FASB FINANCIAL ACCOUNTING STANDARDS BOARD

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Memorandum

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Project	**Accounting for Financial Instruments: Classification and Measurement (AFICM)**
Topic	**Comment Letter and Outreach Summary**

Purpose

1. On February 14, 2013, the Financial Accounting Standards Board (FASB) issued proposed Accounting Standards Update, *Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities* (the February 2013 proposed Update). In addition, on April 12, 2013, the FASB issued proposed consequential amendments to the *FASB Accounting Standards Codification®* resulting from the February 2013 proposed Update, *Financial Instruments—Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities, Proposed Amendments to the FASB Accounting Standards Codification®* (the April 2013 proposed Update). The comment period on the February 2013 and the April 2013 proposed Updates ended on May 15, 2013.

2. As of June 5, 2013, the FASB had received 142 comment letters on the February 2013 proposed Update and 15 comment letters on the April 2013 proposed Update.[1] The table below provides information on the types of comment letter respondents. In addition, during the comment period the staff conducted outreach

[1] Many respondents to the February 2013 proposed Update also included feedback on the April 2013 proposed Update.

meetings with over 40 stakeholders, which included preparers, auditors, government agencies, and users of the financial statements to seek feedback on the February 2013 proposed Update. FASB Board members and the IASB staff also participated in these outreach meetings.

Type of Respondent	**February 2013 Exposure Draft No. of Responses**	**April 2013 Exposure Draft No. of Responses**
Preparers	97[2]	7
Professional Organizations	29	3
Public Accounting Firms	9	4
Individuals	3	1
Government Agencies	2	-
Users	1	-
Standard Setters	1	-
Total Comment Letters	**142**	**15**

3. This memorandum provides a summary of the feedback received on the February 2013 and April 2013 proposed Updates and is organized as follows:

February 2013 Proposed Update

I. Objective

II. Scope

III. Recognition

(i) Cash Flow Characteristics

(a) Deminimus features

(b) Definition of principal (including prepayment option guidance)

(c) Definition of interest

(d) Restatement risk

(e) Modified economic relationships

(f) Inconsistency in consideration of probability of outcomes

(g) Contingent prepayment features

(h) Other contingent features

(i) Beneficial interests in securitized financial assets

[2] Approximately 30 percent of the respondents were nonpublic entities.

(j) Application guidance for certain instruments

(ii) Business Model Assessment

(a) Defining the business model categories

(b) Business model as the primary (and only) classification condition

(c) Level at which business model is assessed

(d) Sales out of amortized cost category

(e) Tainting notion

(f) Allocation guidance

(iii) Loan commitments

IV. Initial Measurement

V. Subsequent Measurement

(i) Fair value option

(ii) Portfolio-wide fair value option for not-for-profit entities

(iii) Financial liabilities

(iv) Financial assets subsequently identified for sale

(v) Equity investments without readily determinable fair values

(vi) Deferred tax assets

(vii) Reclassifications

VI. Presentation

(i) Parenthetical fair value presentation for items measured at amortized cost

(ii) Exemption from disclosures of fair value for nonnpublic entities

(iii) Presentation of changes in fair value attributable to changes in instrument-specific credit risk

(iv) Foreign-currency-denominated debt securities measured at fair value through other comprehensive income

(v) Other presentation requirements

VII. Disclosures

(i) Fair value disclosures

(ii) Interim disclosures

(iii) Core deposit liabilities

(iv) Other

VIII. Equity Method of Accounting

(i) Held-for-sale indicators

(ii) Fair value option for equity method investments

(iii) Impairment model

IX. Nonfinancial Hybrid Instruments

X. Transition and Effective Date

(i) Early adoption of proposed instrument-specific credit risk presentation requirements

(ii) Effective date for public and nonpublic entities

(iii) Time to implement

(iv) Transition provisions

April 2013 Proposed Update

I. General Feedback

February 2013 Proposed Update

I. Objective (back to outline)

4. Respondents supported the objective to reducing complexity in the accounting for financial instruments, providing financial statement users with more decision-useful information about an entity's involvement in financial instruments, and developing a converged standard on accounting for financial instruments with the International Accounting Standards Board (IASB). Many respondents generally noted that the proposed Update was a step in the right direction as compared with the May 2010 proposed Update that proposed a default fair value measurement model. These respondents also generally supported the notion of classifying financial assets on the basis of the cash flow characteristics of the instrument and the entity's business model for managing these instruments. However, many of these respondents did not believe that the proposed Update achieved the Board's objective of reducing complexity in the accounting for financial instruments given the complexity and the potential unintended consequences of applying the cash flow characteristics tests (that is, solely payments of principal and interest test

(SPPI)) to certain financial instruments and the resulting asymmetry in the accounting for financial assets and financial liabilities by creating a new cash flow test that applies only to financial assets while retaining the current bifurcation rules for financial liabilities. These respondents noted that the current bifurcation rules, albeit complex, have been applied and tested in practice for a significant amount of time, and given the complexity and the lack of implementation guidance on the SPPI test, these respondents asserted that the proposed SPPI test is swapping complexity from the current rules-based test to a new test, while potentially yielding similar classification and measurement outcomes for financial assets. Therefore, as an alternative, many respondents (mainly preparers) suggested that the Board retain the current clearly-and-closely-related bifurcation requirements instead of a new SPPI test as the benefits of the model do not outweigh the cost of implementing a new model. However, these respondents noted that if the Board were to proceed with the SPPI test then the Board should consider making the test less complex and resolving the concerns highlighted by the respondents in their letters and during outreach meetings. Detailed feedback on the SPPI test is noted in paragraphs 18–39.

5. In addition, some respondents (other than users) noted that the proposed Update also does not achieve its objective of providing decision-useful information to users as many loan products would be measured at fair value through other comprehensive income (FV-OCI). Although these respondents supported a business model based classification to financial instruments, these respondents disagreed with the rules-based and the restrictive nature of the sales guidance related to the amortized cost measurement category. These respondents noted that certain types of sales that are *incidental* to the business model should be permitted, otherwise many instruments, specifically certain loan products would be measured at FV-OCI, which is inconsistent with the feedback received by the Board on its May 2010 proposed Update and the objective of decision-useful information. Detailed feedback on the business model assessment is noted in paragraphs 40–58.

6. Users that responded to the proposed Update and participated in outreach meetings strongly supported classification of financial assets based on the instrument's cash

flow characteristics and how an entity manages that asset together with other financial assets within a distinct business model. These users noted that the proposed Update creates a single, comprehensive model for measuring financial instruments (loans, debt securities, and hybrid instruments) and is a significant step forward in simplifying and improving the quality of financial reporting. These users also highlighted further improvements to the proposed Update that are discussed in the relevant sections below.

7. Respondents also generally agreed with the principle of convergence between IFRS and U.S. GAAP. Many respondents felt strongly that converging the accounting for financial instruments should be a top priority to facilitate greater transparency and comparability in financial reporting, in addition to reducing the cost and burden of accounting for multi-national entities. Many of these respondents requested that wording differences between the two models be eliminated and implementation guidance converged to ensure consistent application. Conversely, some respondents supported convergence, but noted that convergence should not be prioritized over the other objectives in this project, which are to reduce complexity and increase decision-useful information and that the benefits of convergence should be considered with the cost and complexity of doing so.

II. Scope (back to outline)

Overall – Instrument Specific

8. Most respondents generally agreed with the scope of financial instruments included in the proposed Update. Some respondents provided comments on specific aspects of the scope.

9. Several respondents commented on the exclusion of insurance contracts in the scope of Topic 944, Financial Service—Insurance, from the scope of the proposed Update. Most of these respondents agreed with this scope exception. However, a few of these respondents recommended that the Board continue to consider the interaction between the scope of the proposed Update and the scope of the project

on insurance contracts. One respondent noted that certain liabilities may not meet the scope defined in the project on insurance contracts and, therefore, may fall into the scope of the proposed Update, while another respondent asked for clarification that certain products, such as guaranteed investment contracts, that may meet the definition of *financial instrument* are in scope of the project on insurance contracts. Another respondent requested clarification of whether investment-type contracts in the scope of Topic 944 would be included in the scope of the project on insurance contracts or the scope of this proposed Update. In addition, another respondent suggested that the proposed Update either should explicitly exclude from its scope nonrefundable commitment fees related to insurance contracts that are not addressed in Topic 944, or it should provide guidance for such fees.

10. Several respondents questioned the inclusion of short-term receivables and payables in the scope of the proposed Update. A few respondents noted that the costs of including short-term receivables and payables in the proposed Update may outweigh the benefits because these receivables and payables should be measured at amortized cost. These respondents commented that, if factored, receivables might be required to be measured at FV-OCI under the proposed Update. One respondent asked that the Board consider scoping out all receivables in the scope of Topic 310, Receivables, or clarify the application of the contractual cash flow characteristics assessment to trade receivables. This respondent also was concerned that receivables might not qualify for amortized cost under the proposed Update. To simplify the application of the proposed model to short-term financial assets and financial liabilities, another respondent recommended providing a practical expedient for these instruments if their carrying values reasonably approximate fair value.

11. Few respondents requested clarification of accounting for investments in qualified affordable housing projects and other tax credit investments. One of these respondents requested that investments in qualified affordable housing projects be explicitly scoped out of the proposed Update, while another respondent requested that all tax credit investments be scoped out of the proposed Update and, instead, be addressed by a separate model. If not scoped out, these respondents were

concerned that the proposed equity investment guidance would apply to tax-advantaged equity investments and result in accounting treatment inconsistent with that for other similar investments, such as investments in qualified affordable housing projects. A respondent also expressed concern that if a tax credit investment were accounted for using the equity method, it might meet the criteria to be considered held for sale in accordance with the proposed Update.

