



Our Ref.: C/FRSC

Sent electronically through the FASB and the IASB Website

30 September 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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cc.: International Accounting Standards Board
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Dear Sirs,

[FASB Proposed Accounting Standards Update Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities \(File reference No. 1810-100\)](#)

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned proposed Accounting Standards Update (the "proposed ASU"). Our responses to the questions raised in the proposed ASU are set out in the Appendix for your consideration.

We support the development of a single set of high-quality globally accepted financial reporting standards that will enhance the efficiency of the capital markets around the world and increase the quality of information reported by entities in many jurisdictions.

We note the calls for international convergence in financial reporting standards made by the G20 and we understand that the FASB and the IASB jointly affirmed their commitment to achieve convergence of IFRSs and U.S. GAAP. However, it was noted that the FASB Exposure Draft marks a significantly different approach to financial instruments accounting than that taken by the IASB, we are concerned that it would increase the difficulties of the two Boards to reconcile differing views and work towards converged standards on this project.

Mixed Measurement Model

Although we agree that the fair value of financial instruments provides important information to users of financial statements, we do not agree that fair value is the appropriate measurement attribute for practically all financial assets and the majority of financial liabilities. We are supportive of the mixed measurement model consisting of amortized cost and fair value for financial instruments in IFRS 9 and the IASB's ED/2010/4. We believe that the directions set by the IASB should form the basis for the



development of a converged standard as they are more principles-based than the FASB's proposal.

We strongly support the adoption of classification criteria that differentiate between financial instruments measured at amortized cost and financial instruments measured at fair value, based on the business model adopted by the entity in managing financial instruments, along with an assessment of the characteristics of the financial instrument itself. We believe that amortized cost should be the measurement attribute for instruments that are held for collection or payment of contractual cash flows. This measurement attribute is more consistent with how users evaluate investment decisions and how businesses are managed. We agree that fair value information is also useful for this category of financial instruments and therefore we support the fair value of these instruments be disclosed in the notes to the financial statements.

We do not support the FASB's model by introducing more classification categories such as fair value through net income, fair value through other comprehensive income (OCI), amortized cost, remeasurement attribute through net income, and remeasurement attribute through OCI. We believe this would increase complexity in the accounting for financial instruments. In addition, the introduction of a new remeasurement approach to core deposit liabilities adds further complexity as it is neither fair value nor amortized cost, it is unclear what that new measurement attribute purports to represent.

Reclassification

Consistent with our view that an entity's business model should drive classification of financial instruments, we do not support the proposed prohibition on subsequent reclassification. In our view, an instrument should be reclassified if it no longer meets the criteria for its current classification. We believe that when there is a change in the entity's business model, such that a portfolio that was previously being held predominantly for the collection or payment of contractual cash flows is no longer so held (or vice versa), reclassification should be required in a manner consistent with IFRS 9. However, we would expect changes in the business model to be infrequent.

Financial Liabilities

We do not believe there needs to be symmetry in the measurement principles for financial assets and financial liabilities. We believe that amortized cost is the most appropriate measurement basis for the majority of financial liabilities. It is noted that for most financial liabilities that are issued for financing purposes and required the payment of contractual cash flows, they are seldom transferred and fluctuations in fair value during the holding periods are not ultimately realized. However, we agree that an entity should have the option of measuring the liability at fair value if measuring a financial liability at amortized cost would create or exacerbate an accounting mismatch.

If the fair value option is elected for financial liabilities, we support the solution proposed by the IASB's Exposure Draft *Fair value option for financial liabilities* which proposed that fair value changes of financial liabilities due to changes in an entity's credit risk should be recognized in OCI unless doing so would create or exacerbate an accounting mismatch. This approach would address the concerns raised regarding the



usefulness of information that reflects changes in the fair value in an entity's liabilities arising from changes in the entity's own credit standing.

Hybrid Financial Instruments

We support the approach of IFRS 9 that hybrid financial assets should be classified based on the evaluation of the hybrid financial asset in its entirety. If embedded derivatives are not closely related to the financial host asset and are likely to fail the amortized cost criteria, the asset is measured in its entirety at FVTPL.

