

October 5, 2015

Susan Cospers
Technical Director
Financial Accounting Standards Board
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PO Box 5116
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By email: director@fasb.org

Re: EITF-15E - Contingent Put and Call Options in Debt Instruments

Dear Ms. Cospers,

The International Swaps and Derivatives Association's ("ISDA")¹ Accounting Policy Committee appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB" or the "Board") Proposed Accounting Standards Update *Derivatives and Hedging (Topic 815): Contingent Put And Call Options In Debt Instruments* (the "Exposure Draft"). Collectively, the membership of ISDA has substantial professional expertise and practical experience addressing accounting policy issues with respect to financial instruments and specifically derivative financial instruments. This letter provides our organization's overall views on the Exposure Draft and feedback to your questions for respondents.

Overview

ISDA welcomes the clarification provided by the Exposure Draft on treatment of contingent puts and calls. We believe that the clarifications to Topic 815 provided in the Exposure Draft will alleviate concerns about the treatment of these contingent options and reduce existing diversity in practice.

The vast majority of ISDA member firms agree with the Exposure Draft's conclusion that in order to determine whether contingent options are clearly and closely related to the debt host contract, the economic characteristics and risks of the contingent options should be assessed

¹ Since 1985, the International Swaps and Derivatives Association has worked to make the global derivatives markets safer and more efficient. ISDA's pioneering work in developing the ISDA Master Agreement and a wide range of related documentation materials, and in ensuring the enforceability of their netting and collateral provisions, has helped to significantly reduce credit and legal risk. The Association has been a leader in promoting sound risk management practices and processes, and engages constructively with policymakers and legislators around the world to advance the understanding and treatment of derivatives as a risk management tool. Today, ISDA has over 800 member institutions from 68 countries. These members comprise of a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. ISDA's work in three key areas – reducing counterparty credit risk, increasing transparency, and improving the industry's operational infrastructure – show the strong commitment of the Association toward its primary goals; to build robust, stable financial markets and a strong financial regulatory framework. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

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solely under the four-step decision process outlined in ASC 815-15-25-42. We believe this conclusion will simplify the process of assessing contingent puts and calls. We do not believe that an assessment of whether the triggering event is related to interest rate risk or credit risk is necessary in order to understand if the option is clearly and closely related to the host contract.

Responses to FASB's Questions for Respondents

Question 1: Do you agree that the assessment of whether a contingent call (put) option in a debt instrument that can accelerate the repayment of principal is clearly and closely related to its debt host should require only an assessment of the four step decision sequence and not an additional assessment of the event that triggers the ability to exercise the call (put) option? If not, why?

As noted above in our overview remarks, the vast majority of ISDA member firms agree that the assessment of whether a contingent call or put option in a debt instrument that can accelerate the repayment of principal is clearly and closely related to its debt host should require only an assessment of the four-step decision sequence. Our stance is rooted in the fact that we agree with the argument made by the Task Force in BC9 of the Exposure Draft that “an assessment of the contingent event itself may create complexity in financial reporting with limited benefit to financial statement users because it may require an entity to value an embedded derivative whose value typically is small or zero at inception and continues that complexity going forward for events that may have a low likelihood of occurring”. Therefore, we believe the four-step approach to be the most appropriate method for assessing these features. Further, we believe that requiring only the four-step test will simply the process of assessing these contingent puts and calls.

Question 2: Do you agree that the effects of the proposed amendments should be applied on a modified retrospective basis as of the beginning of the fiscal year, and interim periods within that fiscal year, for which the proposed amendments are effective? If not, why?

Yes, we agree that the effects of the proposed amendments should be applied on a modified retrospective basis. We believe that the modified retrospective approach would be the simplest, most efficient manner of implementing this guidance to existing debt instruments and would result in the most useful information for the users of the financial information.

Question 3: Do you agree that a reporting entity should have a one-time option, as of the beginning of the fiscal year for which the proposed amendments are effective, to irrevocably elect to measure a debt instrument affected by the proposed amendments in its entirety at fair value with changes in fair value recognized in earnings? If not, why?

Yes, we believe that in applying the modified retrospective approach, entities should get another opportunity to elect the fair value option on those instruments with the previously-bifurcated contingent options. In other words, when amending the financial statements to reverse the bifurcation, the entity should be given the opportunity to elect the fair value option on the hybrid instrument, as their previous decision whether or not to elect the fair value option was likely influenced by the bifurcation of that contingent option. Therefore, in applying these proposed amendments, they should be given the opportunity to revisit this decision.

Question 4: How much time would be needed to implement the proposed amendments and should the implementation period for entities other than public business entities differ from the implementation period for public business entities? Should early adoption be permitted? Please explain why.

In our opinion, implementation of this guidance would be a very straightforward process and therefore would not require a substantial amount of time. We believe that this is true for both public and non-public business entities. Therefore, we believe that this guidance should be effective upon issuance. If the FASB determines that the guidance should not be effective upon issuance, then we believe that early adoption should be allowed so that entities can discontinue bifurcating embedded derivatives in a timely manner.

Question 5: Should a reporting entity be required to provide the transition disclosures specified in this proposed Update? Should any other disclosures be required? If so, please explain why.

We agree with the FASB's conclusion that entities should be required to provide the transition disclosures outlined in ASC 250-10-50-1(a), 250-10-50-1(b)(3) and 250-10-50-2. We do not believe that any other disclosures should be required in order to give financial statement users sufficient information to understand the change.

Closing

We hope you find ISDA's comments and responses informative and useful. Should you have any questions or desire further clarification on any of the matters discussed in this letter please do not hesitate to contact the undersigned.

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