12. Several respondents recommended specific scope exceptions or scope inclusions be added to the proposed Update. One respondent requested that financial guarantees in the scope of Topic 460, Guarantees, be included in the scope of the proposed Update because, for issuers that are not insurance companies, the guidance in this proposed Update and proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15)*, would be less difficult to apply than the proposed guidance in the project on insurance contracts. Another respondent found the scope exceptions related to Topic 480, Distinguishing Liabilities from Equity, confusing and recommended that the Board consider a broader scope exception than that provided in paragraph 825-10-15-8(a) through (b). Another respondent disagreed with the inclusion of mortgage loans that are subject to Subtopic 944-310, Financial Services—Insurance—Receivables, in the scope of the proposed Update. If included in the scope of the proposed Update, this respondent expressed concern that these loans might not qualify for amortized cost measurement.

13. Other respondents asked for clarification of certain scope exceptions in the proposed Update. One respondent questioned whether all registration payments would be excluded from the scope or only those that meet the conditions in paragraph 825-20-15-3. Another respondent asked the Board to clarify the definition of *acquisition-related contract* and whether the scope exception is limited to business combinations in the scope of Topic 805, Business Combinations. This respondent also requested clarification of whether contingent consideration arrangements are all scoped out of the proposed Update or only those in the scope of Topic 805. Finally, another respondent questioned the exclusion of

lease receivables in the scope of Topic 840, Leases, from the scope of the proposed Update when they are included in the scope of proposed Update on credit losses.

Industry-Specific Specialized Guidance Scope Exceptions

14. Of those who responded, most agreed with the industry-specific specialized guidance scope exceptions in the proposed Update. However, several respondents had specific concerns about these scope exceptions.

15. Some respondents commented on the scope exception for investment companies subject to Topic 946, Financial Services—Investment Companies. These respondents noted that this scope exception only includes the initial and subsequent measurement of investments in debt and equity securities held by investment companies subject to Topic 946. They recommended that all financial assets and financial liabilities of an investment company subject to Topic 946 be excluded from the scope.

16. A few respondents noted that paragraph 825-10-15-9(d) provides a scope exception for the subsequent measurement of Federal Home Loan Bank stock and Federal Reserve Bank stock only to depository and lending entities subject to Topic 942, Financial Services—Depository and Lending. These respondents recommended that the scope exception be revised to apply to entities that are eligible to hold these types of stock other than depository and lending institutions. Another respondent also stated that the proposed guidance in paragraph 825-10-15-9(d) would require an entity to apply the impairment guidance in paragraphs 825-10-35-18 through 35-19 to Federal Home Loan Bank stock. This respondent noted that the proposed equity impairment guidance should be revised or the current equity impairment guidance in paragraph 942-325-35-3 should be retained because it would allow the investor to take a longer term view of the investment and its ultimate recoverability.

17. A few other respondents observed that both the industry-specific guidance and the proposed Update might produce the same classification and measurement outcome

in certain instances. Therefore, they noted that opportunities to simplify the guidance by eliminating industry-specific guidance may exist.

III. Recognition (back to outline)

Cash Flow Characteristics Test – Solely Payment of Principal and Interest (SPPI) (back to outline)

18. Respondents raised questions and concerns regarding the "complexity" and the "restrictive" nature of the SPPI test. These respondents noted that the SPPI test would inappropriately preclude many financial instruments from qualifying for the amortized cost or FV-OCI classification category. The feedback on the SPPI test is organized as follows:

    (a) Deminimus features

    (b) Definition of principal (including prepayment option guidance)

    (c) Definition of interest

    (d) Restatement risk

    (e) Modified economic relationships

    (f) Inconsistency in consideration of probability of outcomes

    (g) Contingent prepayment features

    (h) Other contingent features

    (i) Beneficial interests in securitized financial assets

    (j) Application guidance for certain instruments.

19. *Deminimus features* (back to SPPI) – Respondents generally noted that many financial instruments have contractual cash flows that are not *solely* payments of principal and interest due to the presence of miscellaneous features that are expected to be triggered in unusual circumstances, for example, failure to file financial statements with the Securities and Exchange Commission. These respondents noted that such features are included in instruments to address specific situations that could arise in the future, and that such features do not create concerns under current practice because they are either considered *clearly or closely related* or are *immaterial* if bifurcation is required. These respondents are

concerned that the proposed SPPI test narrowly focuses on cash flow variability for specific interest rate reset and leverage features and credit-related contingencies and, as such, certain very common features included in instruments could cause the entire instrument to fail the SPPI test, thus, resulting in the instrument being measured at fair value through net income (FV-NI). Therefore, these respondents noted that they do not believe that features unrelated to interest reset, leverage, or credit risk that are (a) likely to have only a small effect on cash flows or (b) that are unlikely to arise in the future should drive the classification outcome.

20. *Definition of* principal *(including prepayment option guidance)* *(back to SPPI)*– Many respondents expressed concern with the definition of the term *principal* and the interaction with the *prepayment option* guidance. These respondents noted that the proposed Update has the unintended consequence of resulting in many types of common debt instruments (for example, loans and debt securities acquired in a secondary market) that are acquired at a significant discount (or premium) but permit repayment at par from passing the SPPI test (that is, would result in FV-NI measurement). These respondents noted that it is common for many *purchased credit-impaired* (PCI) loans to have prepayment terms that require prepayment at the par amount, and because the proposed Update defines *principal* as “the amount transferred by the holder at initial recognition” if such instruments were to require prepayment at the par amount, it may not be consistent with the *reasonable additional* compensation guidance for assessing prepayment options, thus, requiring the entire instrument to be measured at FV-NI. These respondents questioned whether that was the Board’s intended outcome for PCI instruments for which the Board is developing a comprehensive credit impairment model.

21. To address the concerns about PCI instruments (or debt instrument acquired at a significant discount), some respondents suggested that the Board require that a prepayment option whose exercise is in control of only the issuer, such that the settlement amount is in excess of the unpaid amounts of principal and interest, should not affect the investor’s accounting. Similarly, some respondents also noted that Board could consider redefining the term *principal* as the par amount; however, these respondents noted that redefining the term *principal* may lead to

unintended consequences that would need to be further assessed. Additionally, some respondents noted that the Board also should require that features/terms that permit, but do not require, an investor to settle in a manner that would cause it not to receive all unpaid amounts of principal and interest (that is, the investor could not be forced to accept a settlement outcome) would not fail the SPPI test.

22. A respondent also noted that the term *principal* is commonly understood in practice as the amount lent or borrowed and still outstanding and to which an interest rate is applied. This respondent noted that it does not support redefining the term within U.S. GAAP because the proposed definition may cause confusion and create legal, operational, and compliance issues, specifically for smaller financial institutions.

23. Few respondents also requested clarification regarding the phrase "the amount transferred" in the definition of the term *principal*. These respondents requested clarification about whether "the amount transferred" may be interpreted to include transfer of "goods and services;" otherwise typical trade receivables would be excluded from the SPPI test.

24. *Definition of* interest *(back to SPPI)* – Many respondents noted that the Board should clarify the definition of *interest,* including defining the term *time value of money.* These respondents noted that in many lending arrangements a lender may build in a profit margin, funding costs, servicing cost, and so forth, as part of the interest rate. These respondents asked for clarification about whether such common pricing elements would be consistent with the definition of *interest* as defined in the proposed Update.

25. *Restatement risk* *(back to SPPI)* – Many respondents, generally preparers, cited a concern about potential restatement risk. These respondents noted that the SPPI test increases the risk that if an entity overlooked a nonsubstantive feature at initial recognition that was inconsistent with SPPI and subsequently identified that feature, the quantitative effect could potentially be material because the proposed Update would require the entire instrument to be measured at FV-NI. These respondents noted that under the current bifurcation requirements, any missed

feature that is identified subsequent to initial recognition is generally not significant because the financial reporting consequence is measured by the cumulative change in fair value of the embedded derivative and not the entire instrument.

26. *Modified economic relationships* *(back to SPPI)* – Many respondents expressed concerns about the restrictive nature of the *more than insignificant* test and why such insignificant variability in cash flows was limited only to features that involved leverage or to certain interest rate reset provisions where the term of the interest rate did not match the term of the reset period. These respondents were concerned that this narrow exception was too restrictive and questioned the basis for permitting only certain features that do not cause more than insignificant variability in cash flows to pass the SPPI test. These respondents noted that it is very common for instruments issued in the United States to either (a) reset or (b) be based on rates, for example, a prime rate (which does not have a specified term), an average interest rate for a specified period, or a rate that may adjust subsequently to reflect changes in central bank reserve requirements. These respondents noted that given the low more than insignificant threshold and the restrictive nature of the modified economic relationship test, such very common terms/provisions may cause many basic loan products (for example, adjustable rate mortgages) to fail the SPPI test, which they noted was an unintended consequence of the SPPI test. These respondents requested that the Board (a) clarify the objective of the modified economic relationship test and (b) address basic provisions/terms common to many loan products and whether such instruments should be measured at something other than FV-NI. [Paragraph 39 provides examples for which some respondents requested clarification of the application of the SPPI test.]

27. Respondents who commented or provided feedback on the *modified economic relationship* assessment also expressed the following concerns:

    (a) More than insignificant threshold – Some respondents also requested that the Board define the *more than insignificant* threshold; otherwise it may lead to diversity in practice. Furthermore, many respondents noted that the

threshold was set too low and requested that the Board consider a higher threshold (for example, significant) and consider its overall objective of what types of features and cash flow variability should prohibit an instrument from qualifying for amortized cost measurement.

