new york state society of
NYSSCPA
certified public accountants

Home of the Trusted Professional
3 park avenue, at 34th street, new york, ny 10016-5991
212.719.8300 • fax 212.719.3364
www.nysscpa.org

September 30, 2010

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

By e-mail: director@fasb.org

Re: Exposure Draft, *Proposed Accounting Standards Update*, Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815): Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

(File Reference No. 1810-100)

Dear Mr. Golden:

The New York State Society of Certified Public Accountants, representing more than 27,000 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 Mark Mycio, Chair of the Financial Accounting Standards Committee at (212) 838-5100, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Margaret A. Wood
President

Attachment

new york state society of
NYSSCPA
certified public accountants

Home of the Trusted Professional
3 park avenue, at 34th street, new york, ny 10016-5991
212.719.8300 • fax 212.719.3364
www.nysscpa.org

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

EXPOSURE DRAFT, *PROPOSED ACCOUNTING STANDARDS UPDATE*, FINANCIAL INSTRUMENTS (TOPIC 825) AND DERIVATIVES AND HEDGING (TOPIC 815): ACCOUNTING FOR FINANCIAL INSTRUMENTS AND REVISIONS TO THE ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

(FILE REFERENCE NO. 1810-100)

September 30, 2010

Principal Drafters

Kristen M. Clark
Robert A. Dyson
Craig T. Goodman
John J. McEnerney

NYSSCPA 2010 – 2011 Board of Directors

Margaret A. Wood,
President
Richard E. Piluso,
President-elect
Joseph M. Falbo Jr.,
Secretary/Treasurer
Scott M. Adair,
Vice President
David R. Herman,
Vice President
Martha A. Jaeckle,
Vice President
Gail M. Kinsella,
Vice President
Joanne S. Barry,
ex officio

John Barone
Cynthia D. Barry
S. David Belsky
Ian J. Benjamin
Robert W. Berliner
Anthony Cassella
Sherry L. DelleBovi
Adrian P. Fitzsimons
Stephen E. Franciosa
Jennifer R. George
Rosemarie A. Giovinazzo-Barnickel
Mitchell L. Gusler
John B. Huttlinger Jr.
Nancy A. Kirby
J. Michael Kirkland

Mark G. Leeds
Pei-Cen Lin
Heather Losi
Anthony J. Maltese
Barbara A. Marino
David J. Moynihan
Avery E. Neumark
Joel C. Quall
Robert R. Ritz
Erin Scanlon
Robert E. Sohr
George I. Victor
Charles J. Weintraub
Jesse J. Wheeler
F. Michael Zovistoski

NYSSCPA 2010 – 2011 Accounting & Auditing Oversight Committee

Rita M. Piazza**,** *Chair*
Anthony S. Chan
Sharon S. Fierstein

Jay H. Goldberg
Jan C. Herringer
Edward P. Ichart
Elliot A. Lesser

Mark Mycio
Michael A. Pinna
William M. Stocker III

NYSSCPA 2010 – 2011 Financial Accounting Standards Committee

Mark Mycio, *Chair*
J. Roger Donohue, *Vice Chair*
Kristen Clark
Deepak Doshi
Robert A. Dyson
Roseanne T. Farley
Sharon Sabba Fierstein
Vincent Gaudiuso
John F. Georger Jr.
Manish Gera
Hashim Ghadiali

Jo Ann Golden
Fred R. Goldstein
Craig T. Goodman
Kenneth Gralak
Abraham E. Haspel
Edward P. Ichart
Tamar Kadosh
Craig L. Kanzel
Anil Kumar
Ari Lasker
Joseph Maffia
Sean Martell

John J. McEnerney
Stephan R. Mueller
Lingyun Ou
Kyle D. Pennacchia
Paul M. Ribaudo
Robert M. Rollmann
Joseph Serra
Mark Springer
Elvira Tsvetanov
Cyril Uy
Silvia S. Yehezkel

NYSSCPA Staff

Ernest J. Markezin
William R. Lalli

New York State Society of Certified Public Accountants

Financial Accounting Standards Committee

Comments on

Exposure Draft, *Proposed Accounting Standards Update*, Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815): Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

(File Reference No. 1810-100)

We have reviewed the Financial Accounting Standards Board's Exposure Draft, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*, (the Proposal) and we appreciate the opportunity to provide our overall thoughts and responses to selected questions.