In contrast to our views on hybrid financial assets, we support retaining the existing bifurcation requirement for financial liabilities with embedded derivatives under the basic premise that amortized cost is the most appropriate measurement basis for the majority of financial liabilities. However, we encourage the Boards to consider how the existing rules can be simplified such as establishing a standard that is principles-based by using the principles, language and concepts underlying IFRS 9.

Credit Impairment

We note that the impairment approach of the proposed ASU differs in many significant respects from the impairment approach that the IASB proposed in its exposure draft ED/2009/12 *Financial Instruments: Amortized Cost and Impairment*. We strongly encourage the two boards to achieve convergence through working closely with the boards' Expert Advisory Panel (EAP) to resolve the operational issues during the redeliberation process.

While we support the objectives to reduce delays in recognizing credit impairment and measuring credit impairment based on an entity's expectations about the collectability of cash flows, we do not fully support either the FASB's or the IASB's model as currently proposed.

We do not support the FASB's proposal to immediately recognize all expected losses on financial assets in net income in the first reporting period as this approach does not appropriately reflect the economic results of all lending transactions where lenders are generally compensated for credit risk by earning a credit spread that will be recovered over the life of the asset.

We also do not agree with the FASB's requirement that an entity (1) assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial assets and (2) not forecast future events or economic conditions that did not exist as of the reporting date. We consider limiting the amount of information that can be used to historical information and current conditions is inconsistent with the principle of considering losses that may occur in the future. We believe that impairment estimates are inherently forward-looking, accordingly, we recommend the FASB clarify that the estimation of expected loss should allow management judgment to take into account expected changes in future economic and credit conditions that are either highly likely or are based upon objective evidence. We believe that enhanced disclosures of management's assumptions will provide more transparency to financial statement users.



As discussed in our comment letter on the IASB's Exposure Draft *Financial Instruments: Amortized Cost and Impairment*, we conceptually support an expected loss approach proposed by the IASB Exposure Draft. Such an approach which requires the initial expected loss be spread over the expected life of the financial assets with changes in subsequent estimates of expected loss reflected in catch-up adjustments to net income. However, we are concerned with the significance of the operational challenges that the IASB's proposed model presents, especially when applied to an open portfolio. We noted that the EAP has identified several potential solutions to some of the operational issues, such as de-coupling interest income and expected loss estimates, differentiating between a good book (e.g. performing loans) and a bad book (e.g. non-performing loans) and developing proposals that are applicable to an open portfolio. We believe these are good suggestions and support their further development. We encourage the FASB to continue to work with the IASB in establishing a single set of high quality global standards for the identification and measurement of credit impairment of financial assets in order to achieve convergence.

Hedge Accounting

We support the proposed changes to the assessment of hedge effectiveness to require (1) that a hedging relationship be reasonably effective (rather than highly effective), (2) a qualitative assessment of the effectiveness of a hedging relationship at inception (unless a quantitative assessment is necessary based on facts and circumstances), (3) no ongoing assessment of effectiveness, unless facts and circumstances suggest that the hedging relationship would no longer be reasonably effective and (4) no assumption of perfect effectiveness. We believe the proposed change can achieve the objective of simplifying the hedge accounting to make it easier for preparers of financial statements to comply with the guidance and improve the financial reporting of hedging activities.

However, we do not agree with the proposed limitation on an entity's ability to dedesignate a hedging relationship. It is not clear what the FASB's conceptual basis is for this change and we are not aware that voluntary dedesignations have ever been used as an earnings management tool for users of the financial statements. We are concerned that the proposed change would prohibit entities from entering into certain types of dynamic hedging strategies.

In addition, we do not agree that entities should be required to record in earnings ineffectiveness related to underhedges for cashflow hedging relationships based on a fictitious derivative that was never entered into by the entity. We believe that the impact on earnings for underhedging in cash flow hedges represents the opportunity cost of using a less than perfect derivative, rather than a change in an actual recorded asset or liability as is the case related to fair value hedges.

Although not included in the FASB's proposal, we would support allowing measurable and quantifiable components of non-financial instruments to be designated as the hedged risk in a fair value or cash flow hedge. We note that as part of IASB tentative decisions to date in formulating its exposure draft on hedge accounting, it has agreed to explicitly permit hedge accounting of non-financial items in which the variability in price is an explicit separable component.



We understand that the IASB has not completed its deliberations or issued a proposal on hedge accounting, we would like to reiterate the importance of the development of a high-quality, converged standard related to hedge accounting.

