of that test will result in numerous implementation issues, more time should be afforded to nonpublic entities. Nonpublic entities typically have fewer resources for implementation of accounting standards. A delayed effective date would permit nonpublic entities to benefit from the implementation of public entities. If the contractual cash flow characteristics test was removed, and the classification was driven solely by the business model test, we envision the effective date could possibly be the same for public and nonpublic entities.

In addition, we recommend the effective date of a final standard on recognition and measurement be aligned with the effective date of a final standard on credit losses.

Question 32: How much time is needed to implement the proposed guidance?

From the auditor perspective, the time needed will depend on whether the contractual cash flow characteristics test is retained. Given the expected implementation issues and requisite training, a significant amount of time will be needed in order for auditors, as well as preparers, to be appropriately prepared. However, if the Board removes the contractual cash flow test and retains the current bifurcation model, we expect the implementation time could be significantly reduced.

Question 33: Are the transition provisions in this proposed Update operable? If not, why?

Yes, we find the transition provisions to be operable.

Equity Method Accounting

Question 34: The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?

We agree with the proposed guidance that equity method investments held for sale at inception be carried at fair value with changes in earnings. We agree that the proposed guidance is operable.

Question 35: The proposed amendments would change the current two-step impairment model for equity method investments to a one-step impairment model for all equity investments. Do you agree with the proposed one-step equity impairment model? If not, why? What would you propose instead?

Yes, we agree with replacing the current two-step model with the one-step model for equity method investments. The proposed one-step qualitative assessment, using a more likely than not threshold, is more operational than the existing other than temporary impairment model. We note this approach is also consist with the Board's one-step impairment approach for goodwill and indefinite lived intangible assets. In addition, we appreciate the Board providing more robust the impairment indicators than exist in current GAAP. However, to provide consistency with the model for equity investments without a readily determinable market value, we recommend that reversals be permitted.

Question 36: Do you agree that the current portfolio-wide option for not-for-profit entities, other than health care entities, to account for their equity method investments at fair value should be retained? If not, why? Should that option also be made available to not-for-profit health care entities that are within the scope of Topic 954, Health Care Entities?

We strongly support retention of the portfolio-wide fair value option for not-for-profit entities, other than health care entities. As the Board notes in paragraph BC34, this option predates the fair value option in current U.S. GAAP. As such, the use of the portfolio-wide fair value option is prevalent practice for almost all not-for-profit entities. We see no reason not to continue its use.

We know of no practical reason to extend this option to not-for-profit health care entities. Many not-for-profit health care entities compare themselves to other healthcare entities, which might include for profit healthcare entities. In the interest of comparability among all healthcare entities, the option should not be made available.