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September 16, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 1810-100

Dear Mr. Golden:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (Proposed Update). The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual view of the members or the organizations with which they are affiliated. The organization and operating procedures of our Committee are outlined in Appendix A to this letter.

In its Summary section, the Board states that the purpose behind financial reporting is to provide users with information that is useful in “assessing the amounts, timing and uncertainty of future cash flows”. We believe this is the fundamental purpose behind financial reporting. We also believe that financial reporting should be consistent with and reflective of the overarching business strategies of management as it operates the business. We do not believe the Exposure Draft as currently written is consistent with that fundamental purpose nor will it necessarily lead to financial reporting that is representationally faithful to the strategies and economic conditions of the reporting entity being depicted. Our recommendations are, in general, more consistent with the proposals set forth in the Alternative Views section, paragraphs BC244 to 252. We appreciate the Board’s focus on “business strategy” rather than “management’s intent”. We believe information about a reporting entity’s business strategy as well as the changes in and evolution of that strategy are important sources of information about the amount, timing and uncertainty of future cash flows. Business strategy is much more than intent and should be a fundamental driver of management’s reporting about the financial condition, results of operations and cash flows of the reporting entity.

We also appreciate that there are many constituencies to which the Board must answer and that many of those constituencies operate in the political arena. However, the volume and magnitude of changes being considered this summer, and the requested timing of that consideration, are putting considerable strain on our ability to consider not only changes to US accounting principles but changes to international principles as well. It is our desire to comment on the entire convergence process and our ability to do so, particularly with the financial instrument process, is hampered by our inability to assess the two Boards’ processes simultaneously.



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Furthermore, the absence of timely information as to the impact of the exposure draft on other, existing standards compounds this problem.

Finally, both the FASB and IASB have been promoting the concept of reducing complexity in accounting standards. While it may be a simple matter to decree that all financial instruments should be at fair value, it is not always a simple matter to measure those instruments. We believe that this Proposed Update will increase the complexity of the financial reporting process. It is our expectation that for many reporting entities, the proportion of assets and liabilities that will be categorized as Level 3 instruments for fair value measurement will be quite significant if not the majority. We believe that the time and effort to measure those instruments will far outweigh the benefits and will result in financial statement presentations that are no more useful than that which the Board seeks to supplant.

Our comments on specific questions posed by the Board are as follows:

Question 1: *Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded? Why?*

We agree with the scope of the Proposed Update.

Question 2: *The proposed guidance would require loan commitments, other than loan commitments related to a revolving line of credit issued under a credit card arrangement, to be measured at fair value. Do you agree that loan commitments related to a revolving line of credit issued under a credit card arrangement should be excluded from the scope of this proposed Update? If not, why?*

We agree with the decision to exclude loan commitments related to revolving lines of credit issued under credit card arrangements. We also believe that loan commitments related to any loans that will be carried at amortized cost rather than fair value should also be excluded from the subsequent measurement requirements of the Proposed Update.

Question 3: *The proposed guidance would require deposit-type and investment contracts of insurance and other entities to be measured at fair value. Do you agree that deposit-type and investment contracts should be included in the scope? If not, why?*

We have no comment.

Question 4: *The proposed guidance would require an entity to not only determine if it has significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?*



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We agree, however we believe additional clarification is required. The examples given by the Board lead to at least two interpretations of the term “related”. In one sense, the investee may be “related” by means of common industry classifications or business economics. In another sense, the investee may be “related” as that term is used in describing a related party. We believe the examples describing industry and economic matters suggest the former, while examples referring to common management would suggest the latter. Our presumption is that the Board intends these relationships to be broadly defined but the current guidance does not accomplish that directly. We recommend the Board tie the concept of operational relationship to the concept of business strategy. Situations where an entity has voting influence as well as management influence but where the investee is in an unrelated industry will likely occur where the reporting entity’s business strategy is one of branching out into new products or services. Absent that business strategy, an investment in an entity that is unrelated to its operations is likely a speculative investment that should be carried at fair value.

Additionally, there is no guidance as to the manner in which changes in status would be handled. An entity that is not “related” in Period 1 could become related in Period 2. Our presumption is that the fair value at the date of the change in the entity’s status would become the cost basis for the prospective application of the equity method, however the absence of potential updates to other sections of the Codification do not enable us to determine that.

Question 5: *The proposed guidance would require financial liabilities of investment companies to be measured at fair value with changes in fair value recognized as a net increase (decrease) in net assets. Do you believe that the effect on net asset value will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why?*

We have no comment.

Question 6: *The proposed guidance would require money market funds that comply with Rule 2a-7 of the Investment Company Act of 1940 to measure their investments at fair value rather than amortized cost. Do you believe that reporting those investments at fair value rather than amortized cost will provide decision-useful information? If yes, how will the information provided influence your analysis of the fund? If not, why?*

We have no comment.

Question 7: *The proposed guidance would require brokers and dealers in securities to apply the proposed guidance for measuring financial liabilities, which could mean that qualifying changes in fair value would be recognized in other comprehensive income. Do you believe that this will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why?*

We have no comment.



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Question 8: *Do you agree with the initial measurement principles for financial instruments? If not, why?*

We agree. We also believe that the Transaction Price in an arms-length exchange is the best indicator of fair value. If it is not, we believe there are likely other elements to the exchange, either explicitly or implicitly included that should be recognized.

