



February 29, 2016

*Via Electronic Mail*

Mr. Russ Golden  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-05116

Re: **FASB File Reference No. 2015-350: Fair Value Measurement (Topic 820) — Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement**

Dear Chairman Golden:

The Clearing House Association L.L.C. (“The Clearing House”),<sup>1</sup> an association of major commercial banks, is pleased to comment on the above-referenced Exposure Draft on Topic 820 (the “ED” or “Proposal”) released by the Financial Accounting Standards Board (the “FASB” or the “Board”). The Clearing House strongly supports efforts to improve the efficiency and effectiveness of disclosures, and therefore supports the FASB’s recent initiatives, including this ED, to review existing standards and ensure that they incorporate the ability for preparers to apply materiality determinations and eliminate disclosures deemed irrelevant and/or immaterial. However, we have significant concerns with the additional disclosure requirements that the Board proposes related to the unrealized gains and losses for Level 1 and Level 2 fair value measurements, the disclosure of the time period used to develop significant unobservable inputs, and the weighted average thereof, as discussed further below.

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<sup>1</sup> The Clearing House is a banking association and payments company that is owned by the largest commercial banks and dates back to 1853. The Clearing House Payments Company L.L.C. owns and operates core payments system infrastructure in the United States and is currently working to modernize that infrastructure by building a new, ubiquitous, real-time payment system. The Payments Company is the only private-sector ACH and wire operator in the United States, processing nearly \$2 trillion in U.S. dollar payments each day, representing half of all commercial ACH and wire volume. Its affiliate, The Clearing House Association L.L.C., is a nonpartisan organization that engages in research, analysis, advocacy and litigation focused on financial regulation that supports a safe, sound and competitive banking system.

## Executive Summary

Overall, the Clearing House has the following observations and recommendations:

- **Materiality**: The Clearing House strongly supports the FASB's effort to reinforce that a reporting entity should assess disclosures on the basis of whether they are material, as we believe that materiality is first and foremost a reporting entity-specific concept, and that preparers of financial statements are best positioned to make determinations regarding materiality;
- **Elimination and Modification of Specific Disclosures**: The Clearing House supports the FASB's proposal to eliminate and modify the specific fair value disclosures as proposed, as we agree they are not meaningful;
- **Clarifications Regarding Measurement Uncertainty**: The Clearing House supports the proposed clarification that measurement uncertainty disclosures are intended to communicate information about the uncertainty in measurement as of the reporting date rather than information about sensitivity to changes in the future;
- **Additional Disclosures for Level 1 and Level 2 Fair Value Measurements and Amendments to Disclosure Objectives**: The Clearing House strongly opposes the FASB's proposal to require the disclosure of the changes in unrealized gains and losses for the period included in other comprehensive income and earnings (or changes in net assets) for recurring Level 1 and Level 2 fair value measurements, as the additional information is not decision-useful and in some cases could be misleading, and we believe that the costs of preparing the information would be significant with no perceived benefit. In addition, the proposed requirement is not consistent with the original disclosure objectives of Topic 820, and The Clearing House strongly opposes amending the disclosure objectives of Topic 820, as we believe the current disclosure objectives appropriately focus on the subjectivity of fair value measurement. Amending the disclosure objectives is a fundamental change to Topic 820 that would go beyond the stated objective of the ED;
- **Additional Disclosures for Level 3 Fair Value Measurements**: The Clearing House opposes the FASB's proposal to require the disclosure of the time period used to develop significant unobservable inputs, and the weighted average thereof, as we believe that this information would not be meaningful given the level of aggregation required to present it; and
- **Implementation Date**: The Clearing House believes that, if the proposals to provide the disclosures regarding Level 1 and Level 2 instruments are finalized as is, entities will need at least two years from the date the ASU is finalized to allow for sufficient time to implement new systems to provide the information requested.

A detailed discussion of each of these matters is provided below.

## Discussion

### **A. Entities should be permitted to assess disclosure requirements on the basis of whether they are material.**

We strongly believe that materiality decisions are best made by the reporting entity, and the Board should establish requirements that are not so prescriptive that they preclude reporting entities from making materiality judgments. We believe that providing immaterial information often acts to obscure more relevant information in financial statements, thereby undermining their overall

usefulness. Thus, we believe it is critical that preparers have the flexibility to exercise discretion and judgment in determining whether a particular disclosure is material to the reporting entity.

Accordingly, we support the proposed changes in the ED that would reaffirm that a reporting entity can assess disclosures on the basis of whether they are material, including the proposals to:

1. Explicitly state that an entity shall provide required disclosures if they are material (Accounting Standards Codification (“ASC”) 820-10-50-1.c.);
2. Eliminate the phrase “an entity shall disclose at a minimum,” which makes it difficult to justify omitting immaterial disclosures, and similar phrases; and
3. Refer readers to Topic 235 for discussion of the appropriate exercise of discretion.

