

May 14, 2013

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

By e-mail: [director@fasb.org](mailto:director@fasb.org)

**Re: Proposed Accounting Standards Update – *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities***

**(File Reference No. 2013-220)**

Dear Ms. Cospers:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact J. Roger Donohue, Chair of the Financial Accounting Standards Committee at (917) 887-7809, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

  
Gail M. Kinsella  
President

Attachment

**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**PROPOSED ACCOUNTING STANDARDS UPDATE – *FINANCIAL INSTRUMENTS—  
OVERALL (SUBTOPIC 825-10): RECOGNITION AND MEASUREMENT OF FINANCIAL  
ASSETS AND FINANCIAL LIABILITIES***

**(FILE REFERENCE NO. 2013-220)**

**May 14, 2013**

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## New York State Society of Certified Public Accountants

### Comments on

#### **Proposed Accounting Standards Update – *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities***

#### **General Comments**

The Financial Accounting Standards Committee of the New York State Society of Certified Public Accountants has reviewed the Proposed Accounting Standards Update, *Financial Instruments--Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities* (the Update). We greatly appreciate that the Financial Accounting Standards Board (the Board) has revised its approach following comments sent in response to the May 2010 proposal that included our September 30, 2010 comment letter. We agree with retaining the mixed attribute measurement model to reflect the business strategies employed by financial institutions of varying sizes and complexity better.

We applaud that the proposal improves convergence between U.S. GAAP and International Financial Reporting Standards (IFRS), and we suggest that as many differences as possible between the accounting regimes be eliminated or minimized. Any differences remaining between U.S. GAAP and IFRS should be clearly described when standards are finalized; this is not always the case in the Update's Appendix.

We believe that including fair values where no reliable market exists damages the credibility of the financial statements. We question whether "fair value" based on unobservable inputs, multiple assumptions, or hypothetical analysis truly represents fair value. In instances in which there are no observable inputs (*i.e.*, Level 3 under ASC 820), we prefer using lower of cost or fair value in circumstances in which inputs were last observable. Such instruments should be subject to impairment write-downs based on individual facts and circumstances.

#### **Specific Comments**

We have the following responses to selected questions provided in the Update:

**Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?**

**Response:** We agree with the scope of financial instruments included in this proposed Update.

**Question 3: The proposed amendments would require an entity to classify financial assets into the appropriate subsequent measurement category (that is, at amortized cost, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at fair value with all changes in fair value recognized in net income) on the basis of the contractual cash flow characteristics of the instrument and the business model within**

**which financial assets are managed. Does the classification of financial assets based on the cash flow characteristics and the business model assessment provide decision-useful information? If yes, how will this classification influence your analysis of the entity? If not, why?**

**Response:** It is unclear that the conditions for allowing a debt instrument to be recorded at amortized cost represent an improvement in decision-usefulness or operability over the current requirements of "positive intent and ability" to hold to maturity. While we understand the conceptual basis for the proposed condition for "contractual cash flows that are solely payments of principal and interest," the attempts to enforce this approach by comparison against benchmarks create excessive complexity and would make the standard much less operational. We recommend either applying a "positive intent and ability" standard or amending the guidance to make it less narrow (*e.g.*, changing "solely" to "primarily") and/or allow broad judgment to determine whether contractual payments are solely/primarily principal and interest.

**Question 4: Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?**

**Response:** See response to Question 3.

**Question 7: Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?**

**Response:** See response to Question 3.

**Question 12: Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?**

**Response:** Yes, an explicit tainting notion should be included to prevent abuses and facilitate enforcement of the accounting. Although we appreciate the desire to limit transfers between measurement categories, we believe accounting should recognize that such transfers may occur to address changing business conditions even when the business model does not change. Consequently, there is a need to account for such transfers and the categories after transfers occur appropriately. We recommend recording transfers at fair value and accounting for the transferred amounts consistent with the category into which the amount has been transferred.

**Question 14: Do you agree with the initial measurement principles for financial instruments? If not, why?**

**Response:** We agree with the initial measurement principles for financial instruments; see General Comments for more details.

**Question 15: The proposed amendments would eliminate the unconditional fair value option (for financial instruments within the scope of this proposed guidance) in existing U.S. GAAP and, instead, permit an entity to elect to measure at fair value, with all changes in fair value recognized in net income, all of the following:**

**a. A group of financial assets and financial liabilities if the entity both:**

- 1. Manages the net exposure relating to those financial assets and financial liabilities (which may be derivative instruments) on a fair value basis**
- 2. Provides information on that basis to the reporting entity's management.**

**b. Hybrid financial liabilities that meet certain prescribed criteria.**

**c. Financial assets that meet the contractual cash flow characteristics criterion and are managed within a business model that has the objective of both holding financial assets to collect contractual cash flows and selling financial assets (in accordance with paragraph 825-10-25-25(b)).**

**Do these options provide decision-useful information? If not, why?**

**Response:** We commend the Board for restricting the fair value option. We also commend the Board on the proposal that would eliminate the current practice of recording fair value changes in a company's own liabilities through earnings. This change addresses the counterintuitive nature of a company's earnings increasing via the weakening of its own creditworthiness.

However, we suggest that the fair value option be eliminated completely to enhance comparability between institutions. We agree with the Board's observation that "users of financial statements generally prefer to avoid broad, unconditional, optional accounting practices." We support the retention of the concept of the trading account for financial instruments managed in accordance with a business model that encompasses the possibility of short-term trading. Assets and liabilities, including hybrid instruments that an entity wants recorded at fair value, may be put within its trading account where all changes in fair value flow into earnings.

**Question 16: Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?**

**Response:** Recording the vast majority of financial liabilities at amortized cost better reflects that liabilities are expected to be settled at contractual amounts rather than at fair value. We question the usefulness of fair value information for non-trading liabilities which appears to have more theoretical interest than practical use.

**Question 19: The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?**

**Response:** See **General Comments** for an alternative approach.

**Question 22:** The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?

**Response:** We disagree with the proposed amendment on reclassifications; see comments to Question 12.

**Question 24:** The proposed amendments would exempt nonpublic entities from parenthetical and footnote disclosures of fair value. Should nonpublic entities be required to parenthetically present fair value information on the face of the statement of financial position for financial instruments measured at amortized cost? If not, should fair value disclosures in notes to the financial statements be required for some or all nonpublic entities for financial instruments measured at amortized cost?

**Response:** We believe that there should be less disclosure required of nonpublic companies because analysts and investors of public companies are more likely to use fair value disclosures. This distinction also relieves nonpublic companies from the burdens of additional disclosures while primary users of nonpublic financial statements such as lenders and regulators can obtain additional fair value information if needed. Most importantly, we approve of having both public and nonpublic companies follow the same recognition and measurement.

**Question 25:** The proposed amendments would require an entity to separately present changes in fair value attributable to changes in instrument-specific credit risk in other comprehensive income for financial liabilities for which that entity has elected the fair value option. Would the proposed presentation requirement provide decision-useful information? If not, why? What would you propose instead?

**Response:** See comments to Question 15.

**Question 31:** Should the effective date be the same for both public entities and nonpublic entities?

**Response:** No, the effective date should not be the same for both public entities and nonpublic entities. The reduced prevalence of fair values from the Board's 2010 proposal obviates the need for an extensive deferral period between public and nonpublic companies. As proposed, we suggest that nonpublic companies be given a one-year implementation deferral. This deferral could be eliminated if the final standard is less complex than proposed (*e.g.*, regarding the determination of contractual payments being solely principal and interest).