June 30, 2025

Mr. Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT, 06820

Re: File Reference no. 2024-ITC100

Dear Mr. Day,

The Securities Industry and Financial Markets Association's[1] Accounting Committee ("SIFMA" or "the Committee") welcomes the opportunity to comment on the Financial Accounting Standards Board's ("FASB's") File Reference No. 2025-ITC 100 Invitation to Comment - Agenda *Consultation* (the "ITC"). The Committee consists of global financial institutions that operate across the full spectrum of the global capital markets. Committee members have extensive practical experience in the application of US GAAP to financial instruments and capital markets transactions.

The Committee appreciates the FASB's efforts to align its agenda with the priorities of investors, users, preparers, and other stakeholders, and commends its recent success in improving the financial reporting for derivatives and hedge accounting to be published in the forthcoming Accounting Standards Updates ("ASU"). The Committee stands ready to be useful to the FASB in its future standard setting efforts related to the priority issues outlined herein as well as any other issues impacting its members.

Projects that SIFMA considers to be High Priority:

First, SIFMA requests the FASB add a project to improve Topic 860 as a high priority to be addressed on an expedited basis. As global financial institutions, we transact on a daily basis in the purchase and sale of financial assets in significant volume. Recognizing and derecognizing financial assets is fundamental to

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

the business of our members and our response to Question 23, requesting targeted improvements to Topic 860, Transfers of Financial Assets, reflects our deep experience in applying all aspects of this standard. We believe the effective control framework underpinning the derecognition of financial assets is sound and performs appropriately for the vast majority of transaction types, and therefore the sections of Topic 860 that we recommend reconsidering are targeted. With that in mind, we believe the Participating Interests rule should be eliminated or improved. In our experience, it creates significant practice issues, diversity in practice, and often results in unintuitive conclusions for commonplace transactions. The conceptual basis for the rule is unstated in Financial Accounting Standard 166, and we question its effectiveness in meeting any implicit objective that may have guided its development. In addition, we also ask the FASB to eliminate Topic 860's "lender gross up" in its entirety as it is inconsistent with the effective control framework and does not provide decision-useful information.

Second, the Committee asks that the FASB add a project that would provide a fair value measurement election for physical commodities traded or managed on a fair value basis by financial institutions. The Committee has been seeking fair value measurement for commodities inventories since prior to the FASB's 2008 "Accounting for Trading Inventory—*Potential FSP to Amend ARB 43*" and ask the FASB to prioritize this project in order to eliminate the longstanding measurement inconsistency within our consolidated entities depending on the type of subsidiary that holds commodities inventories. Given the success of the application of fair value measurement through the fair value option to financial assets and of the application of fair value hedge accounting to commodities inventory, we believe that including a fair value option within the industry guidance for financial institutions would be a straightforward and expeditious project.

Third, we ask the FASB to highly prioritize the initiation of a project to further improve the hedge accounting model in order to allow for important risk management strategies to qualify for hedge accounting. We believe significant improvements can be made by modifying certain pillars of the model (e.g., specificity in cash flow hedging), eliminating certain hedged item designation prohibitions (e.g., interest rate risk in Held-to-Maturity Securities), and other limited amendments. ASC 2017-12 – Derivatives and Hedging (Topic 815): – *Targeted Improvements to Accounting for Hedging Activities* was very successful at improving financial reporting as well as providing expanded opportunities for sound risk management, and the same potential exists for this project.

The Committee considered each of these high priority recommendations carefully. As preparers of global institution financial statements, we are among the stakeholder types that have the greatest potential for bearing any negative impacts from unintended consequences and the costs of accounting change. We believe the benefits of the above suggested improvements outweigh the costs and risks.

We urge the FASB to weigh the potential for such consequences and costs carefully before initiating large projects not listed above. We do not see the same high benefits available for other larger projects mentioned in the ITC and are concerned about the potential for negative consequences. We would, however, be supportive of certain narrow, targeted projects as noted in our responses to the Questions for Respondents.

We also recommend that the FASB not take on projects where the chances of achieving consensus are low including revisiting the frameworks for goodwill or classifying liabilities and equity, as we describe in the attached appendix. In such cases, there is a significant potential for a protracted project and a lack of broad support for the outcome. Given that potential, the status quo is more than likely a satisfactory conclusion among imperfect alternatives.

Thank you for the opportunity to submit our detailed views expressed in the attached Appendix, and we are happy to answer any questions you may have.

Sincerely,

Laurin Smith

Laurin Smith
Managing Director, JPMorganChase
Chair, SIFMA Accounting Committee
Laurin.T.Smith@JPMorgan.com

Kevin A. Zambrowicz
Deputy General Counsel
SIFMA

Appendix – Responses to Questions

Question 2: Which topics in this ITC, including those related to current technical and research agenda projects, should be a top priority for the Board? Please explain, including the following:

- **Why there is a pervasive need to change GAAP (for example, what is the reason for the change)**
- **How the Board should address this topic (that is, the scope, objective, potential solutions, and the expected benefits and expected costs of those solutions)**
- **Why is this topic a top priority and what is the urgency to complete standard setting on this topic (that is, how quickly the issues need to be addressed).**

Response: As discussed further in the responses below, that there are several projects that SIFMA believes are a high priority for the FASB to add to its agenda. First, as discussed in our response to Question 23, we believe the Participating Interests rule in Topic 860 should be eliminated or improved. In addition, we ask the FASB to eliminate that Topic's "collateral-swap" gross up in its entirety. Second, as discussed in our response to Question 53, we request that the FASB add a financial institutions-specific fair value option election for physical commodities inventory that is traded or managed on a fair value basis. Third, we ask the FASB to continue its recent successful efforts to further align the qualifications to apply hedge accounting with common risk management activities.

Question 3: Are there financial accounting and reporting topics in this ITC that the Board should *not* address as part of its future standard-setting efforts? Please explain why not, such as there is no pervasive need to change GAAP, the scope would not be identifiable, or the expected benefits of potential solutions would not justify the expected costs.

Response: SIFMA believes that most of the topics in the ITC, as noted in our responses below, should not be addressed as part of its near-term standard setting priorities. In those areas, SIFMA does not believe that there is a current pervasive need to change GAAP. In addition, we ask the FASB to consider the elevated risk of unintended consequences in projects that reconsider major sections of US GAAP.