We have serious reservations about the Proposal. Fair values are often irrelevant to certain assets held for the long term and are rarely relevant for liabilities. Liabilities should be reported at fair value only when used in trading or when the entity is in liquidation. Fair value amounts are generally unreliable in illiquid markets, and, consequently, their inclusion damages the credibility of financial statements. The difficulties of determining many fair values undercut the Board's intent for the Proposal to simplify accounting.

Fair values of all financial instruments, long disclosed by community banks and smaller financial institutions, have not provided critical information to preparers or users. The "mixed attribute" accounting model has been more useful because these institutions do not operate on a fair value basis. Instead, long-term customer relationships have been their key attribute and provide their greatest value. At points, the Proposal seems to be telling institutions how they should manage their businesses rather than having the accounting reflect how these businesses are actually managed.

The Board also seems to base its valuation model on the presumption that entities invest in financial instruments solely for the purpose of buying and selling those instruments in the short term rather than holding them for a long-term purpose. In paragraphs BC83 and BC84, the Proposal asserts that fair value information is more useful because events and circumstances beyond management's control may create a need to sell the financial instrument or provide users with information in case management does not sell. This appears to be an attempt by the Board to identify the risks associated with trading an instrument, but not all entities apply a short-term holding model when purchasing financial instruments.

While we do not fully agree with the *Alternative Views*, we prefer certain aspects over the Proposal. Our observations about the *Alternative Views* follow:

- The last sentence of paragraph BC244 succinctly describes the Proposal's basic flaws.

- Paragraph BC245 describes a model that would require one of three criteria to be met in order to require that fair values be used. This model would require fair value accounting should the cash flows of the instrument be variable, a quoted market price be readily available, or the entity's business practice be not to hold the instrument to collect its contractual cash flows. With one exception, we recommend revising this for non-trading financial assets so that all three criteria must be met in order to require that fair value be used for measurement: The one exception is for fair value to be used for financial assets that are securities that have a readily ascertainable market value.

- The last two sentences of paragraph BC247 captures our concerns that the Board's Proposal diverges further from IASB while convergence of GAAP and IFRS is a high priority. (We believe that convergence ought to be a crucial element in finalizing the Proposal because these sweeping changes may need to be significantly modified again in the near future vis-à-vis convergence with or without adoption of IFRS. Major divergences between GAAP and IFRS jeopardize the conceptual framework of convergence.)

  In addition, by incorporating various major topics into a single Proposal, the Board has complicated reconciliation with the IASB. To the extent that the IASB is able to modify, reconcile with the Board, approve and implement each of its three topics independently, the Board's Proposal needs to be understood and approved in its entirety. When it becomes effective the Board's Proposal would be implemented in its entirety. This could lead to both practical and economic challenges.

- We disagree, however, with paragraph BC252, and we would extend beyond the Proposal to allow a four year deferral for the entire Proposal for all nonpublic entities and those public entities with less than one billion dollars in total assets.

We note that the significant differences between the Proposal and the *Alternative Views* are separated by a single vote, and we question whether such major modifications should be adopted when views contrast so strongly. The Board detailed project objectives during its June 30th webcast. The Board should explore whether its primary objectives can be met without making such fundamental changes.

Our responses to selected questions 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?

Response:
We disagree with including certain assets held for the long term such as loans and many debt securities and all liabilities other than those used in trading or when the entity is in liquidation. As previously noted, we would record at fair value securities that have a readily ascertainable market value. Amortized cost is the appropriate measure for liabilities when the obligation to pay is the main concern. The Board has not presented any justification for reporting an amount different from the contractual cash flows by all entities, but, in particular, by many small and medium -sized companies. In addition, the mechanics of the measurement process may create misleading results. For example, an entity in poor financial condition may see an increase in the discount rate and a corresponding decrease in the liability's carrying value. On a balance sheet, this decrease might suggest an improvement in financial condition rather than a manifestation of a deteriorating financial condition.

