

May 29, 2013

Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

Re: Proposed Accounting Standards Update, *Financial Instruments – Credit Losses (Subtopic 825-15)* (File Reference No. 2012-260)

Dear Ms. Cospers:

This letter represents the comments of certain members (see list on page 7) of the Asset Management Industry Accounting Policy Group (“AMIAPG”), comprising a forum of companies primarily engaged in the asset management business. The AMIAPG companies represented by this letter include both publicly-traded and privately-held asset managers who collectively manage more than 5,150 investment funds, both domestically and internationally, including registered investment companies, hedge funds, private equity funds, exchange-traded funds and collective investment trusts, in addition to separate accounts and other sponsored investment products. The companies represented by this letter collectively have subsidiaries registered as investment advisors, broker/dealers, trust banks and insurance companies, and oversee approximately \$7.5 trillion of assets under management.

We appreciate the opportunity to provide comments to the Financial Accounting Standards Board (the “FASB” or the “Board”) on the Proposed Accounting Standards Update (“ASU”), *Financial Instruments – Credit Losses* (“the Proposal” or the “Proposed ASU”). We commend the work of the Board to improve the current credit loss model and address concerns raised during the previous comment letter process.

We agree that the proposed model is a significant improvement on the previously proposed approach and works toward avoiding diversity in practice on the timing of credit loss recognition; however, we have the following primary areas of concern:

- I. Scope of the Proposed ASU:** We believe the Proposed ASU should include an additional practical expedient for certain financial instruments which settle within a short period of time and have no history or reasonable expectation of credit losses.
- II. Application of the Practical Expedient for High-Quality Debt Securities Measured at Fair Value through Other Comprehensive Income (“FV-OCI”):** We believe that additional implementation guidance regarding the determination of insignificant credit losses for high-quality debt securities measured at FV-OCI would avoid diversity in practice and application.

III. Recognition of Interest Income: The Proposed ASU removes the existing guidance for recognizing interest income for certain beneficial interests which is still utilized for certain investments. Additionally, the Proposal requires the evaluation of expected cash flow recovery to be performed at the individual asset level, which conflicts with the reporting entity's ability to evaluate credit losses on a pooled basis, thus requiring significant additional procedures to maintain both evaluation frameworks.

IV. Lack of Convergence with IFRS: The current expected credit loss model proposed by the FASB differs significantly from the credit deterioration model proposed by the International Accounting Standards Board ("IASB"), resulting in lack of comparability between U.S. GAAP- and IFRS-compliant reporting entities.

V. Other: We also have concerns regarding the use of probability in the application of the CECL model, the proposed definition of collateral-dependent financial assets, and the application of the CECL model to certain equity instruments. Further, we have identified operational concerns regarding the costs to implement and maintain the proposed model.

I. Scope of the Proposed ASU

We generally agree that the current expected credit loss model ("CECL") is a significant improvement over the approach previously proposed in May 2010. However, we have concerns regarding the application of the model, as currently drafted in the Proposed ASU, to certain financial instruments.

The Proposed ASU requires reporting entities to apply the CECL model, which includes the requirement to include at least one scenario which presumes a credit loss will occur ("credit loss scenario"), to all financial instruments that do not meet the practical expedient. We do not believe the inclusion of a credit loss scenario should be required when applying the CECL model on a financial asset or a class of financial assets with no history of credit losses and no supportable forecasts that would result in a deviation from the historical trend, as such a loss scenario would not reflect the true economic risks of these financial instruments and would inaccurately reflect the reporting entity's financial condition, liquidity and results of operations. Further, the recognition of an allowance for credit losses for these assets and subsequent release during periods of low profitability could give the appearance of earnings management.

Certain receivables and receivables from affiliates lack a history of credit losses. Specifically, the outstanding investment management fee receivables due from our managed funds and certain receivables held by a consolidated broker/dealer subsidiary at the end of the reporting period are expected to settle within a short period of time. Further, for purposes of a subsidiary's standalone financial reporting, short-term receivables outstanding from its affiliates also settle within a relatively short period of time. We believe that immediate recognition of estimated credit losses on the transaction date (as a result of the consideration of a credit loss scenario) and subsequent reversal upon full receipt of the outstanding balance on the settlement date could misstate net income.

We request that the FASB modify the practical expedient noted in paragraph 825-15-25-2 to allow an entity to not elect to recognize an expected credit loss for financial instruments which settle within a short period of time and where there is no history or reasonable expectation of

credit losses, irrespective of whether the financial asset is in an unrealized gain position. If the FASB moves forward with requiring a reporting entity to record a credit loss on financial assets with no historical or reasonable projection of credit loss, then we request the FASB provide additional implementation guidance for such situations. Should the FASB decide not to include an additional practical expedient for these financial instruments, we suggest that the Board consider allowing the use of probability in the application of the CECL model, as further discussed in section V of this letter.