Question 4: Are there any financial accounting and reporting topics beyond those in this ITC that should be a top priority for the Board to address? Please explain, including the following:

- **The nature of the topic**
- **The reason for the recommended change**
- **Whether the topic is specific to a subset of companies, such as public companies, private companies, or NFPs, or specific to a certain industry**

- **How the Board should address this topic (that is, the scope, objective, potential solutions, and the expected benefits and expected costs of those solutions)**
- **What is the urgency to complete standard setting on this topic (that is, how quickly the issue needs to be addressed).**

Response: The Committee does not believe that there are any additional project priorities for the FASB outside of the topics covered in the ITC.

Question 5: Does the equity method of accounting provide decision-useful information to investors that affect their capital allocation decisions? Please explain.

Response: Yes. SIFMA believes that in certain contexts (for our members; usually larger and strategic types of investments, including publicly traded investments, and tax equity investments), the equity method of accounting provides the most decision-useful information to investors and should continue to be an available recognition and measurement model. SIFMA strongly supports continuation of the fair value option election on an investment-by-investment basis, allowing preparers to choose what they believe to be the most meaningful presentation for investors and other users of the financial statements, weighing strategy, significance, access to financial information and operational considerations. However, the Committee believes some targeted improvements can be made to expand a preparer's practical ability to choose the measurement framework that is most appropriate for the particular equity investment.

The Committee recommends that the FASB eliminate the requirement in ASC 825 to measure at fair value all other financial interests in that same entity if fair value measurement is elected for the equity method investment. This rule can be quite limiting for financial institutions in which the main investment is typically a lending arrangement that is held for investment and measured at amortized cost. A typical fact pattern is that a tiny equity interest in the borrower is received as additional compensation for making the loan (e.g., the fair value is equal to 1% of the notional of the loan but deemed to be a "more than minor" interest in a partnership, trust or other similar legal structure[2]). We note that the fair value option is generally available for election at the unit of account level and it is unclear to us why the equity method investment exception to the general fair value option framework exists; we are also unable to identify a meaningful risk that this limitation would address.

Further, we recommend the FASB expand the scope for electing the measurement alternative to equity method investments that do not have readily determinable fair values. Currently, preparers are forced to choose between the complexity of the equity method or the complexity of fair value election estimations

[2] See ASC 323-30-S99-1

including for insignificant non-marketable equity investments. Determining fair values for non-marketable equity investments can be complex and costly due to the significance of unobservable inputs to the estimation. The measurement alternative, which provides for measurement at fair value when available, provides a simpler, less costly approach to the measurement of non-marketable equity investments. Expanding this election to the equity method investments will also similarly reduce complexity and cost, and address the short-comings of the equity method for certain investments.

Finally, we ask that the FASB clarify that a fair value option election is not required for equity method investments acquired by entities applying the AIPCA specialized accounting for Broker-Dealers to its inventory.

Question 6: Should the FASB consider requiring equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321? Please explain.

Response: We do not believe, in all cases, that equity method investments should be accounted for consistently with other equity investments in accordance with Topic 321. Please see our response to Question 5 for further information.

Question 7: If the FASB were to require equity method investments to be accounted for consistently with other equity investments in accordance with Topic 321, are there additional accounting matters (for example, accounting for transactions between investors and investees) or disclosures that would need to be considered? For public business entities, is there related industry-specific guidance that would need to be referred to the U.S. Securities and Exchange Commission (for example, the requirement to include financial statements of significant investees or oil and gas disclosures related to equity method investments)? Please explain.

Response: Other than the issues addressed in our response to Question 5, we do not believe that there are additional accounting matters or disclosures that should be considered.

Question 8: What challenges, if any, exist in applying the consolidation and equity method of accounting guidance to renewable energy and similar partnerships? Should the FASB address these issues through standard setting? If so, how should they be addressed (for example, by including HLBV guidance in the Codification, providing other guidance for complex profit-sharing arrangements, or eliminating the equity method [see also Question 6 of this ITC])? Please explain.

Response: The Committee believes that the current model is appropriately applied by financial institutions. We do not think that HLBV guidance should be addressed in the Codification and we do not support eliminating the equity method (please see our response to Question 5).

The issuance of ASU 2023-02 Topic 323: Investments – *Equity Method and Joint Ventures* was a significant improvement in the accounting for tax equity investments ("TEIs") since it allowed additional TEIs beyond Low Income Housing Tax Credits ("LIHTC") to elect to apply the proportional amortization method (PAM). We recommend the Board to further consider the following targeted enhancements:

- Expanding the scope of TEIs that qualify for the proportional amortization method by revisiting the economic thresholds described in ASC 323-740-25-1.aaa. (the "substantially all" test) and ASC 323-740-25-1.b. (the "positive yield" test), and
- Revisiting the requirement in ASC 323-740-25-3 that a liability be recognized for certain delayed equity contributions. This requirement results in a gross-up of assets and liabilities, impacts return calculations, and diverges meaningfully from the guidance for other investments accounted for using the equity method of accounting. While this method has the practical benefit that the asset cost basis being amortized does not need to be adjusted for subsequent investments, many of our members believe that this is not cost beneficial given the loss of comparability amongst equity investments and should therefore not be required. Entities that prefer to avail themselves of the practical benefit should be allowed a practical expedient with appropriate descriptive disclosure.

Another improvement the Board can consider is simplifying the equity method for TEIs that do not meet the criteria to apply PAM even though the reporting entity has elected to apply PAM to the tax credit program. The equity method of accounting for investments under programs for which PAM has not been elected should not be changed (for instance, where firms are applying the equity method of accounting for the investment and the deferral method of accounting for income taxes pursuant to Topic 740). For TEIs that do not meet the PAM criteria, as a simplification, the guidance could allow amortization of the basis of the investment in proportion to the total benefits received, with the portion related to the income tax benefits reported in income tax expense and the portion related to the non-income-tax benefits reported in pre-tax income. This would simplify the application of the equity method of accounting, better align the accounting to the economic benefits, create more consistency in the accounting for investments within a tax credit program and ensure that only tax-related amounts are reported in income tax expense.

Question 9: Should the FASB pursue a project to further revise the definition of a business? If yes, why is a change necessary and what improvements could be made to the definition? Please explain.

Response: We believe the current definition of a business should not be revised. Through the screen test, the current guidance is sufficient to distinguish an asset acquisition from a business and determination of the existence of inputs and a substantive process, etc. Additionally, the multiple examples in ASC 805-10-55-52 through 55-96 provide further illustrations of the definition of a business across various industries and assist with evaluations. While additional complex situations may arise warranting subjective analysis, not all such situations can or should be addressed, whether in a definition or illustration.