(b) Use of the term *solely* payments of principal and interest – Some respondents noted that the term 'solely' was inconsistent with the application guidance related to the modified economic relationship test, which required more than insignificant variability in cash flow to be inconsistent with payments of principal and interest. These respondents noted that the Board should consider eliminating the term *solely* and consider the overall SPPI principle to include *substantially* or *primarily* payments of principal and interest. These respondents noted that the term *solely* is too restrictive and could lead to unintended consequences.

(c) Benchmark instrument – Many respondents requested additional implementation guidance to clarify the application of the benchmark instrument analysis. These respondents noted that the proposed Update did not specify how to evaluate the difference in cash flows between the benchmark instrument and the actual instrument containing features that create variability in cash flows. Because the proposed Update lacked adequate implementation guidance, these respondents noted that it was unclear whether an entity should look at the absolute aggregate undiscounted cash flows of the actual and the benchmark instrument or compare the fair values or the effective rates of return on such instruments in determining whether the variability in cash flows was more than insignificant. Some respondents noted that comparing the instruments' effective rates of return may be the most appropriate method because it considers the time value of money and avoids the complexity of developing a fair value measurement estimate. Nevertheless, these respondents noted that without lack of implementation guidance, diversity in practice may occur and may yield different outcomes based on the type of method selected. As such, these respondents encouraged the Board to

clarify the intended application of the benchmark instrument analysis. In addition, these respondents also requested clarification on whether an entity should consider the instruments contractual life or its expected life by considering prepayment options (if such terms are embedded within the instrument).

28. *Inconsistency in consideration of probability of outcomes* *(back to SPPI)* – Many respondents noted the inconsistency in the consideration of probability of outcomes in applying the SPPI test. These respondents noted that in applying the modified economic relationship test, the proposed guidance would require consideration of only reasonably possible scenarios, whereas in assessing whether a contingent event will occur an entity is prohibited from considering the probability that a contingent event will occur (except to disregard events that are extremely rare, highly abnormal, and very unlikely to occur). These respondents also noted that the proposed Update was silent on whether an entity is required to consider only reasonably possible outcomes or all possible outcomes in assessing the prepayment option guidance. For example, one respondent noted that many commercial loans have prepayment penalty features such as yield maintenance clauses that are designed to protect lenders from prepayment by a borrower. This respondent noted that if prepayment is required to be considered without regard to probability, then these types of features could cause the instrument to fail the SPPI test because the return may not be commensurate with the principal amount outstanding.

29. Similarly, some respondents also noted that the application guidance to beneficial interests in securitized financial assets seemed to indicate that an entity would need to consider all outcomes in assessing the credit test for determining whether the credit risk of the tranche is equal to or less than the credit risk of the underlying pool of financial instruments. These respondents noted that the Board should have a consistent framework for assessing the probability of an event occurring.

30. *Contingent prepayment features* *(back to SPPI)*– Many respondents expressed concern about contingent prepayment feature guidance in the proposed Update. These respondents noted that unless the nature of the *prepayment contingency* was

related to the credit deterioration of the issuer, a change in control of the issuer or changes in relevant taxation or laws, the prepayment option would fail the SPPI test. These respondents noted that the nature of the prepayment contingency should not affect the instrument's classification if it can only be exercised by the issuer, because these events are challenging to evaluate and eliminating the need to assess the nature of the prepayment contingency would be consistent with current U.S. GAAP. For example, one respondent noted that if the lender wanted to reduce its exposure and require payment when the borrower's sales exceeded a certain threshold, it was unclear why this type of contingency should require the entire instrument to be measured at FV-NI if the prepayment amount represented payment of principal and interest (including reasonable compensation for the early termination of the contract).

31. *Other contingent features* (back to SPPI) – Some respondents expressed concerns about the contingent features guidance in the proposed Update that would require an entity to assess both (a) the nature of the contingency and (b) whether the resulting payments are consistent with SPPI. These respondents noted that the proposed Update would require that a contingent feature that could cause an interest rate to reset to a "punitive" rate to be inconsistent with SPPI because the resulting payments would not be considered compensation for the time value of money and credit risk, even if the nature of the contingency was credit related. These respondents noted that the proposal may introduce complexity as compared with current U.S. GAAP because *certain* credit sensitive payments are assumed to be clearly and closely related to the host instruments. These respondents requested that the Board carry forward the credit-sensitive payment guidance from U.S. GAAP.

32. In addition, some respondents recommended that the guidance on evaluating contingent features be consistent regardless of whether such features result from a contingent prepayment option, contingent extension option, or other contingent features. These respondents also noted that the evaluation of contingent features should not include an assessment of nonsubstantive or nongenuine features.

33. *Beneficial interests in securitized financial assets* (back to SPPI) – Many respondents expressed significant concerns and noted general disagreement with the *look-through* test required for beneficial interests in securitized financial assets, whereas few respondents supported the *look-through* notion and requested clarification and additional implementation guidance on the look-through concept. Respondents who did not support a look-through test cited operationality concerns as the primary reason. These respondents were concerned that the look-through approach in the proposed Update not only would require an analysis of the underlying assets in the trust but also the purchase price of those assets to determine whether the assets included in the trust were consistent with SPPI. These respondents noted that the resource intensive requirement to assess the assets in the trust would not result in better accounting than current U.S. GAAP and in certain types of structures (for example, resecuritization) the level of information needed to perform the analysis may not be available.

34. Respondents who requested clarification on the look-through notion also requested that the Board provide implementation guidance on the level of detail an entity would need to evaluate the underlying instruments (for example, offering memorandum rather than the individual instrument) to credibly assert that the underlying instrument have cash flows that are consistent with SPPI. These respondents noted that it would not be reasonable for an investor to analyze each of the securitization entity's instruments to identify features that are not consistent with SPPI.

35. Furthermore, many respondents also expressed significant concern and disagreement with the credit test required for beneficial interests in securitized financial assets, which requires that the exposure to credit risk in the underlying pool of financial instruments that are inherent in the tranche of beneficial interest is equal to or lower than the exposure to credit risk of the underlying pool. These respondents noted that assessing the credit risk for beneficial interests would be inconsistent with the SPPI principle and would result in many subordinated tranches failing to qualify for amortized cost or FV-OCI measurement. These respondents also noted that the credit test could also result in counterintuitive

classifications for investments of differing credit quality. For example, one respondent noted that an investment in subordinated tranches of securitized financial assets comprised entirely of high-quality debt instruments may not pass the credit test (thus resulting in FV-NI classification), whereas an investment in the senior tranche of securitized financial assets composed entirely of junk bonds might pass the credit test (and thus qualify for amortized cost or FV-OCI measurement assuming other conditions are met).

36. Some respondents also requested clarification on assessing the SPPI test if the securitization vehicle holds nonfinancial assets and financial instruments. These respondents noted that commercial or residential mortgage loan securitization structures may hold foreclosed real estate, typically on a temporary basis as a means to recover the related investment. These respondents expressed concern that structures that hold nonfinancial assets (or may hold nonfinancial assets in the future) may result in the beneficial interest being measured at FV-NI because contractual cash flows would not be consistent with SPPI. These respondents requested that the Board clarify that nonfinancial assets held on a temporary basis for the purposes of recovering principal and interest should be consistent with SPPI.

37. Some respondents also requested clarification on the scope of the proposed beneficial interests' guidance. These respondents questioned whether the FASB and the IASB meant the beneficial interest test to apply to a broader or a narrower set of instruments because IFRS 9 uses the term *contractually linked instruments*, whereas the proposed Update uses the term *beneficial interests in securitized financial assets*.

38. Some respondents also noted concern that the proposed Update does not provide look-through guidance for instruments that may be economically similar to a beneficial interest in securitized assets but for which the issuer is not a securitization vehicle. For example, one respondent noted that it was unclear how an entity that holds nonrecourse financial assets for which payment of principal and interest is linked to (and may only come from) the performance of underlying

receivables must assess the contractual cash flows of the nonrecourse financial asset to determine if the nonrecourse financial assets meets the SPPI test. This respondent noted that IFRS 9 includes a look-through notion for nonrecourse financial assets to determine if cash flows are consistent with SPPI.

39. *Application guidance for certain instruments* *(back to SPPI)* – Some respondents requested additional application guidance to clarify how certain instruments would be assessed under the SPPI test and whether such instruments would qualify for a measurement category other than FV-NI. The examples of instruments noted below is not an exhaustive list (and has been included for informational purposes):

    (a) Credit cards or adjustable-rate mortgages with below-market introductory rates that reset to higher interest rates in the future

    (b) Loans indexed to a bank's prime rate (or other indexes) that may not have a specified tenor

    (c) Auction rate securities for which the interest rate does not have a specified tenor

    (d) Debt-like equity instruments, for example, mandatory redeemable preferred securities, and perpetual preferred securities

    (e) Loan participations/syndication arrangements

    (f) Revenue bonds in which payments are tied to a certain project.

Business Model Test *(back to outline)*

40. Users consistently agreed with classification and measurement based on the business model objectives. Many respondents other than users agreed that a business model driven classification best reflects how an entity manages its business and how an entity expects to derive cash flows from those instruments. However, most respondents expressed concern about the restrictive nature of the amortized cost business model because of the type of sales permitted from this classification category. Few respondents did not support the business model assessment and, instead, proposed an accounting framework based on business activities (lending, investment, and trading) similar to the current model for

securities. Contrarily, a few respondents supported a full fair-value-based model because they asserted that the proposed guidance may potentially enable business risks to go unreported or may not accurately reflect the entity's performance as economic and business realities change over time. Many respondents also noted the need to use consistent language to define the business model (including implementation guidance) in an effort to reduce or minimize the inconsistencies in interpretation and application of business model as proposed under the amendments to IFRS 9 and the proposed Update. Detailed feedback on the business model assessment is organized as follows:

(a) Defining the business model categories
(b) Business model as the primary (and only) classification condition
(c) Level at which business model is assessed
(d) Sales out of amortized cost category
(e) Tainting notion
(f) Allocation guidance.

