November 16, 2012

Ms. Leslie Seidman Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Dear Chairman Seidman:

The Financial Instruments Reporting and Convergence Alliance ("FIRCA") is a coalition of nine organizations—American Council of Life Insurers, CRE Finance Council, Group of North American Insurance Enterprises, National Association of Real Estate Investment Trusts, Mortgage Bankers Association, Property Casualty Insurance Association of America, The Financial Services Roundtable, The Real Estate Roundtable, and The U.S. Chamber of Commerce—representing all sectors of the economy and areas of the financial services arena. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally.

FIRCA respectfully requests that the Financial Accounting Standards Board ("FASB") reconsider its tentative decisions on classification and measurement relating to the use of fair value through net income ("FV-NI") for certain contractually linked instruments and equity instruments. FIRCA disagrees with the result of the tentative decision to add this more restrictive application guidance, which is inconsistent with FIRCA's Core Principles. Additionally, FIRCA is concerned that if these tentative decisions are left to stand, they will create volatility in net income thereby reducing the attractiveness for certain instruments and driving economic activity rather than reflecting it.

Our concerns are listed in greater detail below.

The mission of FIRCA is:

• To support the use of high quality, robust international accounting standards developed and adopted jointly by the Financial Accounting Standards Board ("FASB") and the International Accounting Standards

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Board ("IASB"). These standards should be decision-useful, reliable, and relevant. Additionally, these standards should present financial information in a manner that reflects the business operations of the reporting entity. Appropriately crafted standards should transparently provide information and not drive economic activity.

- To assist standard setters in providing a wide range of input to ensure the proper consideration of business operations and potential unintended consequences in the development and implementation of accounting standards.
- Recognizing the ongoing impacts of the 2008 financial crisis and continued currency pressures in the Euro Zone are global in scope and magnitude, we will continue to work with standard setters and decision makers to ensure that these projects are conducted jointly to provide a comprehensive response to financial reporting policies.

We recently provided FASB with FIRCA's updated Core Principles that cover several aspects of the joint Financial Instruments project including: Classification & Measurement of Financial Assets and Financial Liabilities, Impairment, Derivatives and Hedging.¹ We updated these principles to reflect changes in the market as well as progress made by FASB and IASB in their deliberations.

We are writing to you today to express our concern about two of the FASB's tentative decisions on classification and measurement that are inconsistent with FIRCA's Core Principles. These decisions relate to the use of FV-NI for certain contractually linked instruments (i.e., structured securities) and, more generally, equity instruments.

Based on the Board's tentative vote at the October 17, 2012 meeting, most investments in securitizations with multiple tranches would be recorded as fair value through net income ("FV-NI"). Specifically the following condition is expected to be added as application guidance for structure securities to qualify for other than FV-NI:

¹ See FIRCA letter of October 10, 2012 to FASB Chairman Leslie Seidman and IASB Chairman Hans Hoogervorst. For convenience, FIRCA's Core Principles are also included as an attachment to this letter.

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• The exposure to credit risk in the underlying pool of financial instruments inherent in the tranche of beneficial interest is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments (for example, this condition would be met if the underlying pool of instruments were to lose 50 percent as a result of credit losses and **under all circumstances** the tranche would lose 50 percent or less). [emphasis added]

As a result of this additional application guidance, any structured security where subordination is created in order to redistribute the credit risk to different noteholders (tranches) would be recorded at FV-NI, except for the most senior tranche.

Because it is inconsistent with our principles, FIRCA disagrees with the result of the tentative decision to add this more restrictive application guidance. Instead, FIRCA recommends, consistent with our principles for classification and measurement, that the FASB allow securitizations with multiple credit tranches that are not held for trading purposes to be at fair value, including fair value with periodic changes in fair value recognized in other comprehensive income (OCI), or amortized cost based on the underlying business strategy for holding or issuing the financial assets, which includes both the reporting entity's strategy for the financial assets as well as its business model.

More generally, the Board's tentative decision on classification and measurement for equity instruments, whereby equities would be recorded as FV-NI, is likewise inconsistent with FIRCA's principles. Financial assets that are not held for trading purposes (and are not debt instruments) should be permitted to be measured at fair value with periodic fair value changes reflected in OCI, where amounts are recycled into net income upon being realized. Again, this would be based on the underlying business strategy for holding the financial assets, which includes both the reporting entity's strategy for the financial assets as well as its business model.

FIRCA's concerns related to the Board's tentative decisions on these matters also extend to the economic consequences of such decisions. FV-NI would add volatility to net income and, therefore, adversely impact the marketability and liquidity of securitization with multiple credit tranches, as this important asset class of securities would likely be less attractive to investors. Similarly, equity securities may be

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a less attractive investment given the potential volatility in net income could be viewed adversely by investors in entities that hold equities for purposes other than trading.

In conclusion, FIRCA respectively requests that the FASB reconsider these tentative decisions and provide for guidance on classification and measurement that is consistent with FIRCA's Core Principles.

FIRCA looks forward to continuing our efforts to work with the FASB to achieve our goals of robust accounting standards that reflect the economic activity of business operations, rather than drive economic activity, in the furtherance of efficient and fair global capital markets.

Sincerely,

American Council of Life Insurers
CRE Finance Council
Group of North American Insurance Enterprises
National Association of Real Estate Investment Trusts
Mortgage Bankers Association
Property Casualty Insurance Association of America
The Financial Services Roundtable
The Real Estate Roundtable
The U.S. Chamber of Commerce