If you have any questions on our comments, please do not hesitate to contact me at ong@hkiipa.org.hk.

Yours faithfully,

Steve Ong, FCA, FCPA
Director, Standard Setting Department

SO/WC/jn



Hong Kong Institute of CPAs

Comments on the FASB Proposed Accounting Standards Update *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*

Scope

Questions for All Respondents

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 generally agree with the scope in the proposed ASU except for the areas in financial guarantees and loan commitments.

For financial guarantees, only certain financial guarantees are excluded from the scope of the proposed ASU. It is not clear what principle an entity should apply in determining financial guarantees that would fall within the scope of the proposed ASU and those that would fall within the scope of the insurance project.

For loan commitments, please refer to our response in Question 2.

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?

In our view, the accounting for written loan commitments should be consistent with that of the underlying originated loans. For example, if the commitments are issued for financial instruments that are held for the collection of their contractual cash flow, it should be measured at amortized cost.

However, if the FASB proceeds with the requirement to measure all written loan commitments at fair value, we recommend that all revolving financing arrangements be excluded from the scope. We support the decision of the FASB of providing scope exemption for lines of credit under credit card arrangements for practical reasons, however, we believe that such exemption should be applicable to all financial instruments having the same economic substance, rather than for specific contractual types.



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 agree that deposit-type and investment contracts that do not have significant insurance risk and that otherwise meet the definition of a financial instrument should be included within the scope of the standard on financial instruments. However, we encourage the Board to provide clear guidance on determining financial instruments that would fall within the scope of the insurance project and those that would fall within the scope of the proposed ASU.

Question 4

The proposed guidance would require an entity to not only determine if they have 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?

We do not agree with the proposed amendment to require additional criteria for investments to be eligible for the equity method of accounting. We believe that the introduction of a "similar operations" criterion is likely to lead to operational issues in practice in determining whether the operations of an investee are considered related to the investor's consolidated operations.

We are concerned that if the FASB moves forward with the requirement as proposed, there will be a GAAP difference between the US GAAP and the IFRS. We encourage the FASB to work jointly with the IASB to reexamine the scope and the application of equity method accounting.

Questions for Users

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 comments on this aspect.



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 comments on this aspect.

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 comments on this aspect.

Initial Measurement

Questions for All Respondents

Question 8

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

We generally agree with the initial measurement principles for financial instruments. We considered the FASB proposals are broadly similar to IFRS existing requirements where a financial asset (liability) is measured initially at its fair value plus (minus), in case of a financial asset (liability) not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset (liability) (IFRS 9 paragraph 5.1.1).

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 believe that for originated loans and debt instruments, an entity should first determine whether the significant difference is due to the existence of other elements to the transaction (e.g. other performance obligations or related parties) which should be separately identified and recognized in net income. If there are no other elements to the transaction after such determination, the fair value should be assumed to equal the transaction price.

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?

Refer to our responses to Questions 8 and 9.

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 with the proposal. However, we note that transactions fees and costs are not defined in the proposed ASU. Paragraph 13 only states that "for financial assets that meets the criteria to recognize qualifying changes in fair value in OCI, certain loan origination fees, net of direct loan origination costs, as defined in Subtopic 310-20, shall be deferred." It is not clear whether there is a difference in the accounting for costs to originate loans and issue debt. We recommend the FASB consider providing additional guidance on the transaction costs and fees that would be included to ensure consistent application.

Question for Preparers and Auditors

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?

We understand that the fair value measurement requirements in ASC 820-10 provide guidance and examples of when transaction price may or may not reflect fair value. It would be helpful if the proposed ASU referred to the guidance in ASC 820-10 than providing additional implementation guidance.



Subsequent Measurement

Questions for All Respondents

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?

We do not believe that the default measurement for financial instruments should be fair value. As discussed in our covering letter, we support a mixed measurement model that allows for financial instruments to be measured at either amortized cost or fair value, depending on the business model adopted by the entity in managing financial instruments, along with an assessment of the characteristics of the financial instrument itself. We believe that if a financial assets that is held for collection of contractual cash flows and is held in a business model whose objective is not to manage financial assets on a fair value basis, then amortized cost is the most relevant measure unless the entity elects to measure the financial asset at fair value because measuring the financial asset at amortized cost would result in an accounting mismatch. We consider that the mixed measurement attribute is more consistent with how users evaluate investment decisions and how businesses are managed. When the Institute commented on the IFRS 9 Exposure Draft proposed by the IASB in 2009, we received general support from financial institutions and financial statement users of the mixed measurement model.