Question 10: Should the FASB consider defining the term *common control*? If yes, how should the term be defined and what would be the anticipated effect? Please explain.

Response: Although common control isn't explicitly defined, we do not see the need for the Board to define it. Existing guidance is available to help assess common control, and transactions may require subjective analysis that a definition might not cover. Additionally, ASC 805-50-15-6 provides examples of transactions that qualify as common control, which we find sufficiently helpful.

Question 11: Should the FASB prioritize a potential project to improve and align the guidance in any of these areas? If yes, what should be included in the scope and what alternatives should be considered? Please explain.

Box 1 sub-topic - The accounting for asset acquisitions in Subtopic 805-50 is incomplete and lacks specific guidance for certain items (such as contingent consideration, noncontrolling interests, income taxes and employee benefits). It may also be unclear when the guidance in Subtopic 805-50 applies versus when asset-specific guidance applies.

Response: We acknowledge that a lack of guidance in Subtopic 805-50 for asset acquisitions in certain targeted areas (e.g., contingent consideration) may cause diversity in practice, but believe any project on this topic should be a low priority, given other areas that we highlighted as high priorities (e.g., hedge accounting).

Question 12: Are there challenges in applying the pushdown accounting guidance in Subtopic 805-50? If so, what additional guidance is needed? Please explain.

Response: We believe that pushdown accounting is well-understood for public companies and note no immediate concerns with the current application of the optional guidance.

Question 13: If the FASB were to make targeted improvements to the liabilities and equity guidance in Subtopic 815-40, would you support those changes if they significantly changed current financial reporting outcomes? For example, would you support accounting for more contracts indexed to an entity's own equity as equity as compared with today? Please explain.

Response: We do not believe significant changes should be made to the fixed-for fixed model underpinning ASC 815-40, as it is suitably applied in practice. While we would be supportive if the Board plans to make limited targeted improvements to the liabilities and equity guidance to allow for more equity-linked contracts to be considered indexed to an entity's own equity, we note the complexity of the topic and are concerned about the high risk for unintended consequences if a broad scope project were to be initiated. Given the complexities the Board and stakeholders have wrestled with in previous liabilities and equity projects, we do not recommend the Board take on a broad project related to this topic.

Question 14: What targeted improvements, if any, to the liabilities and equity guidance in Subtopic 815-40 should the FASB consider making? For example, should the improvements focus on the indexation guidance in the Scope and Scope Exceptions Section of Subtopic 815-40, the settlement guidance in the Recognition Section of Subtopic 815-40, or both? Please explain.

Response: If the Board plans to make targeted improvements to Subtopic 815-40, we believe the changes should not result in instruments currently classified as equity to become liabilities. Any standard setting should focus on addressing the assessment of provisions that have a non-substantive impact on the overall contract but do not technically pass the fixed-for-fixed model. It would be an improvement to clarify that the presence of such non-substantive terms should not necessitate liability classification.

To address the challenges discussed in the ITC, such as the form over substance issue or frequent sources of misstatement, we believe the Board could make targeted improvements by incorporating the concepts of "remoteness" or "predominance" into the fixed-for-fixed principle and the conditions for equity classification as discussed in ASC 815-40-25-10.

Occasionally, terms are added that are necessary for various commercial purposes, but do not substantively change the fixed-for-fixed structure. We believe that as long as these settlement provisions are "remote" and do not have a "predominant" impact on the contract's overall settlement amount or settlement method, liability classification should not be required.

By retaining the existing guidance for exceptions and permissible adjustments and introducing the "remote" or "predominance" concept, we believe the revised framework would be better equipped to handle new market developments without causing substantive disruption to standard contract terms that currently satisfy the rules for equity classification. The accounting results would be more aligned with the substance of certain transactions, while not negatively impacting current equity transactions. While we believe the assessment of remoteness and predominance would help address certain practice issues, preparers should not be required to perform such an assessment for clauses that have been long accepted as permissible for equity classification.

Additionally, we believe the Board should retain the existing guidance on exceptions and permissible adjustments that do not preclude equity classification. These include items discussed in ASC 815-40-15-7E through ASC 815-40-15-7H and the guidance on down-round features. Many of today's contracts, such as standardized ISDA agreements, have been developed contemplating these exceptions and permissible adjustments. They are well understood in practice, and removing this guidance would likely generate additional costs, and uncertainty.

Question 15: Should the FASB consider revising the hedge accounting model? If so, what core aspects of the hedge accounting model should be amended or removed to allow hedge accounting to more accurately reflect the economics of an entity's risk management activities? Please describe why and how those core aspects should be amended or why they should be removed.

Response: Many SIFMA Accounting Committee members have participated in the development of the comment letter submitted by the ISDA North American Accounting Committee ("ISDA AC"). We agree with the ISDA AC that revising the hedge accounting model is a very high priority, and we urge the Board to begin the standard setting process as expeditiously as possible. We commend the Board's recent revisions to the hedge accounting model, begun in the project that became ASU 2017-12, Derivatives and Hedging (Topic 815): *Targeted Improvements to Accounting for Hedging Activities*. The Board's recent guidance has provided not only better alignment of financial reporting with risk management, but also, in some cases, allowed hedged items to be designated in qualifying hedge accounting relationships that were not technically or operationally feasible to designate prior to the Board's standard setting.

However, there remains much to be done in order to allow common economic hedge relationships to qualify for hedge accounting treatment. We support the amendments proposed in the ISDA AC comment letter and encourage the Board to consider the recommendations therein.

In this response, we wish to highlight certain issues discussed in the ISDA AC comment letter that are priorities for SIFMA members, and encourage the Board to:

1. Revise the cash flow hedge model to better align with the risk management objective of hedging variable interest rates generally, rather than identified cash flows specifically.
2. Remove the prohibition on interest rate risk hedges of held-to-maturity securities.
3. Revise the guidance to permit foreign exchange risk hedges where economic risks exist but do not qualify for hedge designation.

By addressing these key issues, the Board can bring hedge accounting closer to the economics of an entity's risk management activities. This alignment will not only reduce operational burdens but also enhance the transparency and usefulness of financial reporting, ultimately benefiting both preparers and users of financial statements.

Question 16: Should the FASB consider changing hedge accounting disclosures? If so, what changes could be made to hedge accounting disclosures and how would they better portray the economics of an entity's risk management activities? Please explain.

Response: We understand that users of financial statements find the existing disclosures to have limited usefulness in providing an understanding of the impact of hedge accounting on financial reporting. For preparers, these same disclosures are costly and complex to prepare. SIFMA would support a project to consider enhancements to the usefulness of hedge accounting disclosures, and to ensure that the benefits and the related costs of the amended disclosures are better aligned.

Question 19: Regarding derivative accounting, what other challenges (beyond those that would be addressed in the 2024 proposed Update on derivative scope refinements), if any, do you encounter in practice? Please explain.

Response: We commend the Board's efforts to right-size the scope for identifying items that would be accounted for as derivatives. Beyond the issues addressed in the forthcoming ASU, we do not have any additional recommendations at this time.

Question 20: There is currently a project on the research agenda that includes the accounting for derivative contract modifications. If the FASB were to prioritize a project on derivative modifications, what approach should be applied to assess and account for the modification of a derivative? Please explain.

Response: We encourage the Board to provide more prescriptive guidance for determining when a derivative modification has occurred and when the initial net investment test is or is not required to be performed. The absence of such guidance has led to the practice requirement for treating each modification of a derivative as a new instrument, regardless of the immateriality of the modification. Practitioners refer to ASC 815-10-55-148 through 55-168 (pre-codification DIG A23) for guidance on how to perform the initial net investment test. Application of this guidance creates illogical outcomes, particularly for interest rate swap amendments (i.e., blend and extend amendments) that occur during low interest rate environments. Because the present value of the at-market fixed rate leg of an amended swap would be very small in such environments, the test frequently produces hybrid instrument classification. In such cases, hedge accounting cannot be continued if the preparer does not have the systems or expertise to account for bifurcated derivatives and debt hosts. Additionally, the derivative's presentation on the statement of cash flows must also change for the “borrower”, creating additional complexity.

To address the low-rate environment issue, we recommend the Board develop a simplified qualitative model that would identify the magnitude of changes that would be permitted for a derivative to retain its original classification as a derivative. If a qualitative solution is not desired, we would recommend a quantitative assessment that would eliminate the market interest rate impact from the assessment of the magnitude of the amendment. Additionally, allowing some judgment in determining the classification of the amended swap based on its intended use, even in a quantitative assessment, would be advised.

Question 23: If the FASB were to pursue a project to consider improvements to Topic 860, what issues or transactions should it address? For those issues, please explain the challenges encountered in practice when applying the current guidance and what improvements should be considered.

Response: SIFMA strongly supports the expedited initiation of a project to improve Topic 860. In our view, the effective control framework underpinning the derecognition of financial assets is sound. However, there are issues with certain rule-based exceptions to the three core derecognition criteria upon which the effective control framework in Topic 860 is based, i.e., (1) The transferred asset is legally isolated from the transferor, (2) The transferee’s right to pledge or exchange the transferred asset is not constrained, and (3) The transferor does not maintain effective control over the transferred asset.

1. Eliminate or Improve the Participating Interest Criteria

We propose that the participating interest (“PI") rule under ASC 860-10-40-6A be eliminated in its entirety or reconsidered. We believe that the PI rule’s focus on pro-rata cash flows does not have any linkage back to the overarching principle within ASC 860 that derecognition occurs upon the transfer of effective control and, thus, it is unclear what the PI rule is intended to achieve or what risk it is intended to address. This leads to diversity in interpretation by preparers and auditors. Furthermore, preparers are often encouraged to lean into a “no derecognition” conclusion when a fact pattern requires judgment, which results in transferors continuing to recognize financial assets over which they no longer have effective control. This outcome distorts a transferor’s balance sheet by overstating assets and liabilities and mispresents its economic risk position, which ultimately results in the transferor having to provide information to the users of the financial statements that is not decision-useful while also having punitive regulatory capital consequences in the case of financial institutions. Accountants and auditors struggle to explain to their stakeholders, counterparties and investors why the PI rule overrides the ability to achieve a transfer of effective control of a financial asset.

In our experience, legal or structuring adjustments that lack commercial purpose are often needed to comply with the PI rule, or more frequently, the structuring adjustments needed to comply with the PI rule are not commercially viable. Consequently, our members are often compelled to choose between recognition of the transaction as a secured borrowing, which does not reflect the transaction's substance, legality, or economics, or forgoing the transaction entirely even when it is evident that control, risk, and economics of the financial assets (or portions thereof) have been transferred.

Moreover, we have not encountered scenarios involving a transfer of a portion of a financial asset where the three core criteria demonstrating transfer of control are undermined simply because the cash flows of that portion were not pro-rata to the cash flows of the entire asset. Thus, our members propose that the PI rule be eliminated and that the analysis instead focus on the existing derecognition criteria set forth in ASC 860-10-40-5. However, if the Board identifies such scenarios and/or explains the risk the PI rule is intended to address, we would support replacing the PI rule with a model that addresses these specific concerns.

As noted above, the application of the PI rule results in diversity in practice and conclusions, and the accounting outcomes are often not aligned with the legal interpretation, effective control, or economics of the transaction. If the Board does not agree with our recommendation to simply eliminate the PI rule, we highlight the following areas of the PI rule for improvement:

a. Lack of clarity on the legal analysis when determining whether an entire financial asset or a "portion" thereof is being transferred. There is diversity in interpretation on how to determine whether a "portion" of an asset was transferred. We propose clarifying that the analysis should focus on the terms of the transfer agreement between the transferor and transferee rather than on the legal form of the agreement with the borrower.

b. Lacks explicit guidance on transfers of financial assets that are not loans such as equity instruments. There is diversity in practice and interpretation on whether and how to apply the PI rule to financial assets other than loans. PI rule should be clarified to include application of the PI criteria to equity or other instruments that do not have cash flows contractually required to be made on specified dates at specified amounts.

c. Lacks explicit guidance on "indirect" economic interests. There is diversity in practice and interpretation on how indirect economic interests (e.g., seller provided financing) should be analyzed under the PI rule. The PI rule should be clarified to exclude interests that are not direct portions of, or beneficial ownership interests in, the transferred financial asset. These interests would still be subject to the "effective control" analysis under ASC 860-10-40-5.

d. Lacks clarity on how to perform the continuous reassessment of PI criteria due solely to subsequent sales of PIs in the same financial asset. There is diversity in practice and interpretation on how or whether to apply the continuous reassessment criteria to a transfer of a portion of an asset that has already met the PI rule. There are views that lead to non-intuitive conclusions that a subsequent transfer of a portion of a financial asset should trigger reassessment for a previously derecognized transfer that met the PI rule and for which effective control remains transferred. The PI rule should be clarified to preclude reassessment in those circumstances.

e. Lacks guidance allowing for derecognition of a participating interest for which the consideration received by the transferor includes a beneficial interest in the transferred financial asset including a beneficial interest that is pro-rata. There is diversity in practice and interpretation on how to analyze beneficial interests received in a transfer of a PI. The PI rule should clarify that ASC 860-20-25-1 does not preclude a transferor from derecognizing a transferred PI when the transferor receives a beneficial interest in the transferred asset as consideration.

f. Lacks any exclusion of insignificant interests. We believe the PI rule needs a “significance concept” when there is no substantive reason that an insignificant interest should impede the transfer of effective control of a financial asset.

2. Eliminate the Securities Received as Collateral Gross-up

SIFMA believes that the requirement in ASC 860 to recognize securities received as collateral for securities loaned as an asset on the lender’s balance sheet and a matching obligation to return such securities should be eliminated for the following reasons:

a. It conflicts with the underlying principle in ASC 860 of symmetrical accounting for recognition and derecognition of transfers of noncash financial assets (ASC 860-30-25-2).
b. It conflicts with the concepts set forth in ASC 860-30-25-3 identifying cash collateral received as different from noncash collateral received in a secured borrowing because of its fungible nature.
c. It conflicts with the underlying economics for both parties to a “collateral” swap. As noted in ASC 860-10-05-18, neither party assumes significant credit risk to the other party and each transferor, whether lender or borrower continues to appropriately reflect their transferred asset on balance sheet (reclassified as pledged pursuant to ASC 860-30) because each maintains all the risk of owning the transferred asset.

d. It does not align with the accounting for noncash collateral received with rehypothecation rights for a cash loan (e.g., Reverse Repo). ASC 860-30-25-5b requires the transferee to reflect cash proceeds from sale of the collateral and the obligation to return the collateral only upon a sale.

Further, we believe the “lender” in a collateral swap transaction overstates its assets and liabilities and may include confusing information in its disclosures by recognizing an asset not effectively controlled or at risk with its own assets and a liability that has not yet been incurred.

Question 24: What challenges, if any, are there in applying current recognition and derecognition guidance to crypto asset transactions? Are there specific transactions that are more challenging? If so, how pervasive are those transactions and does the application of the current guidance appropriately portray the economics of those transactions (and if not, why)? Please explain, including whether and how these challenges could be addressed through standard setting.

Response: SIFMA appreciates the guidance that the FASB has published to date on crypto asset transactions and has not yet identified challenges in applying existing recognition and derecognition guidance to crypto asset transactions. However, as new technology and transactions emerge, future standard setting may be required. Therefore, SIFMA recommends that the FASB keep this topic on its research agenda.

Question 25: The FASB has previously encountered challenges in identifying improvements to the subsequent accounting for goodwill that are cost beneficial. If the FASB were to pursue a project on the subsequent accounting for goodwill, what improvements should be considered? Please provide specifics on how those improvements would be more cost beneficial than the current impairment model.

Response: We do not believe that the FASB should initiate a project to revisit the accounting for goodwill, as the current framework is well-understood. In addition, when the FASB has revisited the framework in the past, stakeholders have been unable to reach consensus. We are not aware of any changes since those deliberations that would indicate better odds of reaching consensus. However, we recognize that the impairment assessment can be complex and costly. We would support limited targeted simplifications of the impairment assessment itself, such as by allowing or requiring testing at the operating segment level instead of at the reporting unit level. This simplification may reduce the burden for preparers and auditors, while maintaining the current usefulness of the framework.

Question 29: Should the FASB reconsider the definition of cash equivalents and consider including other assets that are easily liquidated? If so, what types of assets should be added to the definition of cash equivalents? Please explain.

Response: Given the ongoing development of payment stablecoins, with particular regard to proposed criteria regarding obligations of an issuer to repurchase/redeem and to maintain required reserves of liquid assets, we believe it would be beneficial for the FASB to provide guidance on the application of the cash and cash equivalents definition to this rapidly evolving space. Regarding traditional cash and cash equivalent instruments, we do not believe further guidance is needed.

Question 30: What challenges, if any, do entities face in the absence of specific initial recognition guidance for inventory and other nonmonetary assets? Please explain, including the pervasiveness of these challenges.

Response: The most common type of inventory held by financial institutions is physical commodities inventory. Please see our response to Question 53 for our recommendation to allow fair value measurement of physical commodities inventory.

Question 34: How pervasive are repurchase obligations for ESOPs? Should additional disclosures be required and, if so, what type (for example, quantitative, qualitative, or both types of disclosures)? Please explain.

Response: We do not believe any additional disclosures for ESOP repurchase obligations are necessary, as we understand that these repurchase obligations are typically immaterial.

Question 36: Should the FASB require entities to immediately recognize gains and losses associated with defined benefit plans in the period they arise? Additionally, should the FASB require entities to disaggregate the net gains or losses recognized between those arising from investment activities related to the plan assets and those arising from changes in actuarial assumptions? Please explain.

Response: The Committee does not support a project that would require entities to immediately recognize gains and losses associated with defined benefit plans in the period they arise, nor do we support requiring entities to disaggregate the net gains or losses recognized between those arising from investment activities related to the plan assets and those arising from changes in actuarial assumptions. A requirement for frequent remeasurements of short-term defined benefit plan gains and losses through earnings: 1) would increase short-term earnings volatility, 2) may not be indicative of a defined benefit plan's long-term investment performance, 3) may obscure operational performance in current period financial reporting, 4) create further divergence from IFRS, 5) increase operational cost and burden on companies that need to obtain actuarial reports every reporting period, and 6) are not indicative of a plan's ability to meet its benefit payment obligations over the long term. Furthermore, remeasuring defined benefit pension plans through earnings more frequently than annually could create perverse incentives – or the perception thereof – to manage plans over the short-term as opposed to over the long-term.

We believe that the existing disclosure requirements for defined benefit plans provide sufficient information to help users comprehend the nature of the gains and losses related to these plans.

Question 37: If the FASB were to pursue a project to align the initial and subsequent measurement of share-based payment awards, how should the awards be initially and subsequently measured? Please explain, including the objective of the measurement and whether and how changes to the subsequent measurement of share-based payment awards would improve the decision usefulness of the information provided to investors.

Response: The Committee does not support pursuing a project to align the initial and subsequent measurement of share-based payment awards such that equity-classified share-based payments would be remeasured using a liability-like model. We believe that equity-classified share-based awards should not be re-measured after the grant date is established. The timing of measurement was already vetted in Chapter 13 section B of Accounting Research Bulletin No. 43, and we believe the conclusion reached was and is still appropriate. Specifically, grant date measurement is appropriate as it captures the exchange of equity for services at the date the parties agree and understand the key terms, conditions, and value of the award. Further, unlike cash-settled awards that are classified as liabilities, equity-classified awards represent ownership interests, and more related to dilution and capital than fair value measurements. Changes in stock price after the grant date affect the employee's equity investment value but generally do not alter the company's cost or actual dilution. We disagree with subsequent fair value measurement of equity-classified share-based payments since:

- Quarterly remeasurement of fair value due to stock price changes could introduce significant volatility in the expenses recognized during that period. This approach would diverge from IFRS and might distort and obscure the company's operating performance. Using the grant date for measurement offers a consistent, predictable, and stable method.
- The volatility in key performance indicators could hinder investors' ability to rely on these metrics. Since remeasurement would affect key performance indicators, this may lead to more non-GAAP disclosures as companies aim to prevent this volatility from obscuring their core business results.
- Many jurisdictions require a certain level of equity deferral for specific employees in financial services and, therefore, financial institution preparers would not be able to avoid fair value earnings volatility by restructuring their equity-classified share-based awards, whereas companies in other industries could do so. This accounting change could therefore result in a disproportionate earnings volatility impact to financial institutions.

- Equity-classified share-based awards are generally linked to employee performance assessed at a specific point in time, based on a dollar-denominated award amount converted into shares. In other words, at the point of grant, it is our experience that compensation is generally communicated in dollar terms (e.g., $10,000 equity award) with the number of shares determined based on the prevailing share price at such time (i.e., the number of shares is an output, not an input). Using grant date fair value aligns more closely with the employer and employee understanding, which we understand to be a key consideration in the basis for conclusion in ARB 43.

Question 38: What challenges, if any, do entities encounter in evaluating whether they are acting as a principal versus an agent? Are there instances where the accounting does not appropriately reflect the economics of the transactions? Please explain, including the pervasiveness of those challenges, the industries and transactions for which the accounting could be improved, and whether and how those challenges and improvements could be addressed through standard setting.

Response: We do believe that there are challenges in the application, and certain results, of the "Principal versus Agent" guidance within ASC 606. The existing guidance involves a considerable degree of judgment, including how much to weigh each factor in the analysis, and while the results are intuitive most of the time, they do not always reflect the economics of the transactions. For example, there are certain costs that are passed through in their original form to customers that are presented on a gross basis that may be more decision-useful if presented on a net basis (e.g., we believe there is no value to investors for a gross-up of revenues which correlates to costs that are required to be incurred for client business and are ultimately recouped from such clients). The Committee would be supportive if the FASB were to consider a limited, targeted project to assess whether certain costs should be presented on a net basis.

Question 39: Should the FASB consider requiring entities to recognize variable consideration when the underlying triggers have been reached? If so, should that change apply to all entities or a subset of entities (for example, entities that earn commission-based revenue)? Would this provide better information for investors' analyses? Please explain.

Response: We believe that the framework provided by ASC 606 ensures that revenue from contracts with customers is recognized only to the extent that a significant reversal of the cumulative revenue recognized is unlikely, ensuring that recognition is appropriately constrained. This constraint is critical for maintaining the reliability and accuracy of financial reporting for service contracts in our industry. The current guidelines adequately address the complexities associated with variable consideration and provide the necessary clarity for entities to apply these principles effectively. Therefore, we do not believe that any changes to the current guidance are necessary at this time. We believe it continues to meet the intended objectives of transparent and consistent revenue reporting across different scenarios and industries.

Question 40: What challenges, if any, are there in applying the consideration payable to customers guidance? Should the FASB consider clarifying this guidance? Please explain.

Response: We believe the biggest challenge in applying the “consideration payable to a customer” guidance is that it does not provide for a qualitative assessment to determine what is in scope, and therefore scopes in too many types of interactions with customers, including instances where other GAAP may provide more useful financial reporting. As one example, ASC 606 requires “Variable consideration” issued to a customer to be estimated by using the “expected value” (probability-weighted outcomes) or “most likely amount” method. However, if complex financial instruments are issued as part of the consideration payable to a customer, we believe such financial instruments should be subject to the already existing measurement guidance under ASC 825 and ASC 820 instead of being subject to the measurement guidance under ASC 606. The below fact pattern provides additional background on a complex financial instruments example.

Fact pattern: A revenue share (or profits interest) instrument issued by an Investment Manager entity to a customer entitles a customer to share management fee revenue earned by the Investment Manager entity. The Investment Manager entity has a call option, and the customer has a put option on the revenue share instrument that can be exercised at a future date. The customer is required to invest a certain minimum amount in the Funds affiliated with the Investment Manager entity. Consideration paid/payable to a customer will be variable as the customer’s percentage of management fee revenues would fluctuate based on Assets under Management (AUM).

In this fact pattern, the Investment Manager entity is required to estimate the amount of consideration that will be payable to the customer in the future and record it as contra-revenue under the “expected value” or “most likely amount” method. As a significant portion of economics will be attributable to the put/call options, the calculation of contra-revenues using the “expected value” or “most likely amount” method under ASC 606 could result in recognition of significant negative revenues in earlier years in a misalignment of economics as compared to the expected late stage revenue stream. Furthermore, there is complexity in explaining the “expected value” or “most likely amount” models when there is already a widely accepted measurement model for complex financial instruments including put/call options, i.e., fair value.

The Committee would support a limited project addressing the intersection of ASC 606 with other US GAAP that may better address certain interactions with customers, including in measuring components of variable consideration that include complex financial instruments. For financial instrument variable consideration in particular, the FASB could provide an election for fair value measurement for variable consideration payable to customers (e.g., fair value option). Under this alternative, entities could still apply ASC 606's existing "expected value" or "most likely amount" measurement model unless they opt for fair value.

Question 42: How should interest income for loans within the scope of Subtopic 310-20 be subsequently recognized? Please explain.