Question 9: *For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?*

We agree that any significant differences between the transaction price and fair value should be identified and accounted for in accordance with their nature. If those differences relate to implicit fees or costs, they should be recognized in net income. If those differences are implicit rights or obligations, e.g., embedded derivatives, they should be accounted for in accordance with applicable standards.

Question 10: *Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?*

We believe there should be a single initial measurement principle based on the nature of the instrument and the business strategy of the reporting entity. A presumption that all instruments should be carried at fair value is not a principle. We believe the initial measurement principle should be based on the reporting entity's business strategy. Financial instruments that will be realized or settled in accordance with their contractual terms should be initially measured at transaction cost; all other instruments should be carried at fair value with changes recorded in net income.

Question 11: *Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?*

We agree.

Question 12: *For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?*



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We believe additional guidance is necessary in order for this section to be operational. The examples given in the Implementation Guide are simplistic and do not capture the scenarios envisioned by the Board in the discussion in BC46. We believe most parties to an arrangement would know why they're paying/receiving something significantly different from fair value. In our judgment, those differences are usually reflective of some other costs or benefits either implicitly or explicitly a part of the transaction. We recognize there may be instances where fair values are not observable and the transacting parties' abilities to estimate fair value are not equal; however we do not believe the Board intends this situation to be reflective of an arms-length transaction. We believe those other elements should be identifiable and accounted for in accordance with their nature. The examples in the Implementation Guide illustrate the separation of a transaction into separate contractual rights and obligations. If the Board has more complicated or more subtle situations in mind, those should be illustrated.

Question 13: *The Board believes that both fair value information and amortized cost information should be provided for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?*

As discussed in our response to Question 10, we believe that financial instruments that will be realized or settled in accordance with their contractual terms should be carried at amortized cost with fair value reported parenthetically on the face of the balance sheet. Including fair value and a reconciliation to amortized cost on the face of the balance sheet is unnecessarily complex.

Question 14: *The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?*

We agree that the items described in the question should be included in net income.

Question 15: *Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?*

We do not believe that the determination should be based on whether an instrument is an asset or a liability. As discussed previously, we believe the principles should be based on the reporting entity's business strategy. We continue to disagree with the use of exit price for all financial



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liabilities. While we understand that an entity whose debt is available for purchase in the market place can re-acquire that debt if it so chooses, we believe for many such liabilities the only exit available for the reporting entity is to settle the obligation by payment of the amount owed. An entity whose bank debt does not trade publicly cannot transfer such debt to another party and accordingly the “fair value” of that debt is its contractual amount and it should be so presented. In this respect, our approach is more consistent with the approach outlined in the Alternative Views. We would require reporting at fair value if the business strategy of the entity is not to hold the instrument to collect its contractual cash flows; instruments generally realized or settled in accordance with the contractual terms of the instrument would be measured at amortized cost.

Question 16: *The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?*

We disagree. While we would expect it to be relatively rare that an organization’s business strategy changes, we believe that if those strategies do in fact change, then the financial reporting of that entity should reflect that change. For example, we believe that an entity may have a business strategy that calls for certain portfolios of financial assets and liabilities to be realized in accordance with their contractual terms and thus carried at amortized cost and others realized as needs dictate and thus carried at fair value. Suppose an entity currently carrying an investment portfolio of financial instruments as a trading portfolio at fair value changes its business model and its business strategy, exiting the trading business, which leads to the planned realization of that portfolio in accordance with the contractual terms of the instruments. If the standard does not permit the reporting entity to change the method of accounting for that portfolio to conform to the change in business strategy, users will not know the change in planned timing of the portfolio’s future cash flows. We believe information about business strategy and changes in that strategy are useful to investors; accounting standards should not be designed to implicitly discourage either changes to business strategies or disclosure of such changes.

Question 17: *The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in cost- to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is appropriate? If not, why? Do you believe that the remeasurement amount should be disclosed in the notes to the financial statements rather than presented on the face of the financial statements? Why or why not?*

As noted in our comment to Question 1, we do not agree with the measurement approach to core deposit liabilities. We believe they should be measured at cost in a manner similar to the method provided for short-term receivables and payables in accordance with paragraph 33.



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If the Board does not include them under paragraph 33, we believe they should be carried at their contractual amount. If the Board continues to believe they should be adjusted, then they should be carried at fair value. We do not believe it is appropriate to net an intangible asset against these liabilities which is, in effect, what the Board is attempting to do. The Core Deposit Intangible asset should be addressed with other intangible assets as part of the convergence process.

Finally, we believe justification of the “all-in cost” and its relevance to the core deposit intangible must be demonstrated in this era of electronic banking. It is not clear to us that the Board has demonstrated that the existence of a branch bank is directly related to core deposits. While we recognize this is ultimately a measurement issue, the Board should be careful to avoid establishing a precedent that implies the automatic adjustment of the discount rate for an assumed relationship.