II. Application of the Practical Expedient for High-Quality Debt Securities Measured at Fair Value through Other Comprehensive Income

We agree with the Board's proposal to provide a practical expedient allowing reporting entities to not recognize expected credit losses on individual high-quality debt securities measured at FV-OCI. However, we have operational concerns with the criteria required to qualify for this practical expedient, as discussed below.

The first criterion requires that debt securities have fair values greater than or equal to amortized costs. In practice, we believe the existence of differences between fair value and amortized cost, which are solely attributable to market fluctuations or interest rate movements instead of changes in the security's credit risk, should not preclude a reporting entity from electing the practical expedient.

If the FASB did not intend to allow for such fluctuations resulting from factors other than credit deterioration, an individual asset, which qualifies for the practical expedient in one reporting period, may not necessarily qualify for the practical expedient in the next reporting period. Additionally, different securities with similar characteristics and credit risk profiles (e.g., different U.S. debt securities measured at FV-OCI) may be evaluated under both the practical expedient and the CECL model at any given point in time, resulting in the recording or releasing of a valuation allowance and income statement volatility between periods. Further, this may require inclusion of additional non-GAAP measures in order to enhance a reader's understanding of the financial statements.

Additionally, the second criterion of the practical expedient requires the reporting entity to demonstrate that the amount of expected credit loss is insignificant. The lack of guidance on what is considered an "insignificant" expected credit loss may result in diversity in practice. As an example, we would conclude that debt securities rated AA or higher would have insignificant risk of loss. Additionally, U.S. Treasuries, which are considered risk-free, have a low probability of credit loss as there may be no reasonable expectation that the U.S. government would default on its obligations in the future. Similarly, Government National Mortgage Association ("GNMA") bonds, which are backed by the full faith and credit of the U.S. government, have not historically experienced credit losses. We believe that these debt securities should be eligible for the practical expedient.

We recommend that insignificant credit loss should be evaluated based on quantitative and qualitative factors including, but not limited to, expected credit losses compared to the total amortized cost, counterparty credit risk, and movements in the credit rating of the security, if available.

As such, we believe the practical expedient should apply to debt securities that experience a decline in fair value below amortized cost due to factors other than credit risk (e.g., interest rate risk) to the extent there is no expectation of significant credit loss.

Additionally, understanding that in accordance with the Proposed ASU, *Financial Instruments – Overall (Topic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* (the “Recognition and Measurement Proposal”), the classification and measurement of a financial asset is dictated by a reporting entity’s business model, we believe the practical expedient should be expanded to include debt securities that may be carried at amortized cost rather than limiting it to only those securities measured at FV-OCI.

III. Recognition of Interest Income

The Amendments to the FASB Accounting Standards Codification section of the Proposed ASU removes the existing guidance for interest income recognition for certain beneficial interests. We believe that some beneficial interests may still qualify for accounting at amortized cost or FV-OCI under the Recognition and Measurement Proposal. If the interest income guidance is deleted within the Proposed ASU, it is unclear how a reporting entity would recognize improvements in the underlying asset’s cash flows. Accordingly, we request that the FASB retain the current interest income recognition guidance for beneficial interests.

We also note that the Proposed ASU would require an assessment of each individual financial asset to determine if “substantially all of the principal or substantially all of the interest” is probable of being collected. Most financial institutions currently utilize a 90-day threshold to cease recognition of interest income on outstanding receivables (i.e., place the receivables on non-accrual status). Based on the Proposal as drafted, this long-standing practice may no longer be accepted as the determination of non-accrual classification would be based on the probability of collection of individual receivables. We do not believe that it is the FASB’s intention to change the current practice and we recommend the FASB clarify that the existing approach would continue to be acceptable under the proposed framework.

Additionally, the requirement to evaluate each individual financial asset to determine the probability of collection creates an operational challenge when coupled with assessing credit losses on a pooled basis. It does not seem appropriate to estimate credit losses on a pooled basis only to require an individual probability assessment associated with collection of interest. We suggest that if the FASB retains the requirement to evaluate the recognition of interest income on an individual asset basis, then the existing other-than-temporary impairment guidance for debt securities should be applied.

