April 30, 2015

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By email: director@fasb.org

Re: File Reference No. 2015-220 – Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives

Dear Ms. Cosper,

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): Disclosures About Hybrid Financial Instruments with Bifurcated Embedded Derivatives* (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.

ISDA is concerned that the Exposure Draft will create additional costs for preparers and users without providing any incremental increase in transparency or decision-usefulness for investors. We believe that reporting entities already provide the most meaningful information regarding bifurcated embedded derivatives and their related host contracts, and do not believe that the Board has demonstrated that these instruments are subject to unique risks that make the current unlinked disclosures for derivatives and debt host instruments insufficient to convey an understanding of hybrid instrument risks and potential cash flows. Further, we believe that once the Board has an understanding of the general immateriality of the amounts to which this quarterly disclosure requirement relates, it will agree that the costs of data collection, control, Sarbanes-Oxley compliance, and audit clearly outweigh the benefits.

[1] Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA has over 800 member institutions from 66 countries. These members include a broad range of OTC 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 including exchanges, clearinghouses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

Benefits and Costs

The benefit of the proposed disclosures cited by the Board is the improved usefulness of the information reported about bifurcated embedded derivatives and their related host contracts. Specifically, the Board believes that linking each bifurcated embedded derivative to its related host contract through these incremental disclosures would provide investors with more decision-useful information that reflects the overall economics and cash flows for the entire hybrid financial instrument. However, we do not believe that there is sufficient basis for the view that linked disclosures provide greater risk transparency for instruments with embedded derivative risks than do the current derivative disclosures applicable to bifurcated embedded derivatives. There are numerous other examples of non-financial contractual arrangements that contain multiple elements that are individual units of account for which a lack of contract level disclosure linkage is not deemed an issue.

<u>Scope</u>

Issuers

First, the scope of instruments disclosed will be much more limited than the Board may realize. The vast majority of the instruments with bifurcatable embedded derivatives have been elected by most large issuers for the fair value option ("FVO"), and thus would be rightfully out of scope of the disclosures. FVO-elected instruments are subject to the fair value and fair value option disclosure requirements in Topic 820 and Topic 825, including the fair value information to enable users to understand the differences between fair values and contractual cash flows for certain items, and the line item in the statement of financial position. For the majority of our members, the only structured notes for which the FVO has not been elected are non-financial instruments, which (prior to bifurcation) are not eligible for the FVO election[2]. As such, we believe that the proposed disclosures will only result in disclosures for a handful of issuers, while imposing costs on all of them.

Investors

Further, the investors in structured notes are typically high net worth individuals, asset managers, insurance companies, pension funds, and hedge funds. Many of these investors would either not be subject to financial reporting in general, or would report their investments at fair value in their entirety. Our members generally do not bifurcate structured notes purchased because they are held in trading portfolios, and typically limit their purchases of structured notes to facilitate market-making requirements. Therefore, we do not see the disclosure requirement as being broadly applicable or useful for structured notes on the asset side of the statement of financial position.

<u>Risk</u>

Issuers

Second, since the issuer has collected the cash upfront from the investor and the coupon of the instrument typically relates solely to the embedded derivative, the entirety of the issuer's risk in the instrument lies in the bifurcated embedded derivative, and not in the host. Given this concentration of risk in the element that is already subject to very detailed disclosures in Topic 815, we do not understand the basis for a view that issuers of bifurcated embedded derivatives require further disclosure, or that "linkage" would provide any additional transparency.

[2] Most large issuers of commodity linked structured notes elect the fair value option for the host contract after bifurcation of the commodity (non-financial) derivative. These hybrid instruments would be in scope of the disclosures in the Exposure Draft, as well as in the scope of the Topic 815 Derivative Disclosures, Topic 820 Fair Value Disclosures, and Topic 825 Fair Value Option disclosures for the host contract.

Current Presentation - Linkage
Third, consistent with remarks made by a staff member of the U.S. Securities and Exchange Commission ("SEC"), it is our understanding that most large issuers are already linking the presentation of embedded derivatives with their respective host contracts by including both elements in the line item of the host contract in the statement of financial position.[3]

Cost
Fourth, we are concerned that the Board may largely underestimate the cost of collecting, evaluating, controlling, testing, documenting, and auditing the decision to not provide disclosure because the amounts are immaterial. Merely because amounts to be disclosed are available does not mean that a proposed disclosure requirement is without meaningful cost, even if such amounts are immaterial and not ultimately disclosed. We would be happy to further discuss with the Board the specific processes required to support a disclosure requirement, regardless of whether the preparer ultimately judges the amounts to be immaterial. Although we disagree with the overall usefulness of the disclosures in the Exposure Draft, should the Board decide to finalize any bifurcation-related disclosure requirements, we feel strongly that the information should be limited to annual disclosures only, as most issuers' structured notes activity does not change meaningfully from period to period.

Finally, we also believe that the costs of the proposed disclosures will not only be borne by financial statement preparers, but also by investors. Users of financial statements may, in fact, incur increased costs related to analyzing and interpreting the financial statements, as the additional information only serves to clutter the financial statements and obscure other more relevant information.

Closing

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

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[3] Remarks by E. Michael Pierce, Professional Accounting Fellow in the Office of the Chief Accountant of the U.S. Securities and Exchange Commission, at the Twenty-Eighth Annual National Conference on Current SEC Developments on December 4, 2000.