41. *Defining the business model categories* *(back to business model)* – Some respondents noted that the principle and objectives of the business models were not clearly articulated and, thus, they would be required to look to specific examples to better understand how to interpret and apply the business model assessment. Specifically, many respondents expressed concerns about the clarity around the FV-OCI business model, although many respondents supported three categories for classification and measurement as it aligns a common framework for loans and securities. Several respondents noted concern about the objective of the FV-OCI business model under two main themes: the lack of a conceptual basis for recognizing certain changes in fair value through equity and the lack of clarity around the business model objective for FV-OCI, with significantly more respondents citing concern about the latter issue. In terms of the former concern, several respondents supported further work by the FASB and the IASB to better define the conceptual basis and purpose of other comprehensive income and how it should be presented in the financial statements.

42. Many respondents noted that either ends of the spectrum of hold to collect and trading/ held for sale were easy to discern in practice, but defining the middle (that is, FV-OCI) required significant judgment. Therefore, these respondents proposed having FV-OCI as the residual measurement category rather than FV-NI. Some respondents noted that this approach would be more aligned with the current available-for-sale guidance in Topic 320. Additionally, some respondents noted that there was difficulty in discerning the degree/level of sales that would be permitted from the FV-OCI business model as compared to the FV-NI category. These respondents asserted that the dividing lines between the FV-NI and FV-OCI classification categories is not sufficiently clear, which may lead to diversity in practice.

43. Some respondents also noted that there was ambiguity in understanding the underlying principles of the business model assessment and distinguishing the dividing lines between the classification categories. One respondent suggested making a clearer distinction among the business models by analysing whether collecting contractual cash flows of financial assets and selling financial assets is either *integral* or *incidental* to achieving the objective of the business model. The respondent noted that by more clearly identifying the principle of the business model, there will be less need for detailed implementation guidance.

44. *Business model as the primary (and only) classification condition* *(back to business model)* – Some respondents stated that the primary or sole criterion for determining classification and measurement for financial assets should be an entity's business model. These respondents noted that instruments that failed the contractual cash flow assessment would not be eligible for a measurement category other than FV-NI, which they cited as being inconsistent with the business model classification principle. These respondents noted that if financial assets were only subject to the business model assessment and not the cash flow assessment, equity instruments not held for trading would be eligible for the FV-OCI measurement category and, thus, reflected on the balance sheet in a way that reflects the longer term nature of the holding period and thereby limiting earnings volatility.

45. Similar to these respondents (who supported a business model based only classification for financial assets), some users and several respondents (including insurers, smaller financial institutions, and nonfinancial preparers) strongly supported allowing equity investments to be measured at FV-OCI. These respondents stated that recognizing changes in FV-NI would result in significant earnings volatility and would create a disincentive to invest in equity securities. These respondents further stated that some equity investments are held for long-term investment purposes, and recording changes in fair value in net income does not reflect this business model. Therefore, these respondents expressed a strong support for a FV-OCI measurement category for equity investments. In addition, certain respondents requested that the FASB permit an option for entities to present changes in fair value of qualifying equity investments to be recognized in other comprehensive income (similar to the option permitted in IFRS 9), however, gains and losses when realized should be reclassified to earning.

46. In contrast, several users who participated in outreach meetings and some nonuser respondents agreed with the proposed Update that would require equity investments to be measured at FV-NI (other than certain investments that are accounted for under the equity method of accounting or qualify for the practicability exception). These respondents noted that recognizing changes in FV-NI would be more transparent. Furthermore, many of these respondents stated that many investors already adjust net income amounts to reflect unrealized gains and losses on equity securities that are recognized in other comprehensive income.

47. *Level at which business model is assessed* (back to business model) – Several respondents requested that the Board clarify the level at which the business model should be assessed. These respondents noted that they believe the Board intended the assessment to be performed at the portfolio level rather than at the segment or higher level. One respondent noted that there was inconsistency in the proposed guidance that would require classification of a financial asset on the basis of how the asset is managed together with other financial assets but only to require reclassification when there is a change in the business model, which requires determination by entity's senior management as a result of external/internal

changes that are significant to an entity's operation and demonstrable to external parties. Similarly, some respondents noted an inconsistency with the FV-OCI business model because it can be interpreted to view the assessment at the instrument level (rather than at the portfolio level) because the proposed FV-OCI guidance would require that upon recognition an entity has not yet determined whether it will hold the individual asset to collect contractual cash flows or sell the asset.

48. *Sales out of amortized cost category* *(back to business model)* – The majority of the respondents noted significant concerns about sales from the amortized cost/hold-to-collect business model. A large number of respondents cited the fundamental business consideration of allowing sales to permit broad credit risk management for business models that are still consistent with the notion of hold to collect. Many respondents noted that the sales guidance in the proposed Update is similar to the existing model for held-to-maturity debt securities in Topic 320 and overlying these conditions for securities to classification of loans severely restricts the amortized cost category.

49. Many respondents noted that the proposed guidance would require that sales that result from reasons other than from significant credit deterioration should be "very infrequent," which many interpret as such a high threshold that places the tolerance for sales at virtually zero. Given this interpretation of intolerance of sales from the amortized cost category, many respondents noted that the proposed Update would result in significantly more financial instruments being measured at FV-OCI or FV-NI. A vast majority of respondents recommended that the strict language regarding sales from the amortized cost either be removed or modified to permit sales in more circumstances.

50. Specifically, respondents suggested allowing all regulator-directed sales, rebalancing portfolios because of unanticipated risks such as exposure to credit, industry, geographical or other types of concentrations, and sales of insignificant volume. Other respondents suggested the approach of identifying sales that are unacceptable (for example, gains trading, managing on a fair value basis).

Conversely, some respondents noted that broadening sales from the amortized cost bucket would blur the distinction between amortized cost and FV-OCI business models.

51. Many respondents noted a preference for the less restrictive sales guidance in proposed amendments to IFRS 9, which would permit "infrequent" (and potentially significant) or "insignificant" (and potentially frequent) sales from the amortized cost business model. These respondents noted that in the normal course of business, sales may be necessary for legitimate reasons in a business model of hold to collect because it may allow an entity to ultimately maximize collection of cash flows and allow an entity the ability to manage certain risks. Moreover, many respondents noted that explicitly having a restriction on sales within the guidance can be inconsistent with the principle of assessing the business model and recommended not providing explicit guidance, or at a minimum, loosening the language in the proposed model. Some respondents suggested using the language in the IASB Exposure Draft that references the entity's documented investment policy to determine if sales from events could have been reasonably anticipated.

52. A majority of respondents cited the need to be able to sell because of concentrations of credit risk, such as managing portfolio risk in terms of geography or line of business (for example, auto loans) and still qualify for the hold-to-collect business model. Additionally, some respondents noted that sales may be necessitated due to a violation of a legal lending requirement or entity limits, which are fluid as economic conditions change (for example, limits to Eurozone exposure during the financial crisis). Furthermore, both preparers and users consistently noted that sales because of concentrations of credit risk and from an expected significant deterioration in credit of the counterparty should be permitted in order to make sound business decisions.

53. Many respondents also noted concern related to the restrictions on sales due to regulatory requirements, with some respondents noting that the regulatory guidance was confusing as it allowed industry directed regulatory sales or sales related to an event that is "isolated, nonrecurring, and unusual," but prohibited

certain entity-specific directed regulatory sales. Many respondents noted that it is operationally difficult to predict what, if any, assets need to be sold as a result from a directive from a regulator. Respondents noted that sales because of regulatory reasons were not inconsistent with a hold-to-collect business model and, thus, should not prohibit financial assets from being measured at amortized cost. Some respondents noted that under the Basel III framework, financial institutions will increase their investments in highly liquid securities to comply with new regulatory requirements and may be required to sell such securities from time to time to comply with regulatory guidance.

54. Respondents also noted that limiting sales from amortized cost would go against prudent risk management and force many instruments, particularly loans that are currently measured at amortized cost (under current U.S. GAAP), to be accounted for at FV-OCI. Many respondents specifically cited the significant change in practice for loans because there is more flexibility with respect to sales than the held-to-maturity security model in Topic 320. Furthermore, these respondents noted that under current U.S. GAAP, loans have the flexibility of moving in and out of held-for-investment and held-for-sale (amortized cost and lower of cost or market, respectively) because banks may not initially know the exit strategy of the loan until a certain time period after origination or purchase. These respondents noted that it can take up to a few months for an institution to be able to fully assess which loans will be securitized versus which loans will be kept for investment, thus making it operationally difficult to assess at initial recognition.

55. *Tainting notion* *(back to business model)* – The majority of respondents supported excluding an explicit tainting notion; however, many noted that there was an implicit tainting notion because of the restriction on sales out of the amortized cost business model. Many respondents noted that classification and measurement should rely on the principle and exercise of professional judgment rather than an implicit or explicit tainting notion.

56. Respondents also noted that there is an implicit tainting notion in the proposed Update because sales out of the amortized cost category can call into question the

classification of future instruments, as compared with the retrospective tainting notion under current U.S. GAAP. A minority of respondents also went further by noting that the restrictions on sale guidance could create a retrospective tainting issue. Other respondents noted that in the absence of an explicit tainting notion, practice would likely evolve with informal rules that do not have the benefit of being vetted through the public comment process. Some respondents compared the proposed Update restrictions on sales as being similar to the current restrictions that currently apply to sales of held-to-maturity securities; therefore, the proposed Update effectively expands the current tainting notion to all financial assets, not just securities as it is under current U.S. GAAP.