We further support the FASB’s initiative to apply this approach to all of its standards.

**B. The elimination and modification of certain disclosures as proposed will improve fair value disclosures overall by removing unnecessary information and thereby may allow investors to focus on more relevant information.**

We agree with the Board’s proposal to eliminate the requirement in ASC 820-10-50-2.(bb) to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. We agree with the Board’s reasoning that this information is unnecessary, because the usual reason for a measurement change from Level 1 to Level 2 or vice versa is a change in the availability of market prices, which is already embedded within the definitions of Level 1 and Level 2 in the fair value hierarchy.

We also support eliminating the disclosure in ASC 820-10-50-2.(bb) of the timing of transfers between levels; as long as an entity follows its policy consistently, we do not believe the actual timing of the transfer is deemed significant or particularly relevant by investors.

In addition, we support eliminating disclosure on the valuation policies and procedures for Level 3 fair value measurements, as, in many cases, it results in generic disclosures that add little to an investor’s understanding of the fair value measurements. We believe that reporting entities should have the discretion to determine whether the valuation policies and procedures for Level 3 fair value measurements should be disclosed, *i.e.*, in cases when it will provide meaningful information.

Finally, we support the proposed modifications for investments in entities that calculate net asset value (“NAV”) (*i.e.*, investment management companies) in ASC 820-10-50-6A.b. and e., to require disclosure of the timing of liquidation of an investee’s assets and the date when restrictions from redemption will lapse only if the investee has communicated the timing to the entity or announced the timing publicly. We agree that, absent actual disclosure by the investee regarding such liquidations or redemptions, the disclosure represents merely an estimate regarding the timing of a future event and is irrelevant to the measurement of these assets (*i.e.*, it is not used as an input to the NAV).

In summary, we believe that each of these proposed amendments would eliminate information that is not meaningful and therefore result in more effective, decision-useful information about fair value measurements.

**C. The clarifications regarding measurement uncertainty are useful.**

We support the Board's proposal in ASC 820-10 50-2.g. to clarify that the measurement uncertainty disclosure is intended to communicate information about the uncertainty in measurement **as of the reporting date** rather than information about sensitivity to changes in the future. We believe this will provide a useful clarification to both preparers as well as users of financial information, and avoid any potential diversity in application or interpretation of this provision.

We also support the Board's affirmation of its previous decision to not require disclosure of the effect of reasonably possible alternative Level 3 inputs on the measurement of those items as an indication of measurement uncertainty. We agree that, due to the volume of valuation techniques, significant inputs, and correlation, it would be extremely difficult for the FASB to develop specific implementation guidance and examples. In addition, we believe it is unlikely that there would be any incremental benefit to users associated with such a disclosure once the information is aggregated by class of asset or liability.

We also agree with the Board's decision to not require disclosure of the degree of measurement uncertainty in fair value measurements, as we believe it would be difficult to develop an operable standard that would be comparable across entities, given the subjectivity of such a determination.

**D. The additional proposed quantitative disclosures for Level 1 and Level 2 fair value measurements should not be finalized as they are not decision-useful, would be costly to provide, and are inconsistent with the original disclosure objectives of Topic 820; amending the disclosure objectives of Topic 820 is unnecessary and beyond the scope of the ED.**

We do not support the proposed requirement in ASC 820-10-50-2.d. to disclose the changes in unrealized gains and losses for the period included in other comprehensive income and earnings (or changes in net assets) for recurring Level 1 and Level 2 fair value measurements held at the end of the reporting period, disaggregated by level. We understand why this information is required for Level 3 fair value measurements, given the increased amount of subjectivity that underlies the valuations for Level 3 assets and liabilities. However, because Level 1 and Level 2 fair value measurements are based on observable prices, we fail to see how this additional disclosure would be relevant to users.