Question 18: *Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?*

As stated previously, we believe that financial liabilities that will be settled in accordance with their contractual terms should be carried at amortized cost. We are concerned that the “mismatch” exclusions in paragraph 30 will not be operational. We believe the Board is intending this to result in the exclusion of many small and medium sized non-financial private entities. We do not have sufficient information to understand the sorts of entities that will or will not be excluded because of the operation of this paragraph. However, we are concerned that many non-public for profit and non-profit entities will be required to measure their financial liabilities at fair value when there is no prospect at all that they could actually settle such instruments at other than their contractual amounts. These entities do not have internal expertise to do fair value accounting. Given that we see no benefit to such entities to report at fair value, the costs they will have to incur to engage outside consultants to undertake these measurements is unacceptable.

Question 19: *Do you believe that the correct financial instruments are captured by the criteria in the proposed guidance to qualify for measurement at the redemption amount for certain investments that can be redeemed only for a specified amount (such as an investment in the stock of the Federal Home Loan Bank or an investment in the Federal Reserve Bank)? If not, are there any financial instruments that should qualify but do not meet the criteria? Why?*

We have no comment.

Question 20: *Do you agree that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?*



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We have no comment.

Question 21: *The Proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer's perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principal will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?*

We agree. Consistent with our comments above, we believe business strategy should drive financial reporting. We believe that issuance of convertible debt inherently contemplates a settlement other than the payment of contractual cash flows. Accordingly, that instrument would be carried at fair value with changes recorded in net income. However, we recognize that convertible debt instrument accounting could be further impacted by the project on financial instruments with characteristics of equity, in particular whether that project ultimately requires separation of such hybrid instruments into their debt and equity components. We encourage the Board to consider the manner in which this Proposed Update would apply to such instruments if they are separated into those components.

Question 22: *Do you believe that the recognition of qualifying changes in fair value in other comprehensive income (measuring the effects of subsequent changes in interest rates on fair value as well as reflecting differences between management's and the market's expectations about credit impairments) will provide decision-useful information for financial instruments an entity intends to hold for collection or payment(s) of contractual cash flows? If yes, how will the information provided influence your analysis of an entity? If not, why?*

We do not. As noted above, we believe that instruments which will be realized or settled in cash in accordance with their contractual cash flows should be carried at amortized cost. We believe this approach gives users better information about the amounts and timing of future cash flows. However, if the Board continues down this path, then we believe fair value with changes in OCI is the appropriate classification. Information as to changes in fair value may be useful in assessing the ability of the entity to realize or settle the instrument in accordance with its contractual terms particularly if it includes separate disclosure of fair value changes associated with changes in credit standing.

Question 23: *The proposed guidance would establish fair value with all changes in fair value recognized in net income as the default classification and measurement category for financial instruments. An entity can choose to measure any financial instrument within the scope of this*



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proposed Update at fair value with all changes in fair value recognized in net income, except for core deposit liabilities which must be valued using a remeasurement approach. Do you believe that a default classification and measurement category should be provided for financial instruments that would otherwise meet the criteria for qualifying changes to be recognized in other comprehensive income? If not, why?

We disagree. We believe the classification and measurement category should be based on the business strategy of the reporting entity not arbitrarily on the nature of the particular instrument. Accordingly we do not believe fair value should be the default measurement attribute nor do we believe inclusion in net income should be the default classification. As discussed above we believe instruments that will be realized/settled in accordance with their contractual terms should be separately classified and measured at amortized cost. With this as a guiding principle, we do not believe a “fair value option” is either necessary or appropriate. A reporting entity that would elect to measure financial instruments at fair value would be doing so, we believe, because such measurement is consistent with the role such instruments play in the entity’s business strategy. Allowing a reporting entity to arbitrarily choose to report individual instruments at fair value through net income when that is not consistent with the entity’s business strategy allows gamesmanship to enter into the financial reporting process and diminishes the concept of business strategy.

Question 24: *The proposed guidance would provide amortized cost and fair value information on the face of the financial statements. The Board believes that this would increase the likelihood that both measures are available to users of public entity financial statements on a timely basis and that both measures are given equal attention by preparers and auditors. Do you believe that this approach will provide decision-useful information? If yes, how will the information provided be used in the analysis of an entity? If not, would you recommend another approach (for example, supplemental fair value financial statements in the notes to the financial statements or dual financial statements)?*

First, we believe the Proposed Update will lead to an increase in the number of instruments that would be reported at fair value. This, coupled with the fact that many reporting entities would be reporting fair value information for the first time, we believe the time required to prepare financial information will increase as will the time required to prepare and disseminate financial information, particularly for non-public companies. Second, as previously stated, we believe instruments reported at amortized cost should be presented as such on the face of the balance sheet with fair value presented parenthetically. If the Board believes preparers and auditors are not giving appropriate attention to required disclosures that issue should be addressed with the SEC and the PCAOB. We do not believe it should be the role of the Board to attempt to enforce compliance with accounting principles through the standard setting process. Doing so has historically resulted in the proliferation of numerous rules designed to limit management’s ability to make judgments. If the Board is truly intent on having “principles based standards” it must establish those principles and allow the marketplace, compliance enforcement agencies, and the courts to do their jobs of ensuring that reporting entities and their auditors comply with the spirit of those principles-based standards.