57. *Allocation guidance* *(back to business model)* – The majority of respondents requested clarification of the guidance related to allocation of pools of similar financial assets that meet the contractual cash flow assessment but an entity has not yet determined which specific financial assets fall under each business model (that is, pool of loans in which the entity has not yet determined which loans will be subsequently securitized). Respondents requested clarification on whether the allocation should be on a pro rata basis of each instrument or if instruments should be designated in their entirety to a specific business model at inception. These respondents noted that if instruments are split on a pro rata basis, allocation between classification categories for the same instrument would be challenging and operationally unfeasible. These respondents also noted that if a pro rata allocation is required, an entity would need to invest in the infrastructure to be able to do this allocation. Conversely, if individual assets are classified in their entirety, these respondents requested clarification on how to deal with subsequent selling activity that is inconsistent with the initial designation for each instrument. Furthermore, respondents requested clarification on how an entity should account for differences when amounts sold differ from amounts allocated at initial recognition. As a result, these respondents requested implementation guidance on how to apply the allocation guidance or requested that the Board reconsider this concept in its entirety. Some respondents suggested alternatives, like permitting a reasonable period of time for entities to determine the appropriate business model. Other

respondents noted that they preferred the flexibility in current U.S. GAAP, which permits reclassification of loans from held for investment to held for sale, and vice versa.

58. A few respondents also noted that the allocation guidance was inconsistent with the proposed business model principle, while others noted that they viewed the allocation guidance as an exception to the general business model classification guidance, without which many pools of loans would be classified at either FV-OCI or FV-NI.

Loan Commitments (back to outline)

59. Respondents generally agreed with the proposed guidance that the measurement of a loan commitment should follow the classification of the underlying loan. However, some respondents noted that the classification of commitments should not be dependent on the likelihood of its exercise (remote versus not remote). These respondents noted that loan commitments for which the likelihood of exercise is remote may be managed and economically hedged and, thus, requiring a "likelihood of exercise" assessment for classification would prohibit an entity from measuring such commitments at fair value. Furthermore, these respondents noted that the probability of funding is irrelevant to the business strategy and risk management of the commitment. Therefore, these respondents requested that an unrestricted fair value option be provided for loan commitments or the probability threshold be eliminated so that those commitments can be managed on a fair value basis.

60. Respondents who agreed with the proposed guidance also cited the practicability of not performing the SPPI assessment and stated that the proposed approach also would reduce complexity. These respondents also requested convergence in this area.

61. Some respondents did not agree with aligning the classification and measurement of the loan commitment with the underlying loan. These respondents noted that an entity would be required to assess the hypothetical loan under the SPPI and

business model assessments before the loan or line of credit is drawn, which many noted would be operationally challenging. Furthermore, these respondents referenced concerns about certain loan features that will fail the SPPI test and, consequently, will require the related commitments and lines of credit to be accounted for at fair value, even though there may be no intention to sell the underlying loan upon funding. These respondents noted that the outcome would result in potential volatility in the income statement and proposed that the information be disclosed in the notes to the financial statements instead.

IV. Initial Measurement (back to outline)

62. Although most respondents agreed with the initial measurement principles for financial instruments, many requested clarification and some expressed concern about the proposed guidance.

63. Several respondents commented on the proposed guidance for accounting for fees and costs. Respondents generally agreed that financial assets measured at amortized cost or FV-OCI should have the same interest income recognition. However, one respondent noted that the proposed guidance seems to contradict this notion as it relates to transaction costs. This respondent noted that the guidance seems to suggest that transaction costs that do not constitute loan origination fees or direct loan origination costs should be expensed. This respondent disagreed with that guidance and stated that transaction costs for financial assets measured at amortized cost or FV-OCI should be deferred and recognized as a yield adjustment in a manner similar to loan origination costs. Another respondent noted that the guidance on transaction fees and costs for financial assets and financial liabilities initially measured at FV-NI could be read to imply that transaction costs associated with a future sale or transfer should be recognized at initial recognition rather than expensed when incurred because the definition of transaction costs refers to costs to sell an asset (or transfer a liability). This respondent asserted that the Board did not intend this outcome and requested clarification in the final Update.

64. Many respondents requested clarification about the proposed guidance in paragraphs 825-10-30-4 through 30-6 regarding when the transaction price includes consideration for something other than the financial instrument. Respondents generally requested additional application guidance because if interpreted narrowly (and without further application guidance), this guidance could lead to the requirement to consider the fair value of all financial assets at inception. Some respondents stated that "consideration given or received for something other than the financial instrument" is too ambiguous and could be interpreted to include intangible elements, such as borrower relationships and requested that the Board clarify what is meant by "something other."

65. Some respondents also asked for guidance on how the transaction price would be allocated between multiple financial instruments purchased or issued together when some instruments are subsequently measured at FV-NI and some at amortized cost and/or FV-OCI. Some respondents also asked for examples of multiple-element transactions to clarify which elements would require immediate income recognition and which would require imputation of interest.

66. A few respondents recommended removing this guidance entirely. One respondent recommended that the Board consider whether deminimis or clearly insignificant features should not warrant assessment under this guidance, while a few other respondents suggested that initial measurement should simply be fair value with few exceptions, which would converge with IFRS 9. Another respondent noted that the discussion in the basis for conclusions regarding typical loan pricing practices and structured transactions clarifies the Board's intent regarding the initial measurement guidance and that this discussion should be moved to the main standard rather than in the basis for conclusions because the basis is not codified in the Codification.

V. Subsequent Measurement (back to outline)

Fair Value Option (back to outline)

67. Users who responded to the conditional fair value option guidance in the proposed Update strongly supported limiting the fair value option, if not eliminating it entirely. Some respondents other than users also supported the restricted fair value option in the proposed Update, citing improved comparability and decision-useful information.

68. Several respondents other than users expressed support for the proposed Update's provision of a fair value option for instruments that qualify for the FV-OCI category. These respondents noted that it would allow better matching of assets and liabilities and also better reflect an entity's business model. Several respondents also recommended that the Board provide an irrevocable election to measure certain equity investments not held for trading purposes at FV-OCI, similar to IFRS 9. Furthermore, many insurers also suggested that the Board extend a FV-OCI option to all financial instruments when such an option would reduce or eliminate an accounting mismatch. These respondents stated that this option would allow them to better align the measurement of assets and liabilities for insurance contracts and would reflect their business models.

69. Many respondents other than users advocated for the retention of an unconditional FV-NI option. These respondents stated that an unconditional fair value option is necessary to reduce complexity and accounting asymmetry. They also noted that it allows for flexibility in risk management strategies when hedge accounting is not available. Most of these respondents asserted that the current disclosure requirements promote comparability and provide transparency.

70. Some of the respondents who supported retaining an unconditional fair value option also stated that if the fair value option is limited, it should at least be extended to circumstances in which it would eliminate or significantly reduce an accounting mismatch. Several other respondents, even those in favor of restricting the fair value option, also recommended providing a fair value option to eliminate or reduce an accounting mismatch. These respondents supported converging with

IFRS 9 by providing an accounting mismatch option and noted that this option would reduce earnings volatility and better reflect management's strategy.

71. A few respondents also requested that the Board consider allowing the fair value option to be elected after initial recognition if the credit risk of a financial instrument is subsequently managed with a credit derivative, as is permitted in IFRS 9. Respondents stated that, at initial recognition, financial institutions with significant loan and loan commitment portfolios may not be able to identify which instruments will later be managed with credit derivatives because of changing creditworthiness of borrowers, risk limits, total exposure to a particular borrower, as well as the pricing and availability of credit derivatives. These respondents noted that permitting a fair value option for these instruments would provide more decision-useful information.

72. Many respondents asked for clarification regarding the fair value option for a group of financial assets and financial liabilities for which an entity manages the net exposure on a fair value basis. Respondents were unsure of what exactly constitutes a "group" (for example, whether one derivative hedging one financial instrument constitutes a group) and whether a derivative has to consistently be in an asset or liability position to qualify. Respondents requested that examples be provided to clarify the Board's intention regarding what constitutes a group.

73. Several respondents also commented on the elimination of the fair value option for equity method investments. These respondents supported the retention of a fair value option for equity method investments because it would provide relevant information to users and reduce complexity for preparers. Respondents noted that not all equity method investments for which the fair value option is currently elected would meet the held-for-sale criteria in the proposed Update.

74. Some respondents also expressed concern regarding the elimination of the fair value option for financial instruments not within the scope of the proposed Update, such as financial guarantee contracts. In addition, some respondents also requested an unconditional fair value option for loan commitments and other financial instruments (for example, collateralized debt obligations) because, as noted in

paragraph 69, these respondents noted that an unconditional fair value option is necessary to reduce complexity and accounting asymmetry.

Portfolio-Wide Fair Value Option for Not-for-Profit Entities (back to outline)

75. Respondents generally supported retaining the current portfolio-wide option for not-for-profit entities, other than health care entities, to account for their equity investments at fair value. A few respondents agreed that the option also should be made available to not-for-profit health care entities that are within the scope of Topic 954, Health Care Entities. These respondents stated that they did not see a conceptual reason for not extending the option to all not-for-profit entities. However, several respondents disagreed with extending the option to not-for-profit health care entities. These respondents noted that not-for-profit health care entities are business-oriented and are often compared with for-profit health care entities. A few respondents also recommended extending this option to all entities because of the complexities and operational issues presented by the equity method of accounting.

