



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

October 19, 2005

Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

By email: director@fasb.org

Re: Proposed SFAS: Accounting for Certain Hybrid Financial Instruments

To Whom It May Concern:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents approximately 30,000 CPAs that will implement the provisions proposed in the captioned FASB exposure draft. NYSSCPA thanks FASB for the opportunity to comment on its exposure draft.

The NYSSCPA Financial Accounting Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with the committee, please contact Margaret Wood, chair of the Financial Accounting Standards Committee, at (212) 542-9528, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

President

Attachment

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

**COMMENTS ON PROPOSED FASB STATEMENT OF FINANCIAL ACCOUNTING
STANDARDS**

Accounting for Certain Hybrid Financial Instruments

October 19, 2005

Principal Drafters

**Roseanne T. Farley
Sharon Sabba Fierstein**

NYSSCPA 2005 – 2006 Board of Directors

Stephen F. Langowski, <i>President</i>	William Aiken	Don A. Kiamie
Thomas E. Riley, <i>President-elect</i>	Deborah L. Bailey-Browne	John J. Lauchert
Raymond M. Nowicki, <i>Secretary</i>	Thomas P. Casey	Howard B. Lorch
Neville Grusd, <i>Treasurer</i>	Ann B. Cohen	Beatrix G. McKane
Susan R. Schoenfeld, <i>Vice President</i>	Michelle A. Cohen	David J. Moynihan
Stephen P. Valenti <i>Vice President</i>	Debbie A. Cutler	Ian M. Nelson
Louis Grumet, <i>ex officio</i>	Anthony G. Duffy	Jason M. Palmer
	Robert L. Ecker	Richard E. Piluso
	Mark Ellis	Robert T. Quarte
	David Evangelista	C. Daniel Stubbs, Jr.
	Joseph M. Falbo, Jr.	Anthony J. Tanzi
	Dr. Myrna L. Fischman	Edward J. Torres
	Daniel M. Fordham	Robert N. Waxman
	Phillip E. Goldstein	Philip G. Westcott
	Raymond P. Jones	Ellen L. Williams
	John J. Kearney	Richard Zerah

NYSSCPA 2005 - 2006 Financial Accounting Standards Committee

Margaret A. Wood, Chair	Philip Gaboury	Mark Mycio
Tony W. Cheng	Hashim Ghadiali	Cameron F. Rabe
Patricia A. Crecco	Fred R. Goldstein	Michael P. Reilly
J. Roger Donohue	Abraham E. Haspel	Lewis Shayne
Robert A. Dyson	Edward P. Ichart	Mihyang Tenzer
Roseanne T. Farley	Joseph E. Manfre	Leonard J. Weinstock
Robert Fener	John J. McEnerney	Eddie C. Wong
Sharon Sabba Fierstein	Stephan R. Mueller	Jay B. Zellin

NYSSCPA 2005 - 2006 Accounting & Auditing Oversight Committee

Paul D. Warner, Chair	Joseph A. Maffia	Warren Ruppel
George I. Victor, Vice Chair	Robert S. Manzella	Ira M. Talbi
Elliot L. Hendler	Mitchell J. Mertz	Elizabeth K. Venuti
Joel Lanz	Mark Mycio	Paul J. Wendell
Michele M. Levine	Eric J. Rogers	Margaret A. Wood
Thomas O. Linder		

NYSSCPA Staff

Ernest J. Markezin

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

FINANCIAL ACCOUNTING STANDARDS COMMITTEE

**COMMENTS ON PROPOSED FASB STATEMENT OF FINANCIAL
ACCOUNTING STANDARDS**

Accounting for Certain Hybrid Financial Instruments

General Comments:

The Committee agrees with the efforts undertaken by the Board to revise and clarify the issues relating to the standards governing the accounting for certain hybrid financial instruments of financial assets, as well as the efforts related to the accounting for transfers of financial assets and servicing of financial assets. We are concerned, however, that these efforts could be viewed as piece-meal attempts to address the multiple open issues related to the original standard. Numerous changes to existing standards are confusing for both constituents and practitioners alike. Such changes could lead to deviations in practice and inconsistencies in the application of guidance. We are further concerned that this “bit-by-bit” process for the development of standards could call into question the validity of original standards. We therefore suggest that the Board reexamine all open issues related to the accounting for transfers and servicing of financial assets with a goal of developing one consistent standard that will address all unanswered questions within the marketplace.

Related to the above comments, we suggest that one of the aims of the Board should be to develop standards that are written in “plain English.” While it is a reasonable assumption that the public accounting profession is a sophisticated accounting community, many of the organizations that they audit are not. Guidance that is geared solely to the highest levels within the accounting community may not result in the desired goals of compliance, consistency in application and comparability among companies. We believe that in order to achieve those goals, it is necessary to have guidance that is understood by the profession and financial organizations, in general.

Answers to Specific Questions:

Issue 1 - Fair Value Election: Do you support the Board’s decision to permit fair value remeasurement for hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation?

We agree with the Board’s decision to permit fair value remeasurement for hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation. Fair value measurement is in line with long-term objectives of the FASB and will simplify the measurement process.

Issue 2 – Evaluation to Determine if Embedded Derivatives Exist: Should this proposed Statement provide implementation guidance on how to evaluate whether an instrument contains an embedded derivative that would require bifurcation? If so, what type of guidance do you believe the Board should consider?

We believe that the statement should provide implementation guidance on how to evaluate whether an instrument contains an embedded derivative that requires bifurcation. Detailed guidance would promote consistency in practice and would ensure that similar transactions are accounted for in the same manner. The guidance should include examples of instruments that contain embedded derivatives and the calculations involved both in analyzing the instrument and in arriving at fair value. It should also include guidance on the use of external prices and observability.

Issue 3 – Interaction with Statement 140: This proposed Statement required evaluation of instruments for identification of embedded derivatives and permits, but does not require fair value measurement for instruments that contain embedded derivatives that otherwise would require bifurcation. Are the requirements for evaluating and accounting for interests issued by qualifying SPEs clear and understandable? Is the guidance for evaluating how the existence of embedded derivatives would affect whether an entity is a qualifying SPE clear and understandable? If not, what additional clarifying guidance should the Board consider?

We agree with the concept of evaluating hybrid financial instruments for derivatives and permitting but not requiring fair value measurement for instruments that contain embedded derivatives that would otherwise require bifurcation. The flexibility is important because fair value is not yet used for a significant portion of the financial statements and in some cases, it may be difficult to arrive at an appropriate fair value measurement. If a company wants to continue to bifurcate derivatives, it should be permitted to do so. However, there could be an inconsistency in practice among similar institutions, although as the Board pointed out any lack of consistency is mitigated by movement to fair value and simplicity.

The requirements for evaluating and accounting for interests issued by qualifying SPEs are not as clear and understandable as they should be. In addition, there should be additional guidance on evaluating how embedded derivatives affect whether an entity is a qualifying SPE. The Board should provide examples as to what issuers should be evaluating with respect to payoff guidance to determine whether there is an embedded or freestanding derivative involved. In addition, it is not clear at all how the presence of an embedded derivative impacts an SPE.

Issue 4 – Effective Date: This proposed Statement would be applicable to all instruments obtained or issued after the earlier of fiscal years beginning after December 15, 2005, or fiscal years that begin during the fiscal quarter in which the Statement is issued, if applicable. We do not consider that the effective date provides sufficient time for

implementation by calendar-year reporting enterprises.

The FASB should allow more time for issuers to evaluate the impact of the changes since they may require additional software changes that cannot be implemented quickly given the significant time involved in parallel testing. As a result, we propose an implementation date on or after December 15, 2006.