

From: [Bianco, David S - RSCH AMRS](#)
To: [Director - FASB](#)
Subject: Fw: Comment Letter on AFI ED
Date: Friday, July 30, 2010 7:38:46 AM

From: Bianco, David S - RSCH AMRS
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Sent: Thu Jul 29 17:20:37 2010
Subject: Comment Letter on AFI ED

July 29, 2010

To: Mr. Russell Golden, FASB Technical Director

Re: File Reference No. 1810-100

Thank you for the opportunity to comment on the Board's May 26, 2010 Exposure Draft regarding "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities." I write on my own behalf as a member of the investor community. Although I am the Chief US Equity Strategist for BofA Merrill Lynch, none of my comments should be taken to reflect the views of Bank of America or of the BofA Merrill Lynch Global Research department. I further note that I also serve on FASB's Financial Accounting Standards Advisory Council (FASAC).

I believe the scope of the Exposure Draft (ED) is too broad. I suggest severing the proposals related to fair valuing bank loans and deposits as well as equity in affiliates. In my view, these issues require further contemplation and at this time I do not support them. However, I do support the proposed revisions to hedge accounting and I strongly support the proposed changes to the presentation of Other Comprehensive Income and Equity. The proposed presentation structure should improve clarity and reduce use conflicts.

I am unwilling to support fair value accounting for loans, deposits or affiliates because I do not believe that managers can reliably estimate the fair value of assets that they actively employ ("operating assets") in the pursuit of economic profits. It is not so much that I question the ability of preparers to estimate fair value in good faith or without bias, but more that I question the ability to estimate fair value within a range of certainty that will allow investors to assess performance across time and other companies. While I recognize a desire to reconcile the accounting for loans with that of securitized financial assets, I think consistency between accounting for financial and non-financial enterprises must also be considered. While manager estimates of fair value for "operating assets" would probably be relevant and useful to investors if presented clearly with key assumptions, I think such fair value estimates should be secondary and not primary reporting measures. I believe that investors generally seek clear measures of periodic performance that help them determine fair value of an enterprise's operations.

Just as I do not think it appropriate to apply fair value accounting to the physical and intangible assets of non-financial companies, I do not consider it appropriate to fair value bank loans or deposits because I think it is exceedingly difficult to disentangle the value of the physical and intangible assets that many banks possess as established intermediaries from the value of the loans and deposits they hold. The value of a financial asset does not depend on the holder, in my view, but the value at inception can be influenced with terms economically favorable to the originator in exchange for providing customers access to the originator's physical, technological and relationship capital formation network. The concepts and proposals introduced in the ED acknowledge the possibility of loans being worth more than face value and deposits being worth less than face value and although I think such possibilities should be recognized in a fair value framework to avoid a downward equity value bias, such reporting will require very subjective estimates, including estimates for very controversial items

such as the risk adjusted cost of capital. I fear that such extreme subjectivity in financial reporting will obscure periodic performance and current financial position.

I suggest continued fair value accounting for securitized assets and liabilities where fair values can be market based or market related using the presentation formats this ED proposes, but carrying loans and deposits at amortized cost with fair value disclosures. I favor loan loss provisioning on an expected basis over the life of the loan (as charge-offs convey current credit cost conditions) with clearly delineated additional provisioning (or reserve releases) if needed to ensure appropriate loss reserves. I do not believe it appropriate to charge-off the present value of cash flows not expected to be collected on the loan upfront. This is because I believe the fair value of a loan depends on the expected and not the contractually promised return, as the cost of capital on this asset should reflect uncertainty around the expected and not the promised return.

I also believe that proportionate share recognition remains the best option for affiliate income at this time. However, I do encourage additional disclosure requirements for unconsolidated affiliates to help better understand performance and unmask hidden risks.

I applaud and encourage FASB to continue its efforts to improve the body of conceptual and practical guidance related to fair value accounting for financial assets and liabilities. I would be pleased to share additional explanation and thoughts. I thank you and the Board for your commitment to improving financial reporting standards for the benefit of investors.

Sincerely,
David Bianco, CFA

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