Financial Liabilities (back to outline)

76. *Measurement* – Respondents strongly agreed with the subsequent measurement of financial liabilities at amortized cost unless certain exceptions are met. However, many respondents other than users reiterated their desire to retain an unconditional fair value option or to have a fair value option to eliminate or reduce an accounting mismatch to measure financial liabilities at FV-NI.

77. *Nonrecourse financial liabilities* – Most respondents agreed with the requirement that a nonrecourse financial liability settled with cash flows from related financial assets be measured on the same basis as those assets. Some of these respondents noted that the Board should consider defining *nonrecourse* and clarify in the final Update that nonfinancial assets that are held temporarily (for example, as a result of default associated with the financial asset) would not disqualify an entity from using the nonrecourse financial liability guidance. One respondent questioned whether it is always appropriate for the measurement of financial liabilities to

follow the measurement of the assets. This respondent noted that in certain situations the fair value of the financial liability will be more observable than that of the financial asset and, thus, this respondent stated that in those situations the measurement of the financial asset should follow the measurement of the financial liability. In addition, a few respondents who supported the proposed guidance urged convergence between the FASB and the IASB in this area.

78. Several respondents also requested more application guidance to clarify the measurement requirement. For example, these respondents requested clarification on the measurement attribute of the nonrecourse financial liability if it is settled with cash flows from related assets that are both measured at FV-OCI and FV-NI or in circumstances involving overcollateralization.

79. *Bifurcation* – In most cases, respondents' comments on the proposed amendments that provide an asymmetrical model for hybrid financial assets and hybrid financial liabilities were influenced by their views on the cash flow characteristics assessment. The few users who commented on bifurcation agreed with eliminating bifurcation for hybrid financial assets. Some respondents other than users also agreed with the elimination of bifurcation for hybrid financial assets. These respondents cited convergence and reduced complexity as reasons for their support. However, these respondents noted that the Board would need to address certain concerns with the cash flow characteristics assessment.

80. Many respondents other than users did not support eliminating bifurcation for hybrid financial assets. These respondents preferred the symmetry achieved by retaining bifurcation for both hybrid financial assets and hybrid financial liabilities and were concerned about the complexity of two different approaches (that is, SPPI and clearly and closely related). A few respondents noted that no theoretical basis exists for different approaches. After bifurcating embedded derivatives, respondents suggested that the host contract be classified and measured in accordance with the proposed guidance. They asserted that eliminating bifurcation would result in greater earnings volatility because changes in fair value of the entire financial asset would flow through net income. They expressed concern that

embedded derivatives would become the determinative factor in classifying and measuring the whole instrument when more useful information might be provided through bifurcation. A few respondents also noted that bifurcation for hybrid financial assets facilitates risk management strategies, such as economic hedging, and eliminating it would remove these strategies and create accounting mismatches.

Financial Assets Subsequently Identified for Sale *(back to outline)*

81. Many respondents agreed with the proposed guidance that would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be measured at amortized cost less impairment (and would prohibit recognition of the gain until the sale is complete). Although these respondents agreed with the proposed guidance, some requested clarification about certain aspects of the proposed guidance.

82. Respondents asked whether impairment should be based on the evaluation of an individual asset or a group of assets and asked for clarification of how impairment would apply to a group of assets identified for sale. Other respondents questioned whether impairment could be reversed to the previous amortized cost basis. A few respondents also commented on sales or decisions to sell that occur after the balance sheet date but before issuance of the financial statements. These respondents asked whether actual sales would be disclosed and requested that the Board clarify whether decisions to sell should be reflected at the balance sheet date or in the period of the decision. Other respondents questioned how these assets would be accounted for if an entity decided no longer to sell them.

83. Other respondents asked the Board to clarify the circumstances that must exist or conditions that must be met for financial assets to be identified for sale, while a few respondents recommended that the Board consider providing guidance for financial assets measured at FV-OCI that are identified for sale. These respondents noted that the Board should clarify in the final Update that for financial assets measured at FV-OCI and subsequently identified for sale, an entity would not

recognize a loss in earnings related to declines in fair value below the asset's net carrying amount.

84. Several other respondents disagreed with the proposed guidance. These respondents noted that the guidance would be inconsistent with the business model guidance because the guidance is drafted at an individual asset level rather than the portfolio/business model level and requested clarification regarding how this guidance interacts with the business model classification guidance. Some of these respondents noted that, rather than requiring a lower-of-cost-or-market measurement, such assets should be subsequently measured at fair value. Some respondents also disagreed with providing the fair value of these assets as a separate line item on the face of the balance sheet and asserted that a footnote disclosure would provide more decision-useful information.

Equity Investments without Readily Determinable Fair Values (back to outline)

85. Most respondents agreed with providing a practicability exception for measuring equity investment without readily determinable fair values. However, not all respondents agreed with the one-step impairment model for all equity investments subject to the practicability exception. Respondents' views on the one-step impairment model are discussed in greater depth in the Equity Method of Accounting section of this memo beginning in paragraph 122.

86. Respondents who agreed with the practicability exception noted that it would reduce operational complexity and be an improvement over the cost method. A few respondents asked that the exception be extended to debt instruments as well.

87. A few respondents also requested clarification or additional implementation guidance. These respondents requested further clarification on (a) what constitutes a "similar investment" of the same issuer and (b) how much effort a preparer would be required to undertake to find observable changes in price.

88. Other respondents questioned whether the Board intended for the practicability exception to apply to equity method investments because an entity could circumvent the equity method of accounting by classifying equity method

investments as held for sale and then measuring such investments using the practicability exception.

89. Some respondents also disagreed with the practicability exception. A few respondents observed that the practicability exception still would require an entity to determine fair value when an investment is impaired and, therefore, does not reduce complexity. Other respondents preferred to apply different methods. A few of these respondents recommended retaining the current insurance guidance in paragraph 944-325-30-1 that requires equity investments that are not in the scope of Subtopic 320-10 or 958-320 and do not have readily determinable fair values to be measured at fair value.

90. A few respondents who supported the practicability exception also recommended that the FASB and the IASB converge on this topic.

Deferred Tax Assets *(back to outline)*

91. The proposed Update would require an entity to evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at FV-OCI separately from the other deferred tax assets of the entity rather than combined and analyzed together. Respondents were evenly divided on this issue.

92. Some respondents agreed that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at FV-OCI separately. These respondents noted that this treatment acknowledges the unique interaction of Topic 740, Income Taxes, and the classification and measurement of financial instruments. They agreed because temporary differences associated with unrealized gains and losses on debt instruments reverse if the instruments are held to maturity. A few respondents stated that the intent and ability to hold a debt instrument with unrealized losses until recovery can be considered like a tax planning strategy to avoid the need for a valuation allowance.

93. Several respondents who agreed with this requirement requested further clarification to avoid unintended consequences and application consistent with the Board's intent. A few of these respondents asked the Board to clarify that an entity

can continue to support unrealized losses in other comprehensive income when an entity (a) has carryback potential, (b) the ability to generate future taxable income, and/or (c) other deferred tax liabilities that can be used to support the unrealized loss. These respondents also requested that the Board clarify that unrealized gains in other comprehensive income can be used to realize other deferred tax assets whether or not the deferred tax asset originated in other comprehensive income. Finally, these respondents also asked the Board to clarify that a deferred tax asset related to debt instruments measured at FV-OCI that would reverse over time as the unrealized losses reverse would not require future taxable income to support the realization of the deferred tax assets. Other respondents requested that the Board consider the implications of proposed Update on credit losses on the proposed deferred tax assets guidance because impairment also could create deferred tax assets.

94. A few respondents suggested that the Board consider broadening this guidance to apply to debt instruments beyond those classified and measured at FV-OCI. They noted that an entity should be able to apply this guidance to deferred tax assets on unrealized losses for all debt instruments for which it has a similar tax strategy of holding to recovery.

95. Other respondents disagreed and stated that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at FV-OCI in combination with other deferred tax assets of the entity. A few respondents disagreed because an entity should evaluate the need for a valuation allowance on these deferred tax assets using the same method it uses when evaluating valuation allowances on all deferred tax assets. Some respondents did not agree with providing an exception to the guidance in Topic 740 for a single line item. A few respondents noted that the proposed guidance is contrary to Topic 740, which requires an entity to consider the expected realizability of a deferred tax asset rather than only its reversal. They questioned whether the proposed guidance would accurately reflect the tax consequences of these instruments. Respondents also questioned whether entities might incorrectly analogize this guidance to other

deferred tax assets. They recommended that if this requirement is finalized, the Board should clarify the limited instances in which it would apply.

96. A few respondents asked that the FASB and the IASB work together to achieve a converged solution. A few others stated that entities should continue to be allowed to evaluate the need for a valuation allowance on deferred tax assets related to a debt instrument measured at FV-OCI either separately from the other deferred tax assets of the entity or in combination with other deferred tax assets.

Reclassifications (back to outline)

97. Many respondents agreed with the requirement to reclassify financial assets when a change in business model occurs and the subsequent accounting for such reclassifications. These respondents noted that reclassification of financial assets when the business model changes ensures that the classification reflects an entity's new business model.

98. Several respondents requested that the Board provide additional application guidance regarding circumstances in which the business model has changed. Furthermore, these respondents also requested clarification on how to present financial assets when a change in business model has occurred during the reporting period but the assets are sold before the reclassification date (that is, end of the period).

99. Several respondents also commented specifically on the date of reclassification and agreed with the proposed guidance that financial assets should be reclassified on the last day of the reporting period in which a change in business model occurs. These respondents also requested the FASB and the IASB converge on the reclassification date guidance. A few respondents suggested that an entity should be able to choose the date of reclassification as long as it follows a consistent policy that is disclosed.

