



April 24, 2015

Ms. Susan Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2015-220

Dear Ms. Cospers:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Board's recent proposal, Derivatives and Hedging (Topic 815): *Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives* ("the proposal").

We understand that the Board's objective is to increase the transparency and usefulness of the information provided in the notes to the financial statements for hybrid financial instruments that contain bifurcated embedded derivatives. However, we have both conceptual and practical reservations regarding the proposal.

In developing the guidance in ASC 815, the Board considered whether a hybrid financial instrument should be accounted for entirely as a single derivative or nonderivative instrument, but rejected that view. Instead, it concluded that an embedded derivative feature should be accounted for separate from its nonderivative host contract as a freestanding derivative instrument if certain conditions are met. The Board's conclusion was premised on increasing the level of transparency of the reporting of derivative financial instruments in the financial statements. The Board also concluded that derivative financial instruments should be measured at fair value and that entities should not be able to avoid the recognition and measurement provisions of ASC 815, *Derivatives and Hedging*, by embedding certain derivative instruments in another contract to which it bears no close economic relationship. Those conclusions were reaffirmed as part of the Board's deliberations on the classification and measurement component of the financial instruments project. Thus, the proposal to require disclosures that attempt to recombine a bifurcated derivative with its host is inconsistent with the Board's previous conclusions to require bifurcation—i.e., two units of account—even though the embedded derivative and host are part of one legal contract.

One of the conditions for an embedded derivative to be bifurcated is that the economic risks and characteristics of the embedded derivative feature are not clearly and closely related to the host contract. Given that the Board believes that bifurcation of the derivative in those cases is the most appropriate accounting, we believe the disclosures should reflect this accounting model.



The exposure draft indicates that the objective of the proposal is to provide users with decision-useful information that reflects the overall economics and cash flows for the entire hybrid instrument. It is unclear to us how the proposed disclosures will provide a significant enough enhancement to the financial statements to justify the added burden of another disclosure obligation. Providing disclosures that link the host contract and bifurcated embedded derivative may be of limited use to users of financial statements since the host contract and bifurcated derivative are often accounted for using different measurement attributes (e.g., amortized cost for a debt host and fair value for the derivative).

While the side-by-side presentation of the balance sheet and income statement effects of the derivative and host contract may seem straight forward in the context of the bifurcation of a single derivative from a simple debt instrument, in practice, that will often not be the case. For example, the disclosure for insurance companies may be quite complex given that multiple balance sheet and income statement line items may be associated with a single host insurance contract that meets the definition of a financial instrument. Should the Board expand the disclosures to also include embedded derivatives bifurcated from hybrid nonfinancial instruments, an additional presentation complexity may arise, because the host contracts may not be on-balance sheet. This would be the case, for example, if the host contract in a hybrid nonfinancial instrument was an operating lease or an executory purchase/sale agreement. In addition, by necessity, certain institutions that frequently enter into instruments with bifurcated embedded derivatives will have to present this information on an aggregated basis by derivative type, which will significantly limit the effectiveness of the disclosure for users.

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If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152 or Chip Currie at (973) 236-5331.

Very truly yours,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP