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April 30, 2015

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

**File Reference No. 2015-220**

**Re: Proposed Accounting Standards Update, *Disclosures About Hybrid Financial Instruments With Bifurcated Embedded Derivatives***

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Disclosures About Hybrid Financial Instruments With Bifurcated Embedded Derivatives*.

We support the Board's objective to increase the transparency and decision-usefulness of information in financial statements, including information pertaining to financial instruments. However, we are concerned that the proposed disclosure requirements will pose operational challenges and will not achieve the Board's objective related to providing financial statement users with insights into the overall economics and cash flows of hybrid financial instruments. Thus, we do not believe the Board should finalize the ASU as proposed.

We recommend that, rather than requiring only incremental disclosures for hybrid financial instruments with bifurcated embedded derivatives, the Board consider addressing disclosures associated with hybrid financial instruments as part of a broader project on determining the effectiveness of financial statement disclosures regarding derivatives or financial instruments. In the interim, the Board could consider incorporating into U.S. GAAP existing SEC staff guidance indicating that bifurcated embedded derivatives should be presented in the statement of financial condition on a combined basis with the host contract except when the host contract is not recognized (e.g., an operating lease) or the embedded derivative is classified as a liability and the host contract as equity. Incorporating such guidance into U.S. GAAP would promote consistent presentation and improve comparability between entities.

If the Board chooses instead to issue an ASU requiring disclosures about hybrid financial instruments with bifurcated embedded derivatives, we believe that certain key issues should be addressed. These issues are discussed below and further detailed in the appendix of this letter.

### *Operationality*

The quantitative aspect of the proposed disclosure requirements may be operationally burdensome for entities that have host contracts (with bifurcated embedded derivatives) whose carrying values are composed of multiple components, including components measured on a portfolio basis. For example, when an allowance for loan losses is a component of a loan host contract's carrying amount and the allowance is calculated on a portfolio basis, the proposed disclosure requirements would force an entity to identify and allocate a portion of the allowance to the loan host contract. Determining the different quantitative amounts associated with the host contract may be burdensome given all the interim disclosures that need to be collected within a short public reporting time frame and the small benefit these disclosures would provide.

### *Necessary Clarifications*

The proposed guidance and illustrative example are unclear on what tabular disclosures an entity should provide for a host contract whose activity affects multiple financial statement line items (e.g., if a debt host is accounted for as an available-for-sale debt security, whether an entity would be required to disclose the location and amounts related to both the credit and the noncredit impairments that are recognized in earnings and other comprehensive income, respectively). In addition, for a host contract that is an equity instrument, the Board should consider clarifying how dividends would be presented in the tabular disclosures. Furthermore, the relationship between the proposal's disclosure requirements pertaining to embedded derivatives and those in ASC 815-10-50 also needs to be clarified.

### *Financial Versus Nonfinancial Hybrid Instruments*

We believe that there is no basis for limiting the proposed disclosure requirements to hybrid financial instruments. Information that allows users to analyze the overall economics and cash flows of hybrid financial instruments with bifurcated embedded derivatives should apply equally to nonfinancial hybrid instruments (e.g., operating lease agreements that contain embedded derivatives or commodity-based hybrid instruments). Furthermore, the Board may wish to consider whether disclosing information associated with hybrid instruments that is derived from the statement of cash flows would further enhance the disclosure requirements and be consistent with the Board's stated objective.

The appendix of this letter contains our responses to the proposed ASU's questions for respondents.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Shahid Shah at (203) 563-2749.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl  
cc: Jonathan Howard

**Appendix**  
**Deloitte & Touche LLP**  
**Responses to Questions**

*Question 1: Will the amendments in this proposed Update result in more transparent, decision-useful information about hybrid financial instruments with bifurcated embedded derivatives? If not, please explain why.*

As stated in the body of this letter, we do not believe that the proposed ASU would result in more transparent, decision-useful information about hybrid financial instruments with bifurcated embedded derivatives.

If the Board is concerned about where the components of a bifurcated hybrid financial instrument are classified in the statement of financial position, the Board could consider incorporating SEC staff guidance into U.S. GAAP. In *Current Accounting and Disclosure Issues in the Division of Corporation Finance* (updated November 30, 2006), the SEC staff indicates that entities should present an embedded derivative on a combined basis with the host contract in the statement of financial position, except when the host contract is classified as equity and the embedded derivative is accounted for as a liability. Incorporating this guidance into U.S. GAAP would promote consistent presentation and improve comparability between entities.

As previously noted, the proposed requirements may also pose operational challenges for preparers, specifically when a hybrid instrument's carrying value is composed of multiple components and certain components are calculated on a portfolio basis (e.g., allowances for loan losses). Allocating these components to the host contract for tabular disclosure may pose operational challenges given all the disclosures that public business entities are required to provide in a short reporting period. We also challenge the decision-usefulness of such disclosures. We struggle to understand why the proposal would require an entity to provide such disclosures but would not require disclosures about separate instruments (e.g., debt and a derivative) that are issued simultaneously and that are economically similar. Similarly, without additional implementation guidance, decision-usefulness may be impaired and diversity in practice may arise in situations in which a hybrid financial instrument's activity is recorded in multiple financial statement line items, the host is an equity instrument, or the bifurcated derivative is designated in a hedging relationship, because the requirements are unclear on how such amounts should be presented in the tabular disclosure.

*Question 2: Should the scope of the amendments in this proposed Update be extended to include nonfinancial hybrid instruments with embedded derivatives that require bifurcation under Topic 815? If yes, please explain why and identify any other instruments that should be included in the proposed amendments.*

We see no basis for limiting the scope of the proposed disclosures to hybrid financial instruments. If the information is necessary to allow users to analyze the overall economics and cash flows of hybrid financial instruments with bifurcated embedded derivatives, it should apply equally to nonfinancial hybrid instruments. We believe that if the Board moves forward with the proposed disclosure requirements, the scope of the requirements should be expanded to include nonfinancial hybrid instruments with bifurcated embedded derivatives.

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*Question 3: Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?*

In addition to the operability concerns noted in the body of this letter and in our response to Question 1, we believe that the Board should clarify whether an entity would need to provide comparative disclosures in the period of adoption. The Board should also clarify whether, for bifurcated embedded derivatives that are designated in a cash flow hedging relationship, an entity would be required to include amounts recognized in other comprehensive income in the proposed tabular disclosure.

Further, we recommend that the Board consider incorporating, into the disclosure subsection of the ASU, the proposed guidance in ASC 815-10-55-183A on aggregating the embedded derivative and the host by derivative type. We also suggest that the Board reconsider the requirement for entities to provide such disclosures in interim periods by assessing whether the benefits of this requirement outweigh the costs in light of the Form 10-Q filing deadlines for public business entities.

*Question 4: The proposed amendments would apply to all entities. Should the proposed amendments be different for entities that are not public business entities? If so, please describe how and why you think they should be different.*

We do not believe that the proposed ASU's disclosure requirements should apply to nonpublic entities. ASC 815-10 requires entities to provide qualitative and quantitative disclosures about derivative instruments, including bifurcated embedded derivatives. In a manner consistent with the private-company decision-making framework, we believe that the disclosure requirements in ASC 815-10 meet the needs of users of private-company financial statements and that such users can request additional decision-useful information, if needed, from management about hybrid financial instruments.

*Question 5: How much time would be needed to implement the proposed guidance? Should the amount of time needed to implement the proposed amendments by entities that are not public business entities be different from the amount of time needed by public business entities?*

We encourage the FASB staff to reach out to preparers in determining how much time entities may need to implement the proposed amendments.