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?

If the Board retains its FV-OCI category, we consider that all foreign exchange gains and losses on monetary items should be separately recognized in net income as they arise, like the approach in IAS 39. AG 83, rather than deferring them until realized or settled.



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 support the use of the same criteria for determining the measurement basis of both financial assets and financial liabilities. We are of the view that most financial liabilities are settled through performance rather than through transfer. It is rare for an entity to realize the fair value gain or loss prior to contractual maturity. We believe that retaining amortized cost as the principal measurement attribute for most financial liabilities can fairly reflect how businesses are managed and can also address potential concerns about reflecting changes in an entity's own credit risk in the measurement of its liabilities.

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 do not support the proposed prohibition on reclassification. In our view, an instrument should be reclassified if it no longer meets the criteria for its current classification. We believe that when there is a change in the entity's business model, such that a portfolio that was previously being held predominantly for the collection or payment of contractual cash flows is no longer so held (or vice versa), reclassification should be required in a manner consistent with IFRS 9. However, we would expect changes in the business model to be infrequent.

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?

We are not convinced that the proposed remeasurement for core deposit liabilities would represent an improvement to financial reporting. It is not easy for financial statement users, let alone banks' customers, to understand why the core deposit liabilities are presented at an amount that is less than what is payable on demand. The remeasurement attribute is neither a cost measurement nor a fair value measurement



but involves the use of a discount that is derived from the next available source of funds. This is not considered to be decision-useful to financial statement users.

In addition, this measurement approach captures a portion of an intangible asset in the remeasurement value. We believe that capturing only a portion of an intangible asset in the remeasurement value is not appropriate because it does not reflect the entire economic value of the customer relationship. Further, recognizing a portion of an intangible asset is inconsistent with the accounting for other intangible assets acquired.

We recommend that the FASB perform outreach to financial statements preparers and users to determine whether there is a need to change the current measurement basis for demand deposits.

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?

We agree with the alternative view of the minority FASB members that the amortized cost exception provided in the proposed ASU for some financial liabilities lacks an underlying concept, is rules-based in nature, and would not be operational.

As mentioned previously, we believe that a financial liability should be measured at amortized cost unless the entity's business strategy is to manage the financial liability on a fair value basis or an entity elects to measure the liability at fair value because measuring the financial liability at amortized cost would result in an accounting mismatch.

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 comments on this aspect.

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?



We do not believe that proposals in relation to tax accounting should be addressed within a financial instruments standard. We do not support the proposal because we are concerned that inconsistent outcome may be result from applying the proposed principle. Based on the proposal, the tax effects of establishing a deferred tax asset are recognized in OCI for unrealized losses on debt instruments that are measured at fair value with fair value changes recognized in OCI. However, a valuation allowance established on these deferred tax assets is recognized in net income.

We note that the IFRS Interpretations Committee is currently looking into the recognition of deferred tax assets in relation to financial assets classified as available for sale (AFS) for which fair value movements are recognized in OCI. We would encourage the FASB and the IASB to work together to develop converged principles for instruments for which the fair value movements are recognized through OCI under the proposals for financial instrument accounting.

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 disagree with the conclusion in Example 10 that all convertible debt instruments would be measured at fair value with changes in fair value recognized in net income by issuers. We recommend that the treatment of a convertible debt instrument shall be in a manner consistent with IFRSs where an issuer of a convertible debt instrument would assess whether the embedded conversion option is required to be separated either as an embedded derivative or as an equity component.

We note that as the project on financial instruments with characteristics of equity is in progress, we recommend that the FASB retain the current accounting for convertible debt until the project is completed.

Questions for Users

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 have no comments on this aspect.

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 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 have no comments on this aspect.

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)?

We have no comments on this aspect.

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 have no comments on this aspect.

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 have no comments on this aspect.

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?

We have no comments on this aspect.

Questions for Preparers and Auditors

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?