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Question 25: *For hybrid financial instruments that currently would require bifurcation and separate accounting under Subtopic 815-15, do you agree that recognizing the entire change in fair value in net income results in more decision useful information than requiring the embedded derivative to be bifurcated and accounted for separately from the host contract? If yes, how will the information provided be used in the analysis of an entity? If not, for which types of hybrid financial instruments do you believe that it is more decision useful to account for the embedded derivative separately from the host contract? Why?*

We agree. We believe that a reporting entity's business strategy would likely not assume the realization or settlement of complex hybrid financial instruments in accordance with the contractual terms of the host contract. Additionally, this approach reduces financial accounting complexity. Again, as noted above, the project on financial instruments with characteristics of equity may impact the accounting for and presentation of some hybrid instruments and we encourage the Board to consider the likely impact of that project prior to finalizing this Proposed Update.

Question 26: *IFRS 9 requires hybrid financial assets to be classified in their entirety on the basis of the overall classification approach for financial assets with specific guidance for applying the classification approach to investments in contractually linked instruments that create concentrations of credit risk. Also, for hybrid financial liabilities, the IASB, in order to address the effects of changes in the credit risk of a liability, tentatively has decided to retain existing guidance that requires embedded derivatives to be bifurcated and accounted for separately from a host liability contract if particular conditions are met. Do you believe that the proposed guidance for hybrid financial instruments or the IASB's model for accounting for financial hybrid contracts will provide more decision-useful information? Why?*

We believe that the separation by issuers of complex financial instruments between the instruments' debt and equity components provides more useful information. We believe that hybrid debt instruments that do not have embedded equity components need not be bifurcated by the issuer if such instruments are carried at fair value and that this provides the most useful information.

Question 27: *Do you believe that measuring certain short-term receivables and payables at amortized cost (plus or minus any fair value hedging adjustments) will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?*

Yes, we believe that short-term assets and liabilities should be carried at amortized cost. That information will be used as it has historically been used.

Question 28: *Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?*



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We believe the proposed criteria are unnecessarily complex. Similar to the Alternative Views, we believe that the concept of “business strategy” at the base of the criteria is critical, appropriate and operational. As discussed above, we believe that instruments that will be realized or settled in accordance with their contractual terms should be carried at amortized cost if that is reflective of the reporting entity’s business strategy. As noted in the Alternative Views, we do not believe that measuring and reporting adjustments for such instruments is useful as the resultant unrealized gains and losses will reverse.

Question 29: *Do you believe that measuring financial liabilities at fair value is operational? If not, why?*

We believe large companies and most financial institutions whose business is dealing in financial instruments have the ability to measure financial liabilities at fair value. However, as we have stated previously, we do not agree with the underlying premise that such information is automatically presumed more useful than amortized cost.

As stated above, we are concerned that the “mismatch” exclusions in paragraph 30 will not be operational. We believe the Board is intending this to result in the exclusion of many small and medium sized non-financial private entities. We do not have sufficient information to understand the sorts of entities that will or will not be excluded because of the operation of this paragraph. However, we are concerned that many non-public for profit and non-profit entities will be required to measure their financial liabilities at fair value when there is no prospect at all that they could actually settle such instruments at other than their contractual amounts. These entities do not have internal expertise to do fair value accounting. Given that we see no benefit to such entities to report at fair value, the costs they will have to incur to engage outside consultants to undertake these measurements is unacceptable.

Question 30: *Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?*

See our comments to Questions 28 and 29 above.

Question 31: *The proposed guidance would require an entity to measure its core deposit liabilities at the present value of the average core deposit amount discounted at the difference between the alternative funds rate and the all-in cost-to-service rate over the implied maturity of the deposits. Do you believe that this remeasurement approach is operational? Do you believe that the remeasurement approach is clearly defined? If not, what, if any, additional guidance is needed?*

See our comments to Question 17 above.

Question 32: *For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity’s credit standing (excluding changes in the price of credit) is appropriate, or do you believe that it*



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is more appropriate to recognize the changes in an entity's credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?

For those financial liabilities measured at fair value we believe changes in credit standing should be included in other comprehensive income.

Question 33: *Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2 for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.*

For public entities or entities that can compare themselves to public entities, either method appears to be workable so long as it's consistently applied. However, we believe Method 2 is preferable. First, we are not convinced that methodologies underlying credit ratings are necessarily consistently applied from period to period. Further, it is not clear to us that the range of the interest rate "spread" within a credit rating would not allow for material changes in credit standing to go unreported or unrecognized as an entity moves from one side of that spread to another within a credit rating category. As noted above, we are concerned that small and medium sized non-public and non-profit entities will not be excluded under paragraph 30. We do not believe that benchmarking those entities against larger businesses with debt that is rated is either operational or useful.

Question 34: *The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities within an entity's industry, or should some other index, such as all entities in the market of a similar size or all entities in the industry of a similar size, be used? If so, please explain why another index would better measure the change in the price of credit.*

For those reporting entities that will measure financial liabilities at fair value, we believe the Board should leave the specifics to management's judgment. Whether management uses an index, a competitor, companies in other industries consistent with the variety world-wide locations of segments and subsidiaries who have such liabilities should not be specified in this standard. Fair values for these instruments will be highly subjective and based on considerable judgment. Management should be charged with choosing reasonable methods, should disclose the bases for those measurements, and provide sensitivity analysis for the most critical estimates.