100. Some respondents expressed concerns about the guidance in paragraph 825-10-35-22 related to conditions that demonstrate a change in an entity's business model. These respondents noted that the business model appears to apply at a portfolio

level; however, changes at the portfolio level may not be determined by an entity's senior management, may not be significant to an entity's overall operations, or may not be demonstrable to external parties. These respondents suggested that reclassifications should be determined by management with responsibility for the portfolio and that the change should be demonstrable and significant with respect to the portfolio.

101. A few other respondents requested clarification regarding the requirement that the reclassification be demonstrable to external parties. These respondents noted that entities without external reporting responsibilities might not be able to meet this requirement, and public companies might even have difficulty proving this condition is met.

102. Several respondents also expressed concern about the phrase *very infrequently* as used in paragraph 825-10-35-22 regarding the frequency of change in an entity's business models. These respondents noted that *very infrequently* could be interpreted to mean *never,* and recommended that the guidance be aligned with IFRS 9, which uses the term *infrequently.*

103. Several respondents found the reclassification guidance to be very restrictive. These respondents stated that the restrictions on reclassification would not allow an entity to respond to changes in business conditions when the business model does not change. These respondents noted that changes in an entity's risk profile may require that portfolios be rebalanced, which would not be consistent with the reclassification requirements in the proposed Update. These respondents generally favored less restrictive sales guidance from the amortized cost category as discussed in the Business Model section of this memo.

VI. Presentation *(back to outline)*

Parenthetical Fair Value Presentation for Items Measured at Amortized Cost (back to outline)

104. Users strongly supported the requirement for a public entity to parenthetically present fair value for items measured at amortized cost on the face of the statement

of financial position. Several respondents other than users also support this requirement. These respondents other than users stated that this requirement provides users with relevant information to make investment decisions.

105. Most respondents other than users disagreed with the requirement to parenthetically present fair value information. These respondents noted that this requirement would clutter the face of the statement of financial position and could potentially confuse users. A few respondents other than users asserted that the balance sheet should reflect only the primary measurement attribute. Respondents other than users who disagreed with the presentation requirement preferred footnote disclosure and asserted that the information would be readily available for users if provided in the notes to the financial statements. Several of these respondents also recommended that the Board provide an option for entities to present fair value for items measured at amortized cost on the face of the statement of financial position rather than require this presentation.

Exemption from Disclosures of Fair Value for Nonpublic Entities (back to outline)

106. Most respondents other than users agreed with exempting nonpublic entities from the fair value presentation and disclosure requirements. These respondents noted that users of nonpublic financial statements generally do not attribute the same level of importance to fair value information as users of public entity financial statements. Furthermore, some respondents other than users stated that exempting nonpublic entities would relieve the operational burden of providing fair value information.

107. A user who commented on this issue stated that the disclosure requirements should be extended to nonpublic entities because fair value information provides decision-useful information. Additionally, a respondent other than a user saw no reason to exclude nonpublic entities from the presentation and disclosure requirements.

Presentation of Changes in Fair Value Attributable to Changes in Instrument-Specific Credit Risk (back to outline)

108. Respondents, including several users, strongly supported the requirement for 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. Respondents noted that this requirement would help to resolve concerns about how unrealized gains and losses attributable to changes in an entity's own credit risk for financial liabilities designated under the fair value option affect financial performance.

109. Some respondents requested an extension of the presentation requirement for instrument-specific credit risk to instruments other than financial liabilities for which an entity has elected the fair value option. Several respondents stated that this requirement should be available to all financial liabilities measured at FV-NI, such as bifurcated embedded derivative liabilities. A few respondents also recommended that the requirement be extended to freestanding derivative instruments in the scope of Topic 815. In contrast, a respondent noted that the own credit adjustment related to free-standing derivatives is realizable and should flow through net income; therefore, this presentation requirement should not be extended to freestanding derivative instruments. This respondent also recommended that the requirement to present changes in fair value attributable to instrument-specific credit risk be applicable to nonfinancial hybrid liabilities for which an entity has elected the fair value option because these nonfinancial hybrid liabilities are comprised of both financial and nonfinancial components and are also subject to instrument-specific credit risk.

110. Several respondents also commented specifically on the requirement to recycle the cumulative amount of the gain or loss on the financial liability that resulted from changes in instrument-specific credit risk upon derecognition of that liability. These respondents expressed support for recycling and urged the FASB and the IASB to reach convergence in this area.

111. A few respondents also noted that readers of the proposed guidance might find the term *instrument-specific credit risk* confusing. These respondents recommended

that the Board instead use *reporting entity's own credit risk* or *issuer-specific credit risk* as alternative wording for *instrument-specific credit risk.*

Foreign-Currency-Denominated Debt Securities Measured at Fair Value through Other Comprehensive Income *(back to outline)*

112. Most respondents agreed with the proposed requirement that an entity separately recognize in net income changes in fair value attributable to foreign currency gain or loss on foreign-currency-denominated debt securities measured at FV-OCI. However, a few respondents recommended that the current guidance be retained and the entire change in fair value of a foreign-currency-denominated debt security measured at FV-OCI continue to be reported in other comprehensive income.

113. Respondents had mixed views regarding the fair-value-based method to compute the foreign currency gain or loss component to be recognized in net income. Some respondents explicitly agreed with the fair-value-based method, while several respondents stated that the method is operable. In contrast, many respondents preferred the use of an amortized-cost-based method. They noted that using this method would achieve convergence with IFRS and allow comparability between foreign-currency-denominated debt instruments measured at FV-OCI and those measured at amortized cost. Several respondents suggested that either an amortized-cost-based or a fair-value-based method be allowed, while a few respondents simply requested that the FASB and the IASB decide on a converged method.

Other Presentation Requirements *(back to outline)*

114. Several respondents also commented on the level of disaggregation that the proposed Update would require on the face of the statement of financial position and the statement of comprehensive income. Most of these respondents disagreed with requiring the presentation of financial assets and financial liabilities separately on the face of the statement of financial position, grouped by measurement category. They asserted that this amount of detail on the face of the financial

statements would be excessive and, instead, should be included in the notes to the financial statements.

VII. Disclosures *(back to outline)*

115. Some respondents, including a user, generally agreed that the proposed disclosure provide decision-useful information. A few respondents other than users generally disagreed with the proposed disclosure requirements and stated that the proposed disclosures were voluminous, operationally burdensome, and would not provide incremental benefit to the users of the financial statements. Other respondents provided comments on specific disclosure requirements.

116. *Fair value disclosures (back to outline)*– Many respondents other than users disagreed with the proposed disclosures in paragraph 825-10-50-34 about fair value information for financial instruments measured at amortized cost. These respondents noted that these disclosures would be operationally burdensome. These respondents also stated that these disclosures would not provide decision-useful information because fair value information is not generally used in evaluating the financial performance of financial instruments measured at amortized cost. Similarly, a few respondents other than users disagreed with the requirement to parenthetically disclose the amortized cost of financial liabilities measured at fair value and noted that this information would not be relevant and would be operationally burdensome to provide.

117. *Interim disclosures (back to outline)* – Several respondents expressed concern about providing the proposed disclosures on both interim and annual bases. These respondents requested that interim disclosures not be required unless a significant change has occurred from annual disclosures.

118. *Core deposit liabilities (back to outline)* – Several respondents, including a few users, generally agreed with the proposed disclosure requirements related to core deposit liabilities. They stated that these disclosures would provide decision-useful information.

119. However, most respondents, including a user, disagreed with these proposed disclosure requirements. These respondents noted that the information provided through these disclosures would be internally generated and highly judgmental. Therefore, they questioned whether the disclosures would be comparable across entities. These respondents also stated that the terms *all-in-cost-to-service rate, implied weighted-average maturity,* and *core deposit liabilities* are not adequately defined to result in comparable or decision-useful information. Some of these respondents asserted that the definition of *core deposit liabilities* may not be consistent with industry practice and regulatory requirements. These respondents also stated that these disclosures would require an entity to provide proprietary information, which would put it at a competitive disadvantage. Several other respondents recommended that these disclosures be considered as part of the project on liquidity and interest rate disclosures.

120. *Other* *(back to outline)* – A few respondents recommended that the proposed disclosures be evaluated in combination with those required by regulators. Several other respondents suggested that the proposed disclosures be reconsidered in context of the project on disclosure framework.

121. A few respondents, including a user, also recommended that the proposed disclosure requirements include a disclosure regarding how an entity should determine the classification of financial assets. This disclosure would explain how an entity decides the classification of assets using the cash flow characteristics test and the business model assessment.

VIII. Equity Method of Accounting *(back to outline)*

Held-for-sale Indicators *(back to outline)*

122. Some respondents agreed with the proposed requirements that equity investments that are held for sale should be accounted for at FV-NI, but expressed concern that the proposed indicators for held-for-sale indicators are too broad and would result in many equity method investments meeting the proposed indicators. In contrast, a majority of the respondents did not support the proposed change and, instead,

support the current guidance on the equity method of accounting coupled with an unconditional fair value option as an appropriate accounting model for equity investments if the investor has the ability to exercise significant influence.

123. A majority of respondents commented that the definition of *held for sale* was too encompassing and would result in unintended consequences. For example, certain joint ventures or limited-life partnerships have defined termination dates or other pre-defined exit strategies in their legal formation agreements. Similarly, these respondents noted that tax credit generating investments (for example, low income housing tax credit) or investments with a put option may also meet the proposed held-for-sale indicators. Many respondents expressed concern that measuring these investments at fair value would be inconsistent with the underlying business model and economic nature of these investments because these investments are often held for strategic reasons. As a result, these respondents proposed modifying the held-for-sale guidance to narrow the population of investments to those that are consistent with a fair-value-based business model or allowing a fair value option for these types of investments.