As mentioned previously, we support the framework of IFRS 9 by taking account of the business strategy and instrument characteristics criteria in the context of a mixed measurement model. We recommend that the FASB consider using the IFRS 9 approach as the starting point when finalizing its standard.

Question 29

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

In our view, no matter whether measuring financial liabilities at fair value is operational or not, we do not support the proposal to fair value most financial liabilities because most financial liabilities that are issued for financing purposes and required the payment of contractual cash flows are seldom transferred and fluctuations in fair value during the holding periods are not ultimately realized. Therefore, we are concerned that the fair value may not provide the most meaningful information for users of the financial statements.



Question 30

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

The proposed ASU permits an entity to elect to measure certain financial liabilities at amortized cost if certain criteria are met. We consider this option is rules-based and does not reflect a clear principle. We believe the IFRS 9 approach provides more operational criteria for identifying financial liabilities to be accounted for at amortized cost.

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?

Please refer to our response in Question 17.

Presentation

Questions for All Respondents

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 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?

We do not support the FASB's proposed approach. We agree with the approach proposed in the IASB's Exposure Draft - *Fair Value Option for Financial Liabilities* where the fair value changes resulting from changes in an entity's own credit risk is suggested to be recognized in OCI if the fair value option is elected for an entity's own debt, unless doing so creates an accounting mismatch. We believe that the IASB ED provides an interim solution to address users' concerns about recognizing changes in fair value in net income due to an entity's own credit risk.



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.

We have no comments on this aspect.

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.

We have no comments on this aspect.

Questions for Users

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?

We have no comments on this aspect.

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?

We have no comments on this aspect.

Credit Impairment

Questions for All Respondents

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?

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: Amortized 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, 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?

Answers to both Question 37 and Question 38.

While we support the objective to reduce delays in recognizing credit impairment and measuring credit impairment based on an entity's expectations about the collectability of cash flows, we do not fully support either the FASB's or the IASB's model as currently proposed.

Although the FASB's impairment approach in the proposed ASU is less complex, we do not support the proposal to immediately recognize all expected losses on financial assets in net income in the first reporting period as this approach does not appropriately reflect the economic results of all lending transactions where lenders are generally compensated for credit risk by earning a credit spread that will be recovered



over the life of the asset. In addition, we have concerns on how to make the FASB model operational, particularly because the proposed model requires continuous reestimation of impairment losses. It is unclear how often the assessment should be carried out for impairment loss determination.

As discussed in our comment letter on the IASB's Exposure Draft *Financial Instruments: Amortized Cost and Impairment*, we conceptually support an expected loss approach proposed by the IASB Exposure Draft. Such an approach requires the initial expected loss be spread over the expected life of the financial assets with changes in subsequent estimates of expected loss reflected in catch-up adjustments to net income. However, we are concerned with the significance of the operational challenges that the IASB's proposed model presents, especially when applied to an open portfolio. We noted that the EAP has identified several potential solutions to some of the operational issues, such as de-coupling interest income and expected loss estimates, differentiating between a good book (e.g. performing loans) and a bad book (e.g. non-performing loans) and developing proposals that are applicable to an open portfolio. They are described in the IASB Staff Paper 4C to the 3 August 2010 IASB meeting. We believe these are good suggestions and support their further development. We encourage the FASB to continue to work with the IASB in establishing a single set of high quality global standards for the identification and measurement of credit impairment of financial assets in order to achieve convergence.

We do not support the IASB approach of determining the expected cash flow based on the effects of estimated future economic events and conditions over the life of the financial asset. However, we also do not agree with the FASB's requirement that an entity (1) assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial assets and (2) not forecast future events or economic conditions that did not exist as of the reporting date. We consider limiting the amount of information that can be used to historical information and current conditions is inconsistent with the principle of considering losses that may occur in the future. We believe that impairment estimates are inherently forward-looking, accordingly, we recommend the FASB clarify that the estimation of expected loss should allow management judgment to take into account expected changes in future economic and credit conditions that are either highly likely or are based upon objective evidence.

Question 39

Do you agree that a 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 with this proposal. Please refer to Question 14 where we support that all foreign exchange gains and losses on monetary items should be recognized in net income.



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?