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?

Response:
We do not agree with the proposed change in criteria for the equity method of accounting. The proposed criteria listed in paragraph 130 seem to assume that the business purpose of purchasing a significant investment in an entity is to sell those securities in the short term. While true in certain cases such as with hedge or venture capital funds, many entities do not necessarily invest for short-term purposes, particularly those entities trying to expand their product line or operations. The Proposal permits the use of the "equity method" only to a very restrictive group of investees. The Board should provide a more detailed explanation of why such a significant change is necessary (preferably in a separate proposal).

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

Response
We disagree. (See our introductory comments and Question 1.)

We also found the criteria for recognizing changes in fair value read poorly. The business strategy criteria seem to contradict Topic 820's general rule that the market—not the reporting entity—determines the highest and best use of the instrument.

In the second full paragraph on page 4 in the *Summary*, the Board asserts that providing both amortized cost and fair value of instruments being held for the collection or payment of contractual cash flows permits investors to incorporate either in their analyses. The paragraph continues by noting that the fair value provides the market's assessment of the entity's expectations of future cash flows. This point is irrelevant to small and medium-sized businesses because they do not receive much market attention. Requiring any reporting entity to provide information of little or no value to users is an unnecessary burden. The Board needs to justify the demand for such information; paragraph BC78a simply asserts that entities relying on amortized cost are not valuing the risks of certain instruments. This view ignores that entities use more than financial reporting to make investment decisions.

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?

Response
It is difficult to foresee many situations where transaction price is not fair value at the sale date. If other elements exist in the transaction, as suggested in paragraph 15, the transaction is a multi-element transaction in which the buyer receives more than just a financial instrument. For example, paragraph IG8 refers to unstated or stated rights and privileges as causing differences. These privileges, if not included in comparable instruments, must have an effect on the fair value of the total instruments. Those other elements can either be valued or, if no value can be ascribed to them, not measured.

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?

Response
The requirement to expense transaction costs and fees immediately does not appear to be consistent with investors' actual considerations. According to paragraph BC 51, these costs are not part of the fair value of the instrument. Investors typically evaluate the total cost of an instrument before buying it including the associated transaction fees. Deferring such costs for instruments of which changes in fair value are reflected in other comprehensive income is inconsistent with the expensing of such costs related to instruments of which changes in fair value are reflected in net income. This inconsistency seems to contradict the Board's often stated goal of accounting for similar transactions in a similar manner. Paragraph BC52 does not justify the inconsistency.

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?

Response

While the proposed implementation guidance provided beginning with paragraph IG7 shows the proposed guidance is operational, there is a significant degree of subjectivity inherent in the use of terms such as "reliable evidence." Therefore, application may be subject to user interpretation.

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?

Response

We believe that fair value should not be the default measurement attribute because it is often irrelevant. Amortized cost should be used for certain assets held for the long term such as loans and those debt securities that do not have a readily ascertainable market value. Amortized cost should also be used for all liabilities except those used in trading or instances such as when the company is in liquidation.

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

Response

While we understand the Board's desire for matching assets and liabilities, we do not believe assets and liabilities must have the same measurement principles because counterparties expect financial liabilities to be settled at contractual amounts rather than at fair value. The attempt at conceptual purity leads to a disconnect from reality.

If the Board believes that all financial assets and liabilities must be consistently measured, it is preferable to use amortized cost for the primary financial statements and to disclose separate financial statements at fair value. Such disclosures would provide a clearer view of fair values than the Proposal suggests (which includes numerous exceptions and alternatives). Moreover, the latter will result in a lack of comparability between financial statements.

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 the reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

Response
It seems unnecessarily inflexible not to permit the change in accounting to reflect changed circumstances. We have seen entities intending to hold certain securities to maturity, but were forced to sell more than half of their securities because of liquidity problems. Not changing the status of the remaining instruments to reflect unforeseen circumstances might be misleading. In paragraph BC78b, the Board seems to be concerned that entities could change their intent and realize gains from short-term changes in value. However, reporting entities often change the use of certain assets given uncertain economic circumstances resulting in unforeseen gains or losses.