Response: The Committee does not believe that the Board should change the guidance on interest income recognition for loans within the scope of Subtopic 310-20. Specifically, the idea of converging interest income recognition for all loans to a model prescribed in ASC 325-40, Investments—Other—*Beneficial Interests in Securitized Financial Assets*, i.e., the prospective yield model, should not be considered. The prospective yield model relies heavily on subjective estimates and in some cases, the underlying data may not even be available, resulting in diversity in estimates. Further, typical loan portfolio accounting systems are not configured to perform this calculation that currently only applies to beneficial interests. Requiring this approach for all loans within the scope of Subtopic 310-20 would reduce comparability, increase volatility of financial results, and cause significant cost and operational disruption. In fact, due to the increased complexity of the prospective model versus the interest method, we recommend that the scope of the prospective model be further reduced to apply only to securities below investment grade.

Question 43: Should the FASB provide derecognition guidance for transferable tax credits within Topic 740 beyond the guidance currently provided in Topic 606 and Subtopic 610-20? If so, what guidance or criteria should an entity consider in determining whether to derecognize these transferred tax credits? Please explain.

Response: We believe the existing guidance satisfactorily addresses the accounting for these transactions.

Question 44: Should the FASB consider any additional disclosures in any of the above areas? If so, how would that information better inform investment decisions? If these or similar disclosures are currently required outside of the financial statements, why should or shouldn't they be included in the financial statements? Are there other areas that need additional disclosures? Please explain.

Response: We ask the Board to consider a project that focuses on the current volume and level of detail about financial instruments that is required to be included in the financial statement disclosures of a financial institution. These disclosures cause our financial statements to be many times larger than those in other industries and may, through volume, negatively impact the decision usefulness for a user. We believe many of the disclosures we currently make in tabular and granular form, such as those described below, should be reduced to qualitative statements, with quantitative requirements limited to material transactions that would be more decision-useful to our investors. We note that we have not received any queries or requests from our investors on these tabular disclosures, which are time-consuming and costly to produce and, therefore, we believe these could benefit from rationalization.

Therefore, given the sheer volume of disclosures relevant to financial services, we have not identified any disclosures that should be added. Please see our response to Question 45 for our recommendations for right-sizing certain existing disclosure requirements.

Question 45: Are there current disclosure requirements that do not provide meaningful information about an entity? If yes, please explain which disclosures are not decision useful and whether those disclosures should be removed or how they should be improved.

Response: Consistent with our response to Question 44, we believe there are a number of disclosures that are produced at significant operational cost to preparers whose reduction or removal would not negatively impact users of financial statements, particularly related to financial instruments. For example, within ASC 820, the disclosures regarding significant unobservable inputs, fair value hierarchy for instruments carried at cost, fair value methodology tables all have opportunities for reduction without loss of decision useful information. In addition, disclosures related to the fair value option, variable interest entities and modified loans also present similar opportunities for reduction without loss of useful information. We strongly encourage the Board to review disclosure requirements for reduction or removal if investors do not find them useful. In addition, if disclosures are not used regularly, we encourage the FASB to consider whether those disclosures could be required annually rather than on an interim basis.

Question 46: Should the treasury stock method be modified to include RSUs in the computation of diluted EPS under the treasury stock method? Please explain.

Response: We oppose removing the use of unrecognized compensation expense as deemed proceeds for RSUs under the treasury stock method, which we understand to be the substance of the question. The treasury stock method currently applies to all stock-based compensation, including RSUs and stock options and, therefore, changing the rules solely for RSUs seems conceptually inconsistent by targeting specific awards.

Using unrecognized compensation costs as deemed proceeds reflects the fact that equity has been granted in lieu of cash, which we believe is appropriate conceptually, even if the cash is not "received," for example, in the case of the strike price of an option.

Instead of the proposed project, the Board should consider modifying the EPS rules to capture the impact of withholding taxes upon delivery, as shares are often withheld / canceled to cover the recipient's tax obligations, resulting in fewer shares delivered. Including full shares in the denominator for diluted EPS overstates actual delivery and dilution, which is more relevant to investors.

On a related note, we strongly recommend that the inclusion of restricted stock awards in the two-class EPS method be reconsidered, especially when grantees have a nonforfeitable right to dividends. The existing requirement introduces unnecessary complexity without materially affecting EPS. We believe the FASB should exclude these awards from this method to simplify the reporting, reduce costs and enhance clarity.

Question 47: Should the FASB consider amending the Master Glossary term *public business entity*? If the FASB were to reconsider the Master Glossary term *public business entity*, which type of entities should be included or excluded and why? Please explain.

Response:
We propose that the FASB amend the term *public business entity* to address the following:

a. Align the three definitions of *public entity* and one definition of *public business entity* across all Topics into a single term.

These definitions substantially overlap and are used to determine which entities are within the scope of certain Topics. As entities that are *public business entities* or *public entities* are generally subject to additional accounting or disclosure requirements (e.g., Topic 280 disclosures), the intent appears to be to ensure that investors in these entities have the information necessary to inform their investment decisions. As such, it seems reasonable that the definition would be consistent across Topics, which will simplify the analysis of which legal entities are within the scope of each Topic.

b. Eliminate the reference to "over-the-counter market" from the aligned definition.

Over-the-counter market is not defined in the ASC and, therefore, is subject to interpretation. Securities issuances or offerings that are exempt from registration with the SEC and foreign regulators may be listed or traded in a manner that may be construed as an *over-the-counter market*. However, we do not believe that the intent of the definition of *public business entity* or *public entity* was to encompass securities issuances or offerings that are exempt from registration with a securities regulator. Therefore, we propose that the reference to "over-the-counter market" be removed from the aligned definition.

c. Focus on registration of securities with a securities regulator *for the purpose of* issuing or trading their own securities, thereby eliminating entities, e.g., broker-dealers, that file with the SEC pursuant to a requirement other than issuance of their own securities.

An entity that is registered with the SEC as a broker-dealer or a securities-based swap dealer may be required to file or furnish their financial statements with the SEC and with another regulatory agency (e.g., FINRA, SIPC) pursuant to Rule 17a-5(d)(6) or Rule 18a-7(c), as applicable, of the General Rules and Regulations of the Securities Exchange Act. As a result, broker-dealers and securities-based swap dealers that are required to file or furnish financial statements with the SEC but have not made a registered offering of securities would still be considered *public business entities* or *public entities* as defined in the ASC, even though the primary users of those financial statements are customers and regulators, whose focus is mainly market stability (e.g., net capital compliance) and customer protection. The additional accounting or disclosure requirements applicable to *public business entities* or *public entities* are not necessarily relevant to investors in *non-issuer* broker-dealers, particularly if those broker-dealers are wholly owned subsidiaries of other entities. Rather, investors in privately held broker-dealers or securities-based swap dealers likely do not have an expectation of receiving financial statements reflecting preparation or disclosure of financial information as a public business entity as the investors are aware that the entity's securities are not part of a registered offering. Thus, we believe the definition of *public business entity* should be revised to exclude from its scope those entities that file or furnish financial statements to the SEC for reasons unrelated to an offering of their securities, thereby alleviating the burden on preparers stemming from recent ASUs.