We support the FASB's decision not to prescribe a particular method for determining historical loss rates. However, we believe that it would be useful if the Board were to provide certain guidance such as how often should entities review the assumptions used in determining historical loss rate, examples of what qualitative factors may be considered in the process etc so as to promote comparability in the development and application of historical loss rates in the recognition and measurement of credit impairment.

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 are of the view that credit impairment model should be applied consistently irrespective of whether the loans are originated or acquired by the entity.

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 a 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 support this requirement. However, we would like the Board to clarify whether an entity is required to use a pooled approach even if the pool does not exist (i.e. a hypothetical pool). It is not clear whether this approach would apply to an entity which only holds one single debt security and no other similar assets. In this case, is the entity required to recognize impairment on that debt security, if not individually identified as impaired, by applying a historical loss rate for a pool of similar "hypothetically" held debt securities?



Questions for Users

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 a credit impairment. An entity would be required to recognize a 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?

We have no comments on this aspect.

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 collectibility 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 have no comments on this aspect.

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 have no comments on this aspect.



Questions for Preparers and Auditors

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 collectibility 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?

Please refer to our response in Question 38.

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)?

It is not clear whether "over the life of the financial assets" refers to the expected life (i.e. includes the expected prepayment) or the contractual term. We would agree with the proposal if it is referring to the expected life of the financial assets.

Interest Income

Questions for All Respondents

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?

We do not support the proposal to require that the credit allowance reduce the amortized cost of an asset for the purpose of recognizing interest income.

The margin between the lending rates and the cost of funding – "net interest margin" is a key indicator for many financial institutions, frequently required by analysts. If the interest return is required to be reduced by the expected credit loss, the relationship between interest income and credit risk will no longer be transparent to the readers of financial statements. In addition, this approach will add unnecessary complexity to the calculation of interest income.

Practically, as highlighted in our submission on the IASB's proposed model, the integration of expected credit losses with the calculation of interest income will create implementation issues as bank interest rate systems are generally not aligned with a bank's credit systems.

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?

As discussed in our response to Question 48, we do not believe that the presentation of interest income should be affected by the recognition or reversal of any credit impairments. We believe that any excess of interest contractually due over interest accrued on the basis of an entity's current estimate of cash flows expected to be collected should be recognized as other line item in net income without affecting the net interest margin.

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 agree with the proposal of providing an option for an entity to present interest income separately on the statement of comprehensive income provided that the presentation is applied consistently.



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?

We believe that additional guidance on the following areas would be helpful:

- clarify whether an entity is required to use a pooled approach to determine an appropriate allowance for credit losses even if the pool does not exist (refer to Question 42);
- provide more specific guidance on whether the determination of expected cash flow would include present assumptions about relatively near-term trends; and
- provide guidance on how often the impairment loss assessment should be carried out if there is no impairment trigger.

Questions for Users

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?

We have no comments on this aspect.

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?

We have no comments on this aspect.

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?

We have no comments on this aspect.

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 have no comments on this aspect.

Hedge Accounting

Questions for All Respondents

Question 56

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

We support the proposed change to lowering the hedging threshold from "highly effective" to "reasonably effective" and also to require a qualitative assessment of the effectiveness of a hedging relationship at inception (unless a quantitative assessment is necessary based on facts and circumstances). However, we are concerned that the proposed changes may not be applied in a consistent manner. While we understand and support the FASB's position not to provide bright-lines rules, we believe that the FASB should consider providing application guidance to help preparers in making qualitative assessments.

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 support the FASB's proposal that no ongoing assessment of hedging effectiveness is required unless facts and circumstances suggest that the hedging relationship would no longer be reasonably effective. However, it would be helpful if the FASB can provide some application guidance or indicators to help preparers to understand how an entity would qualitatively conclude that a hedging relationship would not be reasonably effective.

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?

We believe that the proposed model will result in a reduction of the number of times hedging relationship would be discontinued as the new proposal would not require quantitative threshold governing what is considered reasonable effective. However, it is noted that the proposal also eliminates the entity's ability to electively dedesignate a hedging relationship which is discussed further in our response to Questions 63 and 64.

Questions for Users

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?

We have no comments on this aspect.

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 have no comments on this aspect.



Questions for Preparers and Auditors

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 do not agree that entities should be required to record in earnings ineffectiveness related to underhedges for cash flow hedging relationships based on a fictitious derivative that was never entered into by the entity. We believe that the impact on earnings for underhedging in cash flow hedges represents the opportunity cost of using a less than perfect derivative, rather than a change in an actual recorded asset or liability as is the case related to fair value hedges.