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Question 35: *For financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income, do you believe that the presentation of amortized cost, the allowance for credit losses (for financial assets), the amount needed to reconcile amortized cost less the allowance for credit losses to fair value, and fair value on the face of the statement of financial position will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?*

As noted in our comment to Question 24 we do believe the presentation of this much detail on the face of the balance sheet is inappropriate. The proposed presentation will make the balance sheet entirely too complex and too cluttered to understand.

Question 36: *Do you believe that separately presenting in the performance statement significant changes in the fair value of financial liabilities for changes in an entity's credit standing (excluding the changes in the price of credit) will provide decision-useful information? If yes, how will the information provided influence your analysis of the entity? If not, why? Do you believe that changes in the price of credit also should be included in this amount? If so, why?*

For those liabilities presented at fair value, we believe information as to the changes in fair value due to changes in credit standing is useful information if the reporting entity has the ability to settle those financial liabilities. As noted previously we do not agree with the use of exit value in measuring fair value of financial liabilities if the entity in fact does not have the contractual ability to settle the liability at that exit value. In those situations where it does have that ability, changes in the entity's credit standing will provide useful information to users attempting to assess the amounts and timing of future cash flows.

Question 37: *Do you believe that the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?*

We believe the objective of the credit impairment model is clear.

Question 38: *The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s). The IASB Exposure Draft, Financial Instruments: Amortised Cost and Impairment (Exposure Draft on impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an impairment gain or loss. Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update,*



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or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

We agree that credit impairment should be recorded in net income when an entity does not expect to collect all contractual amounts due or originally expected to be collected.

Question 39: *Do you agree that credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?*

We agree. The changes described in the question appear to have little to do with credit risk or credit standing.

Question 40: *For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?*

No. Management should determine the method and disclose the details.

Question 41: *Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why?*

We agree with the above approach for assets that are not measured at fair value with changes in net income.

Question 42: *If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual financial asset. Do you agree with this requirement? If not, why?*

We believe additional clarification is required in this area. For an instrument that is included within a larger portfolio of similar instruments, we agree that based on current information, the reporting entity may not believe that any individual instrument is impaired but also, based on historical experience, believe there is some level of impairment in the portfolio that cannot presently be identified to a particular instrument. Instruments are often assessed individually for impairment and segregated from the larger portfolio for that purpose; the remainder of the



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portfolio is evaluated as described with the belief that there is some unidentified impairment present in that remaining portfolio. If this is the Board's requirement, we agree. If the Board believes that an historical loss rate should be applied to individual, separately identified instruments that are not believed to be impaired, we disagree.

Question 43: *The credit impairment model in this proposed Update would remove the probable threshold. Thus, an entity would no longer wait until a credit loss is probable to recognize credit impairment. An entity would be required to recognize credit impairment immediately in net income when an entity does not expect to collect all of the contractual cash flows (or, for purchased financial assets, the amount originally expected). This will result in credit impairments being recognized earlier than they are under existing U.S. GAAP. Do you believe that removing the probable threshold so that credit impairments are recognized earlier provides more decision-useful information?*

For investments carried at cost, we believe any impairment should be recognized immediately. As to the Board's belief that eliminating the word "probable" will lead to earlier recognition of credit impairments, we do not have a basis to agree or disagree. Our experience is that the application of the word "probable" in practice is often influenced by the current operating results of the reporting entity. We believe that simple human nature will dictate that "expectations" about future cash flows will be similarly influenced.

Question 44: *The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectability of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on impairment proposes an expected loss approach and would require an entity to estimate credit losses on the basis of probability-weighted possible outcomes. Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would provide more decision-useful information?*

We do not agree that an entity should assume that current economic conditions will remain unchanged if those economic conditions are cyclical. We believe this is an arbitrary position. While we recognize the Board is sensitive to manipulation by management, we do not believe it is appropriate to address that by specifying inputs be used in a model when such inputs are known to be false. Economic conditions are not static; assuming they are is more arbitrary than incorporating an economic forecast into one's model. As stated previously, we do not believe the Board should attempt to control the reporting behavior of preparers by means of arbitrary rules. Judgments about impairments should be left to management and the assessment of the reasonableness of those judgments left to those charged with governance and enforcement.



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Question 45: *The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Do you agree with that approach?*

We do not believe the Board should establish methodology at this level of detail. Assessments of the levels of impairment on individual portfolios should be left to managements' judgment. We do note, however, that this appears to be a mixing of historical cost reporting with fair value reporting. A portfolio reported at fair value may lose on average 1% per year to impairment. It is not clear to us that a 12% impairment of the fair value of the portfolio is conceptually sound. The future impaired cash flows are already discounted to their present value; it would appear that the future impairments should be similarly adjusted.

Question 46: *The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectability of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on Impairment proposes an expected loss approach and would require an entity to estimate credit losses on basis of probability-weighted possible outcomes. Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?*

See our comments to Question 44.

Question 47: *The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Would such an approach result in a significant change in practice (that is, do historical loss rates typically reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool or some shorter period)?*

As noted above, we do not believe the Board should establish specific methodologies for judgments of this nature. However, it is our understanding that currently accepted practice for determining historical loss rates for individual pools of similar loans, in some instances, is to apply a historical loss rate that reflects cash flows that the entity does not expect to collect over a one to two year period. As such, it would appear for some entities, the application of a historical



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loss rate that reflects cash flows that an entity does not expect to collect over the life of the loans in a pool might result in a significant change in practice.

