

February 12, 2016

Russell G. Golden
Chairman
Financial Accounting Standards Board
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Norwalk, CT 06856-5116

Via email: director@fasb.org

File Reference: 2015-350 *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*

Dear Chairman Golden:

The American Bankers Association¹ (ABA) appreciates the opportunity to comment on the exposure draft *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (ED). The ED seeks to improve the effectiveness of fair value disclosures in financial statements. Certain fair value disclosures are eliminated, while others are modified. In addition, two schedules are added:

1. Unrealized gains and losses included in net income and other comprehensive income, disaggregated by level of fair value hierarchy, and
2. For Level 3 fair value measurements for public business entities, disclosure of the range, weighted average, and time period used to develop significant unobservable inputs.

Disaggregation of Unrealized Gains and Losses

ABA opposes the proposal to disaggregate unrealized gains and losses by level of fair value hierarchy. This will require significant changes to subsidiary ledger data, as currently very few, if any, banks or custodial clients of their trust departments track their related assets by hierarchy, nor differentiate between unrealized and realized gains losses in their fair value portfolios. The requirement to report the gains by hierarchy may also create confusion in instances when an instrument in one hierarchy level (for example, Level 1) is economically hedged by an instrument is a different hierarchy level (such as Level 2).

While there currently are processes to derive similar Level 3 information, in general these processes are manual and operationally intensive. This manual disclosure process accommodates the nature of Level

¹ The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's \$14 trillion banking industry and its two million employees.

3 assets (lower volume, lower turnover with significant modeling required). Assets with Level 1 and Level 2 inputs have very high volumes and transaction frequencies in the fair value portfolios, and, thus, will require overhaul of transaction systems for every applicable financial instrument, and of the general ledgers.

With the arduous task involved in its preparation, we question the decision-usefulness of such information. Unrealized gain and loss information is already provided in various disclosures related to investments, derivatives, and instruments accounted for through the fair value option. Therefore, it is unclear what incremental value a user of the financial statements will derive, and is unlikely to outweigh the significant costs.

Disclosure of Weighted Averages and Time Periods

While the explicit requirement on schedule of Level 3 fair value measurement inputs is new, in practice, many banks have generally complied with most parts of the proposed schedule, with the exception of the time period used to develop significant unobservable inputs and the weighted average for derivatives portfolios. This is because the current implementation example in Accounting Standard Codification paragraph 820-10-55-103 has included all the other aspects of the new requirement, and the SEC has encouraged close adherence to the example. Many smaller banks that qualify as public business entities (PBEs) under the FASB's current definition, report either the range or the weighted average of assumptions, but not both. Further, many of these banks are newly-considered PBEs and will need extra time in implementing internal control systems to report both the weighted average and range of assumptions used. We believe these banks can implement the new requirement no earlier than year end 2017.

We oppose the requirement to disclose the time period used to develop unobservable inputs and question its usefulness. In developing inputs, historical experience is normally used. However, such time periods are neither distinct variables in a system nor otherwise readily available. As is commonly performed with other estimates based on historical experience, the data can be adjusted in order to provide the most relevant basis for a fair value estimate. Such adjustments can appropriately exclude certain transactions or periods of transactions (such as those found during the financial crisis or during specific times of the year) that may be considered outliers, as well as weighting transactions based on the age or size of the transaction. In such cases, the disclosed time periods can be very misleading and any attempt to discuss the methodology will further confuse users with unnecessary detail.

Due to the unique aspects of derivative accounting, we also oppose the requirement to calculate a weighted average for derivative portfolios. It is unclear, for example, how to meaningfully calculate a weighted average for instruments that individually can be a receivable or a payable in any given period, and also for instruments in which counterparty netting is applied. This requirement should be omitted from the final standard.

In regards to the other aspects of the ED, we are encouraged that FASB is proposing eliminating certain disclosures and support these proposals. We also support the proposal to limit the schedule of Level 3 inputs (discussed above) to only public business entities (PBEs), as users of non-PBE financial

statements will already have access to request such information and the relative cost of preparing and auditing the specific information is high for these entities.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael L. Gullette". The signature is fluid and cursive, with the first name "Michael" and last name "Gullette" being more legible than the middle initial "L.".

Michael L. Gullette