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?

Response
We believe that the remeasurement approach for core deposit liabilities is inappropriate, and its shortcomings are well-described in the *Alternative Views* paragraph BC248. The complex new calculation should not be disclosed in the notes to the financial statements. Instead, the fair values should be disclosed within a comprehensive note showing the complete balance sheet at fair value.

Also, the Board has not explained how the measurement of core deposits at fair value provides users with better information than that currently provided. The mere fact that differences in fair value are reflected in other comprehensive income does not relieve preparers of the burden of estimating these changes.

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?

Response
We believe that this overly conceptual approach does not reflect the economic substance of the underlying transactions. All liabilities should be recorded at amortized cost unless they are in trading or the entity is in liquidation.

Additionally, the optional classification criteria for FV-OCI are overly complex and rules-based.

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)?

Response
We question whether both amortized cost and fair value would receive "equal attention" from financial statement users when fair value is the bottom line amount. We believe that supplemental fair value financial statements in the notes to the financial statements are the preferable approach.

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?

Response
Yes, we believe that the proposed criteria are operational.

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

Response
If it remains clear to the user when a financial liability ought to be measured at amortized cost rather than fair value, then measuring financial liabilities at fair value is operational. In certain instances, there will be many steps to complete in order to determine when a financial liability meets the criteria for measurement at amortized cost or fair value that increase the risk of misinterpretation or misapplication.

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

Response
The proposed criteria are somewhat, but not fully, operational with respect to when a financial liability qualifies for measurement at amortized cost. Paragraph 21b contains a

degree of subjectivity that lends itself to potential manipulation or skewed interpretation based on a financial statement preparer's implicit or explicit motivation.

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?

Response

The proposed guidance related to the requirement for 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 is made more operational by the glossary defining each of these terms. This will assist preparers in the application of this component. However, inherent within each provided definition is a degree of subjectivity that allows preparers to interpret the guidance inconsistently. The way one preparer accounts for "the expense of maintaining a branch network" or how another prepares and uses "an analysis of peer information" for determining implied maturity may result in vastly different measurements of the same instrument. The inclusion of a significant number of examples in the guidance might facilitate consistency among preparers.

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?

Response

We believe that multiple amounts shown for various balance sheet accounts may create "information overload" and be more confusing than fairly presented.

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 assets(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, 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?

Response
Paragraph BC199 indicates the Board's opposition to recognizing a gain when an allowance is reversed. Paragraph BC202 indicates such changes should be included in interest income. Credit impairments are an important measure, and should not be confused with interest income. Changes in estimates of collection of receivables are the ordinary activities of a business that adjust or affect estimates due to changing conditions and obtaining new information over the passage of time.

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?

Response
While the Board's approach might lead to incorrect results, it is preferable to the IASB's approach which is more subjective and open to manipulation.

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?

Response
From a preparer's perspective, a probability-weighted expected loss approach appears to be more relevant in order to determine a credit impairment at the reporting date. Because there is typically a "known" period of time between the reporting date and the financial statement preparation date to be forecasted, at a minimum the changes in economic conditions existing at the later date should be taken into account. It is unrealistic to assume that economic conditions will not change for the remaining life of the financial asset. However, from an auditor's perspective it is much more difficult to obtain sufficient evidence of an amount at the reporting date that is based on the probability of future unknown events. The method that contemplates that economic conditions will remain unchanged is the more operational of the two approaches for determining credit impairment at the reporting date.

Questions 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?

Response
We agree with the *Alternative Views* paragraph BC250, and expect that the proposed approach will be overly complex for preparers and add confusion to financial statement analysis.

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?**

Response
The proposed models are very complex. The current models separate the expected or actual loss of principal from future income streams. The recognition of an allowance

should alert users of the information the Board is purporting to present without the computation complexity.

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?

Response
We believe the result described in Question 53 will not provide decision-useful information. (See response to Question 48.)