Question 48: *The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?*

Credit impairments should be immediately recognized, not deferred and amortized as an adjustment to yield. Interest income or expense should be presented gross and any necessary impairment charges included with other impairment charges. Allowing entities to build reserves over time and to bury that build-up in net interest income or expense is not appropriate. If an asset is impaired and an additional allowance needed, an impairment charge should be recorded and not bled in over a period of time as will occur with the approach proposed by the Board.

Question 49: *Do you agree that the difference in the amount of interest contractually due that exceeds interest accrued on the basis of an entity's current estimate of cash flows expected to be collected for financial assets should be recognized as an increase to the allowance for credit losses? If not, why?*

We do not agree. Contractual interest should be recorded in interest income. If additional impairment charges are needed, they should be recorded and included in the income statement with all other impairment charges not buried in net interest income or expense. The proposal reduces transparency and hides an indicator of management's ability to manage risk. Furthermore as stated in BC250 of the Alternative Views, this approach leads to an additional line item of the income statement that will be materially impacted by subjective judgments.

Question 50: *The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?*

We believe that interest income recognition guidance should be consistent for all entities. Specifically, it should be determined based on the effective rate at the time the instrument is acquired.

Question 51: *Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?*



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The examples in the Implementation Guide are straightforward.

Question 52: *Do you believe that the method for recognizing interest income on financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income will provide decision-useful information? If yes, how will the information provided be used in your analysis of an entity? If not, why?*

As noted above, we agree with the comments presented in the Alternative Views section. We do not believe it is appropriate to present interest income net of impairment charges.

Question 53: *The method of recognizing interest income will result in the allowance for credit impairments presented in the statement of financial position not equaling cumulative credit impairments recognized in net income because a portion of the allowance will reflect the excess of the amount of interest contractually due over interest income recognized. Do you believe that this is understandable and will provide decision-useful information? If yes, how will the information provided be used? If not, why?*

As noted above and consistent with the Alternative Views, we do not believe impairment charges should be buried in net interest income or expense. The reconciliation necessitated by the proposed interest income recognition model would not be necessary.

Question 54: *The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Thus, the recognition of a credit loss would result in a decrease in interest income recognized. Similarly, a reversal of a previously recognized credit loss would increase the amount of interest income recognized. The IASB Exposure Draft on Impairment proposes that an entity calculate interest by multiplying the effective rate established at initial recognition by the amortized cost basis. The IASB's definition of amortized cost basis is the present value of expected future cash flows discounted by the effective interest rate established at initial recognition and, therefore, includes credit losses recognized to date. Thus, as initially expected credit losses are allocated over the life of the instrument, the amount of interest income decreases.*

Both the FASB's and the IASB's models for interest income recognition are similar in that the recognition of an impairment reduces the amount of interest income recognized. However, as noted in the questions above, the timing of credit impairments and the determination of the effective interest rate differ in the two proposed models. Thus, the amount of interest income recognized under the two proposed models will differ. Do you believe that the FASB's model or the IASB's model provides more decision-useful information? Why?

As noted above and consistent with the Alternative Views, we do not believe credit impairments should be buried in net interest income or expense but should be separately recorded. Both



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models are inappropriate as both models allow for the smoothing of income by building impairment allowances by the under-reporting of interest income.

Question 55: *Do you agree that an entity should cease accruing interest on a financial asset measured at fair value with qualifying changes in fair value recognized in other comprehensive income if the entity's expectations about cash flows expected to be collected indicate that the overall yield on the financial asset will be negative? If not, why?*

We agree. However, to the extent cash is collected, we do not object to the reporting practice of applying all cash collected as a reduction of the carrying value of the instrument. We do not believe it appropriate to increase the impairment allowance directly by means of cash collected.

Question 56: *Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?*

We agree with modifying the effectiveness threshold from highly effective to reasonably effective. We believe this change simplifies the analysis required to qualify for hedge accounting. However, we recommend the Board provide additional guidance to illustrate the intended application of the "reasonably effective" threshold. Additionally, we recommend the Board provide examples or discussions of:

- Situations in which a quantitative analysis would be required upon initial designation
- Changes in circumstances that would cause a previously effective hedging relationship to no longer be reasonably effective.

Without this guidance, we believe that diversity in practice will emerge as companies and their auditors will interpret this new guidance differently. For example, is it the Board's intent that a correlation of 30% would be reasonably effective is the reporting entity expected that level of effectiveness to exist and believed that level of effectiveness would allow it to reasonably achieve its hedging objectives? Again, we recognize the Board's desire to achieve a principles based standard and recognize the difficulty of establishing such principles that necessarily require the use of terms such as "reasonable" and "minimal". We trust that practice will evolve and that those charged with governance and compliance will help define what those terms imply quantitatively.