124. Furthermore, many respondents also expressed concern about the potential abuse of a broad definition of *held for sale* that may enable an entity to avoid equity method accounting. Some respondents recommended replacing the held-for-sale indicators with a business strategy indicator, which they noted would promote more consistency with the treatment of other financial assets. Some respondents also noted that Subtopic 360-10, Property, Plant, and Equipment, provides held-for-sale guidance and recommended that the Board consider the applicability of those indicators to equity method investments that are held for sale.

125. Some respondents noted that the held-for-sale indicators would reduce comparability by introducing a new measurement basis. That is, equity method investments that are held for sale may qualify for the practicability exception and, thus, increase the number of measurement attributes from two under current U.S. GAAP (equity method and fair value) to three measurement attributes (equity method, fair value, and practicability exception). These respondents requested

clarification on whether the Board intended the practicability exception to apply to equity method investments that are held for sale. Several respondents also commented on the lack of convergence between IFRS and U.S. GAAP on the equity method of accounting and requested that the Boards converge on this topic.

126. Some respondents also noted that the Board should consider whether the held-for-sale assessment should be performed after initial recognition. These respondents also requested clarification on the accounting if an investor that currently accounts for its equity investment using the equity method and subsequently acquires additional interest in the entity, whether the investor should reassess the entire equity investment under the new held-for-sale requirements. Furthermore, many respondents also noted that the Board should consider allowing reclassifications if an equity investment no longer qualifies or meets the held-for-sale indicators.

Fair Value Option for Equity method Investments *(back to outline)*

127. Many respondents expressed concern about the elimination of the unconditional fair value option for equity method investments. These respondents noted that an entity should be able to choose the most appropriate accounting model that aligns with its business strategy and risk management approach. These respondents noted that a fair value option can reduce complexity by providing a necessary tool that can avoid earnings mismatches. Other respondents noted that they may be required to apply the equity method of accounting, despite their passive investment in the entity which would be better reflected on a fair value basis. For example, some respondents asserted that practice often uses the fair value option for investments that may not meet the criteria for investment company accounting, but are managed like a fund on a fair value basis. These respondents stated that fair value is a more appropriate measurement attribute than the equity method for these types of investments.

128. Furthermore, respondents noted that there are operational challenges with applying the equity method because there can be considerable delays in the timing of the reporting by the investee, which is often the case with private entities in foreign jurisdictions. Other respondents supported the unconditional fair value option on

the basis that fair value is the most representationally faithful measurement of the investment and the availability of the fair value option for these investments mitigates some of the concerns about the usefulness of the information provided under the equity method of accounting.

Impairment Model *(back to outline)*

129. Respondents generally had mixed views on the one-step impairment approach. While many respondents support the use of qualitative factors consistent with the qualitative assessment for goodwill and long-lived asset impairment, many expressed concern with other aspects of the proposed equity impairment model. Many respondents expressed concern that the one-step impairment model would lead to recognition of impairment losses without a provision to reflect subsequent changes in the economics of these investments. These respondents generally favored either retaining the current other-than-temporary impairment model or requiring subsequent reversals of impairment losses. Other respondents requested that the Board retain the current impairment guidance until the Board decides to holistically reassess the entire equity method model.

130. Some respondents commented that the proposed one-step impairment model for equity method investments would result in equity method investments being effectively carried at the lower of equity method or fair value. These respondents further noted that for certain private entity equity investments with a readily determinable fair value, these investments will be marked to fair value in periods where the fair value is less than the carrying value, which they view as driving additional complexity in understanding the resulting measurement.

IX. Nonfinancial Hybrid Instruments *(back to outline)*

131. Respondents generally supported the guidance related to *nonfinancial* hybrid instruments on the basis that the guidance for these instruments is symmetrical to the proposed accounting for hybrid *financial* instruments. Some respondents cited disagreement with the proposed guidance on nonfinancial hybrid assets on the

same basis as their disagreement with the proposed Update's amendments which would require hybrid financial assets to be classified in their entirety at FV-NI. These respondents preferred to retain the current bifurcation and separate accounting model coupled with the ability to elect an unconditional fair value option for such instruments.

132. One respondent requested clarification on why an entity would need to assess certain conditions for electing the fair value option for hybrid financial liabilities in paragraph 825-30-15-3, while similar conditions are not required to be assessed to elect the fair value option for *nonfinancial* hybrid liabilities. Furthermore, another respondent requested clarification of the accounting for hybrid contracts that contains an embedded derivative subject to bifurcation but the host contract is not recorded as an asset or liability on the balance sheet, for example, contracts to provide future services, operating leases, and commodity purchase contracts. This respondent requested clarification about whether an entity should continue to apply the bifurcation requirements in Subtopic 815-15 for these types of hybrid contracts.

X. Transition and Effective Date (back to outline)

Early Adoption of Proposed Instrument-Specific Credit Risk Presentation Requirements *(back to outline)*

133. Most respondents, including users, agreed that an entity should be permitted to early adopt the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that are measured at FV-NI by electing the fair value option. Several of these respondents recommended that early adoption of the proposed presentation requirements should be extended to all financial liabilities that qualify for the fair value option under current U.S. GAAP. A few respondents also requested that the Board permit early adoption of the requirement to recognize separately in net income changes in fair value attributable to foreign currency gain or loss on foreign-currency-denominated debt securities measured at FV-OCI.

134. Some respondents disagreed with permitting early adoption of these proposed presentation requirements. These respondents asserted that comparability between periods and across entities would be compromised.

Effective Date for Public and Nonpublic Entities (back to outline)

135. Respondents were generally divided regarding whether the effective date should be the same for both public entities and nonpublic entities, with a slight majority recommending a one-year deferral of the effective date for nonpublic entities. These respondents noted that nonpublic entities have limited resources and could learn from the implementation experiences of public entities.

Time to Implement (back to outline)

136. Most respondents agreed that at least two or three years would be needed to implement the proposed guidance. These respondents noted that they would need to implement and test changes to information systems and financial reporting processes, develop and test new internal controls, and create new disclosures.

137. Many respondents requested that the effective date of this proposed Update be aligned with the effective dates of the guidance on credit losses and insurance contracts. Some other respondents also recommended that the effective date of this proposed Update be the same as the effective date of IFRS 9.

Transition Provisions (back to outline)

138. Respondents generally agreed with the transition provisions in the proposed Update. A few respondents suggested that the Board continue to evaluate these transition provisions to ensure consistency with the transition provisions proposed in the project on insurance contracts.

139. Some respondents requested clarification of whether an entity would be required to assess the cash flow characteristics and the business model for managing financial assets based on the terms of the instrument as of the date of initial adoption or the original terms (at initial recognition). A few respondents also requested clarification of whether an entity would be required to evaluate whether an existing

equity method investment would have been considered held for sale upon initial qualification for the equity method or at the date of initial adoption of the proposed guidance.

140. Several respondents recommended that the reclassification guidance in paragraph 825-10-35-23(a)(2) be applicable (as transitional guidance) to all financial instruments, including equity method investments, for which an entity has elected the fair value option under current U.S. GAAP but would no longer qualify for the fair value option under the proposed Update. A few respondents requested clarification for the guidance in paragraph 825-10-65-2(d), which would permit early adoption of the presentation guidance related to changes in instrument-specific credit risk of those *hybrid* financial liabilities that would qualify and be measured at FV-NI as if an entity had elected the fair value option in paragraphs 825-30-15-2 through 15-3. These respondents noted that the fair value option in paragraph 825-30-15-2 is not limited to *hybrid* financial liabilities and, therefore, paragraph 825-10-65-2(d) needs to be amended to remove the reference to *hybrid* financial liabilities.

April 2013 Proposed Update

I. General Feedback *(back to outline)*

141. Several respondents commented on whether the proposed consequential amendments that would result from the February 2013 proposed Update had been appropriately reflected. A few respondents agreed that the proposed consequential amendments had been appropriately reflected, while other respondents provided specific comments related to other areas of U.S. GAAP that potentially could be affected by the February 2013 proposed Update. These detailed comments are not reflected in this memo and the staff will separately review and analyse these comments before issuance of the final Update.

142. Most respondents also agreed that all guidance related to financial instruments in various Topics in the Codification should be consolidated into a single Topic. These respondents stated that consolidating this guidance would reduce complexity and confusion. However, a few respondents disagreed. They noted that the current structure separates the guidance by type of financial instrument, which makes understanding the scope and applicability of the guidance easier.

143. Most respondents generally disagreed with eliminating the fair value option in current U.S. GAAP for financial instruments excluded from the scope of the February 2013 proposed Update (for example, guarantees, contingencies, rights and obligations of insurance contracts and warranties, and certain firm commitments). Many of these respondents favored retaining an unconditional fair value option similar to current U.S. GAAP. The feedback on the fair value option also is discussed in paragraphs 67–74 of this memo.

144. Several respondents also commented on the proposed consequential amendments to the hedging Subtopic in paragraph 815-20-25-43. These respondents noted that the proposed amendments would carry forward the restriction of designating as a hedged item or transaction, the risk of changes in fair values or cash flows attributable to interest rate risk of a *debt security* classified at amortized cost (or held to maturity under current U.S. GAAP). These respondents disagreed with the proposed amendments and recommended that hedge accounting be permitted for debt securities classified at amortized cost because the proposed Update does not distinguish classification based on the legal form of the instrument and prohibiting such risks from designation would be inconsistent with the guidance that would permit such risk to be eligible for designation for loans.