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?

Response
Yes, we agree.

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

Response
We believe modification is appropriate as the current standard can be burdensome in practical application. However, the current definition of "highly effective" is objective, and provides inconsistent guidance to preparers, auditors, and financial statement users. Under existing guidance, in order to qualify for hedge accounting, a hedge needs to be considered "highly effective." The measurement methodology and threshold for meeting the highly effective standard is achieving an 80 to 125% dollar offset. The proposed guidance changes this threshold to "reasonably effective." This is a lower and non-quantitative threshold. The Proposal does not explain what is meant by "reasonably effective." Fulfillment of the "reasonably effective" standard may be demonstrated qualitatively without quantitative measurements or assessment.

Reasonableness is subjective, and may vary significantly across entities and cultures. Absent guidance for "reasonably effective," there might be significant variations in practice. The reasons for these variations might not always be transparent. Without additional guidance as to how "reasonably effective" should be assessed and without additional disclosure requirements about how hedge effectiveness was assessed, users of financial statements will not have a consistent framework for understanding management's decisions or for comparing financial statements of different entities.

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?

Response
An effectiveness evaluation should be required, at a minimum, for each annual reporting period, and at other times when circumstances or assumptions affecting the hedging relationship have changed.

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?

Response
We believe the Proposal would significantly reduce the number of discontinued hedging relationships because the proposed standard is not as rigorous as the current standard. Hedges that would have been deemed ineffective by the current "highly effective" standard (and, therefore, un-designated) could still be deemed effective and continue as a hedge under the proposed new "reasonably effective" standard. There would be an incentive not to evaluate effectiveness. As proposed, the validity of hedge accounting is in question.

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?

Response
Yes, we believe such a model provides decision-useful information provided that the changes in the fair value and changes in the cash flows of the risk being hedged along with changes in fair value of the hedge instrument are either presented separately in the statement of net income or detailed separately in the notes to the financial statements. The user would be able to understand and analyze how the changes in the cash flows affect the changes in fair value of the risk being hedged (if they do), and better understand the overall economics of the transaction(s).

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?

Response
No, we do not believe the changes to the model will provide more transparent and consistent information. (See response to Question 56.)

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?

Response
While the paragraphs in the guidance on calculating ineffectiveness for cash flow hedging relationships (paragraphs 122-126) are relatively straightforward, the inherent complexity of the concepts associated with these calculations might result in potential operational concerns for preparers. These concerns could be alleviated by including more specific examples within the implementation guidance to enhance preparers' understanding.

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?

Response
Yes, we foresee significant operational concerns and constraints: At the hedge inception, the criteria and time frame for assessing when circumstances change should be designated and included as part of the initial hedge documentation. Preparers should be able to create processes for determining 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 they are able to periodically consider the criteria set forth in paragraph 119a-b. However, in order to consider the applicability of paragraph 119a effectively, a thorough understanding of the concepts in paragraphs 113-118, as well as of the specific qualitative assessment originally employed, is critical.

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?

Response
To the extent preparers understand that fair value hedge accounting or cash flow hedge accounting can be discontinued only by meeting either of the criteria in paragraph 119a or 119b, there should be no operational concerns.

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?

Response
The requirement to document the effective termination of a hedging derivative instrument concurrently when an offsetting derivative instrument is entered into should not result in any significant operational concerns to preparers as such considerations should be a component of the strategic decision process that is required to enter into these instruments. The implications of entering into any hedging derivative instrument, including the potential, in effect, to terminate an offsetting instrument, should be a component in the decision process. However, in practical application, this nuance might be overlooked. Therefore, it would be beneficial to provide a specific example of this type of transaction and the resulting presentation implications.

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?

Response
In order to alleviate burdens and enhance compliance with this significant change, we recommend that the full Proposal be deferred for four years for all nonpublic entities and those public entities with less than $1 billion in total consolidated assets.

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

Response
Due to the Proposal's complexity, an implementation date of no earlier than January 1, 2013 is necessary. This may need to be extended if any deferral periods are shortened.

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

Response
The proposed transition provision appears operational.