Question 57: *Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term? Why or why not?*

We believe that circumstances and relationships may change such that a hedging relationship that was expected to be, and in fact may have historically been, reasonably effective may no longer be. Accordingly, a blanket statement that subsequent evaluation is never required appears to be an arbitrary one. We note that ineffectiveness will be observed every reporting period and



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that management may determine after some number of consecutive periods of unexpectedly high levels of ineffectiveness that the assumed relationship has changed. The Board should require that management reassess the level of effectiveness if it has evidence that the relationship is no longer reasonably effective. The Board should consider identifying circumstances that might suggest this, but ultimately it should be left to management judgment.

Question 58: *Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? Why or why not?*

The answer to this question is not clear.

While it is likely that the elimination of the requirement to quantitatively assess effectiveness every reporting period will reduce the number of times hedging relationships qualify as “highly effective”, it is also likely that many more relationships will be designated as hedging because they are expected to be “reasonably effective”. It is possible that the proportion of relationships that must be discontinued will decrease but that the absolute number will increase.

Question 59: *Do you believe that a hedge accounting model that recognizes in net income changes in the fair value and changes in the cash flows of the risk being hedged along with changes in fair value of the hedging instrument provides decision-useful information? If yes, how would that information be used? If not, why?*

In general, this should provide useful information as it will be reflective of management’s performance as it executes its business strategies that require the use of hedging transactions.

However, we do question the Board’s rationale in so far as it relates to under-hedging of anticipated transactions. We refer to the discussion beginning in paragraph 379 of Statement Number 133. It is not clear to us why the Board has now rejected those arguments as to the usefulness of recording that ineffectiveness.

Question 60: *Do you believe that the proposed changes to the hedge accounting model will provide more transparent and consistent information about hedging activities? If yes, why and how would you use the information provided? If not, what changes do you disagree with and why?*

We believe the proposed changes will improve the quality of the information presented. We believe the accounting model we be more consistent with management’s business strategy and will reflect the activities actually undertaken that management believes are operationally necessary. We have had collective experiences with entities that did not enter into hedging relationships that were economically sound because of the complexity of the accounting model and others that did so but merely accounted for derivatives at market value rather than seek to apply the complexities of hedge accounting. We believe that an accounting model that captures



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and reflects an entity's business model is better able to depict the performance of the entity against that strategy.

Question 61: *Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?*

We don't foresee any operational constraints in this area. We believe that most entities will measure ineffectiveness by means of a hypothetical derivative. Those entities that have been utilizing the exception granted by Issue G20 will not experience a change in practice. We do note the Board's reference to the need to reclassify some portion of the difference related to the time value of the option from OCI to net income on a "rational basis". We assume the Board is intentionally open-ended with that comment to imply that in some circumstances a simple straight-line amortization is acceptable.

Again with respect to paragraph 126 and hedging a group of transactions within a specific time period, we assume the Board is intentionally leaving the determination as to what constitutes a "minimal difference" to management.

While we continue to believe it appropriate for the Board to establish principles-based standards without "bright lines" that would lead to transaction structuring, we believe it would be helpful for the Board to provide any particular guidance as to its intent in areas that are dependent on management's judgment as to "reasonable" or "minimal" conditions.

Question 62: *Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?*

We do not foresee any significant operational constraints. Organizations currently doing hedging should already have processes in place to evaluate the performance of their hedging programs. However, we note that ineffectiveness will be observable each reporting period and we believe the Board or other constituents may have operational experience in deciding when a hedging program is not giving the organization the economic results that were expected. We are not requesting rules in this area, but suggest the Board give examples of changes in circumstances that suggest the relationship may no longer be reasonably effective.

Question 63: *Do you foresee any significant operational concerns or constraints arising from the inability to discontinue fair value hedge accounting or cash flow hedge accounting by simply de-designating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?*

We do not see a benefit from disallowing voluntary de-designation. The Board admits that entities may effectively discontinue hedging by entering into offsetting contracts. Accordingly,



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the prohibition in this area effectively disallows de-designation only for those who are not willing to incur the out-of-pocket cost of entering into an off-setting transaction.

We do not believe the Board should adopt a rule of this nature as it serves only to encourage a mindset that says if one has money, one can structure transactions to defeat the rules. As we have stated previously, we believe an organization's business strategy should drive the accounting and reporting model and if that business strategy calls for de-designation of a hedging relationship, we believe it is preferable to cause an entity to do that, account for it as such, and disclose the reasons behind the change rather than to cause an entity to pay money to circumvent a rule and not disclose the business reasoning for doing so.

Question 64: *Do you foresee any significant operational concerns or constraints arising from the required concurrent documentation of the effective termination of a hedging derivative attributable to the entity's entering into an offsetting derivative instrument? If yes, what constraints do you foresee and how would you alleviate them?*

Again, we don't understand the rationale behind the record-keeping requirement or what it is designed to accomplish. Consistent with our earlier comments, if such effective termination is a result of a change in business strategy, a change in reporting should be required, not allowed to be avoided by a failure to document such effective termination. We do fail to see any consequences from a failure to document such effective termination noting that the off-setting hedging instrument will still have to be accounted for at fair value through net income whether the entity prepares the documentation or not. The Board appears to be attempting to put a structure around an essentially meaningless exercise.

Question 65: *Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?*

We have no comments.