IV. Lack of Convergence with IFRS

The FASB's model and the impairment model proposed by the IASB take a fundamentally different approach to estimating credit losses on certain financial assets. Specifically, areas of significant differences include:

- The IASB's inclusion of two different measurement models for determining the credit impairment allowance (i.e., losses that are expected within the next twelve months and lifetime expected losses for assets that have deteriorated significantly) as compared to the FASB's single CECL approach,
- The IASB's inclusion of the simplified approach for trade receivables with a significant financing component and lease receivables,
- The FASB's recognition of an allowance for credit losses upon initial recognition of purchased credit-impaired assets, and
- Interest income recognition.

While we believe that the FASB's CECL model is preferable to the IASB's proposed approach, we are concerned that the divergence may result in a lack of comparability between entities issuing financial statements under U.S. GAAP and IFRS.

Additionally, entities reporting under U.S. GAAP may be at a disadvantage when financial performance and position are compared against international competitors due to the recognition under U.S. GAAP of higher credit losses for similar instruments as of the asset's acquisition or origination date. We encourage the FASB to continue its discussions with the IASB to achieve a more converged impairment model for financial instruments.

V. Other

Use of Probability in the Application of the CECL model

As noted above, the Proposed ASU requires the inclusion of a credit loss scenario for all financial instruments under the scope of the Proposal. We believe that the use of probability, in certain circumstances, is appropriate in evaluating the multiple scenarios of credit loss and determining if a reserve should be recorded. We recommend that the FASB clarify its intention that the consideration of probability as a factor is not prohibited in determining the current expected credit loss.

Definition of Collateral-Dependent Financial Assets

The Proposed ASU defines a collateral-dependent financial asset as a financial asset for which the repayment is expected to be provided primarily or substantially through the operation (by the lender) or sale of the collateral. However, in practice, a reporting entity may have the legal right, but not the current expectation, to call pledged collateral to recover any outstanding balance in the future as a result of a third-party's delinquency or other non-performance.. We suggest revising the definition of collateral-dependent financial assets to consider the fair value of the collateral in situations where the reporting entity has the "right and ability to recover any outstanding balance through the operation or sale of the *pledged* collateral" in the determination

of expected credit losses rather than limiting it to the reporting entity's current expectation to receive repayment from the operation/sale of the collateral.

Application of CECL Model to Certain Equity Investments

As discussed in the AMIAPG's letter on the Recognition and Measurement Proposal, we believe that certain equity securities should be measured at FV-OCI. We believe these securities should be evaluated for impairment using the existing other-than-temporary impairment model and excluded from the scope of the Proposed ASU.

Transition and Early Adoption

We believe that the adoption of the amendments should be applied on a prospective basis. Due to the nature of the proposed model, determining the appropriate credit loss at the beginning of the first reporting period presented would result in significant judgment in identifying what information was available as of that date, without taking into consideration information obtained subsequently. We also agree that early adoption should not be permitted as differences in adoption dates would decrease comparability and could potentially impact the evaluation of certain key operating and regulatory ratios, such as net operating income, earnings per share, and Tier 1 capital.

Due to the interrelated nature of the Proposed ASU and the concepts covered in the Recognition and Measurement Proposal, we suggest the Board include concurrent effective dates for both proposals, no earlier than January 1, 2017.

Costs to Implement and Maintain CECL Estimation Model

We believe that significant expenditures, including system design, implementation and maintenance, as well as human capital to develop and periodically update models and assumptions and adequately design control processes, will be needed to implement the CECL model. Given the complexity of the proposed model and timing of the release of the exposure draft, we are continuing to work through the specific ramifications and impact to all existing investment portfolios, specifically in relation to the changes proposed in the Recognition and Measurement Proposal.

We appreciate the FASB's willingness to assess the implications of the Proposal through detailed confidential discussions with the staff. Certain members of AMIAPG are willing to participate in the field visit sessions with the staff to provide additional insight into the application of the proposed model.

Application to Non-Public Reporting Entities

We believe that the effective date of the amendments should be the same for both public and non-public reporting entities to avoid comparability issues as well as differences between a parent's consolidated and subsidiary's standalone financial results.

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We appreciate the opportunity to provide comments on the Proposed ASU. Should you have any questions, please feel free to contact any of the representatives below.

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/s/ Ann M. Cavanaugh, Managing Director – Accounting Policy	BlackRock, Inc.	(212) 810-5467
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/s/ Stacey H. Friday, Director, Accounting Policy	Federated Investors, Inc.	(412) 288-1244
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/s/ Leah A. Kwartler, Vice President, Accounting Policy and Standards	Fidelity Investments	(617) 392-2692
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/s/ Elaine Sabatino, Vice President – Accounting and Financial Reporting	Franklin Templeton Investments	(650) 312-3239
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