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 concerns for constituents in creating processes that will determine when circumstances suggest that a hedging relationship may no longer be reasonably effective. However, we believe that it would be helpful for the FASB to provide some application guidance to demonstrate how an entity would qualitatively conclude that a hedging relationship would not 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 dedesignating the hedging relationship? If yes, what constraints do you foresee and how would you alleviate them?

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?

Answers to both Question 63 and Question 64.

We do not agree with the proposal of limiting an entity's ability to dedesignate a hedging relationship. It is not clear what the FASB's conceptual basis is for this change. We believe it is a step back from the objective of aligning an entity's financial reporting with its risk management strategy. Further, we are not aware that voluntary



dedesignations have ever been used as an earnings management tool for users of the financial statements. We are concerned that the proposed change would prohibit entities from entering into certain types of dynamic hedging strategies, such as when an entity documents that the hedging relationship is a weekly or monthly strategy and enters into a hedging derivative with similar terms, but the entity dedesignates and redesignates the hedging relationship on a more frequent basis (e.g. daily or weekly). We believe that the proposals should clarify what types of hedging strategies would be impacted.

In addition, the proposal requires the effective termination of a hedging derivative to be accomplished by entering into a derivative instrument that fully offsets the hedging derivative instrument. The term "fully offset" is not defined and it is not clear how to apply this guidance in practice, as it would be difficult for an entity to enter into derivative instruments that are the mirror image of the one previously entered into. Furthermore, such derivatives would be on off-market terms that would make the instrument less liquid and more expensive due to the embedded finance component implied in such terms. As we disagree with the FASB's dedesignation proposals, we suggest permitting dedesignations as currently allowed in order to solve this problem.

Disclosures

Question for All Respondents

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 do not agree with the FASB's proposal to present two different measurement attributes for the same financial instruments on the face of the statement of financial position. We believe that only one measurement attribute should be reflected in the primary financial statements for a given financial instrument and that this measurement attribute should be either amortized cost or fair value, depending on the business model and the characteristics of the instrument.

We are also concerned about the level of detail required on the face of the primary statements. We believe that the requirement may result in over-detailed primary statements, which can obscure key messages and could complicate rather than improve the communication between preparers and users of financial statements.

We consider that for clarity and relevance reasons, additional information, if and when appropriate, is better presented in the notes to the financial statements.

Questions for Users

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 have no comments on this aspect.

Question 67

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

We have no comments on this aspect.

Effective Date and Transition

Questions for All Respondents

Question 68

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

We agree with the proposals to require a cumulative effect adjustment to the balance sheet immediately proceeds the effective date.

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?

We do not agree with the proposed delayed effective dates for certain aspects of the proposed guidance for non-public entities with less than \$1 billion in total consolidated assets. We believe that all entities should be given the same delay of the period of time to implement the guidance if the FASB has concerns about the amount of time for entities to facilitate system changes.

If the FASB decides to proceed with its proposals to provide for the four-year delay in the effective date for certain nonpublic entities, we would recommend the FASB to clarify that the evaluation of whether an entity qualifies for the delay should be performed only once at initial adoption of the proposal rather than on a continuous basis. It would be difficult for an entity that met the criterion in the first year of application to be required to immediately apply the delayed guidance if its total consolidated assets are greater than \$1 billion in a future period.



Questions for Preparers and Auditors

Question 70

How much time do you believe is needed to implement the proposed guidance?

We encourage the FASB to take account the timing of convergence with the IASB on this project when determining the effective date of the guidance. It would create great burden to U.S. GAAP registrants if they are required to implement the proposed ASU when it becomes effective and then changed to the accounting requirements of IFRS 9 if and when SEC agree to move public companies in the U.S. to IFRSs.

Question 71

Do you believe the proposed transition provision is operational? If not, why?

We generally believe that the proposed transition is operational. However, we believe that it would be helpful if the FASB could provide specific transition guidance related to hedging. The proposal is unclear if entities would be required to dedesignate existing hedging relationships that would be affected by the proposed change and redesignate new hedging relationships, or if entities would be permit to grandfather currently eligible hedging relationships.

-- End --