Question 66: *For purchased financial assets, do you believe that the requirement to disclose the principal balance, the purchaser's assessment of the discount related to credit losses inherent in the financial instrument at acquisition, any additional difference between the amortized cost and the principal balance, and the amortized cost in each period will provide decision-useful information? If yes, how will the information provided influence your analysis of an entity? If not, why?*

We agree with the proposed disclosure and believe it will provide useful information as to the potential for significant future cash flows. It will also provide users with information as to management's willingness to accept risks and its success in managing those risks.

Question 67: *Are there any other disclosures that you believe would provide decision-useful information and why?*



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The Proposed Update will greatly expand the number of financial instruments reported at fair value. We believe that the vast majority of those newly reported instruments will be those that must be valued by means of unobservable inputs. As noted in the Alternative Views' comment on the effective dates for smaller entities, it is clear that the Board recognizes the increased complexity that will accompany this expanded reporting. We believe this increased complexity will not only make reporting and auditing more difficult, but it will make it more difficult for companies to meet their various reporting deadlines. While this may not be a problem for the largest public reporting companies, we believe this will severely impact those who have until this point not had significant experience reporting financial instruments, particularly financial liabilities, at fair value.

Question 68: *Do you agree with the transition provision in this proposed Update? If not, why?*

We agree that retrospective application would be too costly and not particularly useful under the circumstances.

Question 69: *Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than \$1 billion in total consolidated assets? If not, why?*

While four years seems like a long time, it is not. Community banks for example don't have financial instrument specialists on staff and in our experience; they use outside service providers for their general ledgers and supporting record systems. We do not have sufficient information to know whether four years is sufficient time for those third-party service centers to develop the systems necessary to permit their customers to comply with the Proposed Update. Additionally, small and medium sized for-profit and non-profit non-financial entities will not benefit from the four year time frame as they will not have the necessary staff in the organization to undertake fair value measurement and disclosure and will not hire such persons. We believe the Board will merely be on the receiving end of a four year siege not unlike that related to require reporting under Sarbanes-Oxley Section 404 by smaller registrants. Finally, we agree with the Alternative Views position that the mere existence of a four year transition period is tacit acknowledgment that the costs far outweigh the benefits in this Proposed Update.

Question 70: *How much time do you believe is needed to implement the proposed guidance?*

As stated previously, we do not know how long it will take third party service centers to develop the systems community banks and similar small financial institutions will need to record loans, deposits and other accounts at fair value. We do not believe that private or smaller public entities will hire permanent staff members who are expert in financial instruments. Accordingly, we believe much of this will be out-sourced to third parties. We do not know their capacity constraints currently nor do we know the magnitude of this undertaking in terms of the number of financial instruments in both public and private companies that would need to be valued.

Question 71: *Do you believe the proposed transition provision is operational? If not, why?*



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See our comment to Question 70.

Finally, we recognize that this project has been a massive one and has consumed much of the Board's time and energy. However, because of the far-reaching impact of this Proposed Update, not only on US reporting entities, but on the success of the entire convergence process, we encourage the Board to not finalize and issue this Proposed Update until substantial agreement has been reached with the IASB on accounting for financial instruments. Many of the changes that would result from adopting this document as written will be costly to implement; having to implement a second round of changes that could result from the impact of this project on the convergence process could significantly undermine the Board's credibility.

We appreciate the opportunity to offer our comments.

Sincerely,

Reva Steinberg, CPA

Chair, Accounting Principles Committee

Jeffery Watson, CPA

Vice-chair, Accounting Principles Committee



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APPENDIX A
 ACCOUNTING PRINCIPLES COMMITTEE
 ORGANIZATION AND OPERATING PROCEDURES
 2010-2011

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large: (national & regional)

Robert A. Dombrowski, CPA	McGladrey & Pullen LLP
John A. Hepp, CPA	Grant Thornton LLP
Alvin W. Herbert, Jr., CPA	Retired/Clifton Gunderson LLP
Scott G. Lehman, CPA	Crowe Horwath LLP
Matthew G. Mitzen, CPA	Blackman Kallick LLP
Reva B. Steinberg, CPA	BDO USA LLP
Jeffery P. Watson, CPA	Blackman Kallick LLP

Medium: (more than 40 professionals)

Gilda M. Belmonte, CPA	E.C. Ortiz & Co, Ltd.
Marvin A. Gordon, CPA	Frost, Ruttenberg & Rothblatt, P.C.
Ronald R. Knakmuhs, CPA	Miller, Cooper & Co. Ltd.
Jennifer L. Williamson, CPA	Ostrow Reisen Berk & Abrams Ltd.

Small: (less than 40 professionals)

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Kathleen A. Musial, CPA	BIK & Co, LLP
Michael D. Pakter, CPA	Gould & Pakter Associates LLC

Industry:

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Farah. Hollenbeck, CPA	Hospira, Inc.
James B. Lindsey, CPA	TTX Company
Michael J. Maffei, CPA	GATX Corporation
Jacob R. Mrugacz, CPA	U.S. Cellular Telephone & Data Systems
Karen R. Page, CPA	David Lewis Co.
Anthony Peters, CPA	McDonald's Corporation

Educators:

James L. Fuehrmeyer, Jr. CPA	University of Notre Dame
Laine E. Malmquist, CPA	Judson University
Leonard C. Soffer, CPA	University of Chicago

Staff Representative:

Paul E. Pierson, CPA	Illinois CPA Society
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