The primary goals of the fair value disclosures as currently set forth in Topic 820 are to provide information regarding the valuation techniques and inputs used to develop an entity's fair value measurements; and to convey information regarding the effect of those measurements on earnings for Level 3 measurements. We note that the Proposal has now introduced two new items to the disclosure objectives, as set forth in ASC 820-10-50-1D: to provide users of financial statements with information about 1) the effects of changes in fair value on the amounts reported in financial statements; and 2) how fair value measurements change from period to period (objectives b. and d., respectively). We do not believe that adding to the disclosure objectives of Topic 820 is consistent with the FASB's stated objectives in this ED of 1) clarifying existing disclosure requirements and 2) applying the Board's proposed materiality ED to Topic 820. We believe the disclosure objectives of ASC 820 as currently set forth are appropriate, in that they focus on the subjectivity of fair value, which is the primary concern of

users of financial statements. Accordingly, we suggest that these additional objectives be deleted from the Proposal, in addition to the proposed requirement discussed above.<sup>2</sup>

We note that paragraph BC20 of the ED states that some users believe that “disclosure of the change in unrealized gains and losses for the period is a more beneficial disclosure than a rollforward because it provides information about the volatility of fair value measurements”; however it is unclear whether this “volatility” refers to measurement uncertainty at the reporting date, to the sensitivity to future changes in unobservable inputs, or indeed to some other concept.

Paragraph BC21 states that another reason the FASB is proposing this disclosure requirement is because it may be difficult for financial statement users to track changes in fair value instruments to the appropriate income statement line items. However, there are already numerous financial statement disclosures related to gain and loss information and income statement geography for instruments measured at fair value under other ASC guidance (such as those required for instruments for which the Fair Value Option has been elected), and we believe that where such disclosures are not explicitly required, they are typically provided by reporting entities.

We also note that providing this information could be misleading, for example, in instances when a Level 1 instrument is hedging a Level 2 instrument, or vice versa: unrealized gains and losses would appear to be higher when, in fact, an entity’s net earnings risk is flat.

In addition, we note that in general, Level 3 instruments represent a smaller and more limited population than Level 1 and Level 2 instruments. Expanding the disclosure requirement to Level 1 and Level 2 instruments, which can include thousands of positions, will require a substantial change to and investment in reporting systems, as the proposed disclosure information is not currently tracked for reporting purposes.

In sum, we are concerned because the costs of providing this information will likely be substantial, and we do not see any real benefits from providing it. Accordingly, we do not believe these proposed changes should be finalized.

**E. The additional proposed quantitative disclosures regarding Level 3 unobservable inputs likely will not provide meaningful information.**

With respect to the proposed amendments to ASC 820-10-50-2.bbb that would require a reporting entity to disclose the time period used to develop significant unobservable inputs, we do not believe that this information would be useful, not least because, once it is aggregated by asset class, it would generally prove to be virtually meaningless. In addition, we believe that analysts do not currently request this type of information, although they are aware that it is an input into the fair value

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<sup>2</sup> If the FASB intends on changing the overall disclosure objectives of Topic 820, we believe that it should specifically solicit feedback on this proposed change through issuance of a revised Proposal.

measurement process. Furthermore, providing this information would be operationally challenging, as this data is not typically linked to financial reporting systems and would have to be manually aggregated, thus creating additional costs for the reporting entity.

In addition, although generally currently disclosed by many companies, we believe the calculation of the weighted average of significant unobservable inputs is very difficult and there is diversity in practice on how the weighting calculation is performed and applied (i.e., by risk, mark to market, or notional, etc.), especially as it relates to derivatives. Furthermore, similar to the concerns regarding the time period used to develop significant unobservable inputs, we believe information regarding weighted averages becomes significantly less useful once it is aggregated by asset class. Accordingly, we do not believe this information should be added to the requirements.

**F. If additional quantitative Level 1 and Level 2 disclosures are required as proposed, the FASB should allow a two year implementation period for the Proposal when finalized.**

Overall, we believe that the proposals in the ED that eliminate unnecessary information will enhance the relevance of financial statements by enabling the user to focus on more relevant disclosures. However, as noted above, the proposals to provide the additional quantitative information for Level 1 and Level 2 instruments will be operationally challenging and costly for preparers. If these additional proposed requirements are finalized, entities will need at least two years from the date the ASU is finalized to allow for sufficient time to implement new systems to provide the information requested. We also ask the Board to consider the other significant projects affecting financial institutions that will be effective in the upcoming years and are already straining available resources.

**Conclusion**

In conclusion, we support the FASB's efforts to improve and enhance disclosures, and believe that many of the eliminations and clarifications proposed in the ED accomplish this objective. At the same time, we are concerned that the additional disclosures proposed in the ED as discussed above will not be useful, and the costs to provide them will be significant. We hope that you find our suggestions regarding areas of focus and improvement useful. We would be happy to meet with you in person to discuss these suggestions in more detail, or provide additional thoughts on any of our individual recommendations. If you have any questions, please contact me at (212) 613-0135 (email: [ryan.pozin@theclearinghouse.org](mailto:ryan.pozin@theclearinghouse.org)) or David Wagner at (212) 613-9883 (email: [david.wagner@theclearinghouse.org](mailto:david.wagner@theclearinghouse.org)).

Sincerely yours,



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