We have included proposed edits below for an illustration of changes that we believe would address the issues noted above. We believe that these edits would result in a definition that better reflects the scope of entities for which additional accounting and disclosure requirements are most beneficial to investors or other end users.

Public Entity

Glossary Term Usage **|** *See Topic(s): 105, 205, 220, 230, 260, 270, 280, 310, 320, 323, 326, 330, 340, 350, 360, 470, 606, 715, 718, 740, 805, 808, 810, 815, 820,825, 835, 842, 853, 860, 944, 952, 954, 958*
A business entity or a not-for-profit entity that meets any of the following conditions:
a. It has issued debt or equity securities or is a conduit bond obligor for conduit debt securities that are traded in a public market (i.e., on a domestic or foreign stock exchange)~~ or an over-the-counter market~~, including local or regional markets.

b. It is required to file financial statements with the Securities and Exchange Commission (SEC)
~~*c. It provides financial statements*~~ *for the purpose of issuing any class of securities in a public market.*

Question 48: What complexity, if any, results from multiple definitions of a public entity and a nonpublic entity in GAAP? Should the FASB prioritize a project that seeks to reduce the number of definitions of a public entity and a nonpublic entity throughout GAAP? If the FASB were to pursue a project to reduce the number of definitions of a public entity and a nonpublic entity, should the FASB consider replacing the definitions of a public entity with the public business entity definition? Please explain.

Response: Please see our response to Question 47.

Question 50: Should the FASB prioritize a project to develop a single consolidation model? If yes, should the FASB leverage the guidance in IFRS 10, the VIE model, or the voting interest entity model as a starting point? If the FASB should not prioritize a single consolidation model, should the FASB make targeted improvements to better align the current voting interest entity and VIE guidance, including simplifying the determination of whether an entity is a VIE or a voting interest entity? Please explain.

Response: SIFMA does not support an overall change to the consolidation model. We note that converging the concepts of a voting interest entity and a variable interest entity into a single model will be operationally burdensome to implement and will come at significant cost to global financial institutions with numerous transactions with various fact patterns to consider. We do not believe having a "single consolidation model" will ultimately result in meaningful changes to current conclusions, or more importantly, reduce complexity and increase understandability for investors. We note that the single model under IFRS generally does not result in conclusions that diverge from US GAAP and is not meaningfully less complex to apply in practice. Further, broad changes to the model could result in unintended consequences due to the inherent complexities of underlying fact patterns.

However, potential targeted improvements to address specific practice issues could be meaningful. For example, SIFMA believes asset managers would benefit from additional implementation guidance on the "sufficiency in equity" criterion application to early-stage investment companies that finance the purchase of initial investments with lines of credit that are collateralized by legally enforceable capital commitments from its third-party investors.

Question 51: Are there pervasive accounting outcomes resulting from the application of the consolidation guidance that are inconsistent with the underlying economics of the transaction? If so, please provide examples.

Response: Please see the response to Question 50.

Question 52: Should the FASB pursue a project on the statement of cash flows? If yes, which improvements, if any, are most important? Should the FASB leverage the current guidance in Topic 230, Statement of Cash Flows? If yes, would it be preferable to retain the direct method, the indirect method, or both? Should this potential project be a broad project applicable to all entities that provide a statement of cash flows11 or limited to certain entities or industries? Please explain.

Response: We believe the current cash flow statement does not offer decision-useful information for financial institutions. We are aware that the IASB is considering a research project on the cash flow statement, also noting its limited usefulness for financial institutions. While the FASB's targeted research project on the cash flow statement aims to improve cash flow statements for banks, we believe any resulting amendments would not overcome the cash flow statement's inherent lack of usefulness for entities whose primary business activities consist of voluminous movements of cash. It is highly probable that any amendments would replace one ineffective financial report with another.

Should the FASB decide to undertake a project on the statement of cash flows, we strongly oppose any mandate to adopt the direct method or the removal of the indirect method. Given the vast number of transactions daily, transitioning to the direct method would require tremendous costs to implement, with no benefit.

Question 53: Should financial institutions that hold physical commodities for trading purposes be permitted to apply the fair value option? Please explain, including whether and how providing an option would provide decision-useful information.

Response: Yes, financial institutions that hold physical commodities managed on a fair value basis should be permitted to apply the fair value option to these assets, as well as to executory contracts directly related to them, such as transport and storage arrangements. Physical commodities are often traded on exchanges that are as liquid and active as markets for securities and derivatives. In addition, financial institutions often manage and hedge their physical commodities exposures on a basis that includes the fair value of derivatives and related executory contracts as a unit.

Under US GAAP, financial institutions that hold physical commodities on broker-dealer entities carry those inventories at fair value as trading assets, while financial institutions not transacting on a broker-dealer entity are precluded from applying fair value accounting to the same assets. Given that financial institutions conduct similar activities in banking and broker-dealer entities, the guidance for market making activities should be consistent across financial institution entity types.

Since physical commodities are eligible to be hedged items, financial institution preparers have demonstrated that there are no significant practice issues that have arisen related to carrying hedged inventories at fair value. It should not be seen as a significant leap to allow financial institutions to elect to carry physical commodities inventories at fair value without the operational burden of applying the hedge accounting requirements.

For the avoidance of doubt, while we believe that executory contracts directly related to physical commodities should also be eligible to be carried at fair value, we would also be supportive of an initial project focused solely on physical commodities if adding the deliberation on executory contracts would delay the effective date of fair value measurement for the physical commodities inventories of financial institutions.

Question 54: Beyond financial institutions, are there other entities or industries that hold physical commodities for trading purposes that should be permitted to apply the fair value option to physical commodities? Please explain, including which types of entities or industries and whether and how providing an option would provide decision-useful information.

Response: We believe that an option to measure physical commodities at fair value should be available to all entities that manage them on a fair value basis. However, due to the different measurement basis for broker-dealer subsidiaries and banking subsidiaries that exists for physical commodities inventory within financial institution entities today, addressing this issue within our industry is time sensitive. To the extent that scoping the fair value option for non-financial institutions would provide challenges that might delay the issuance of a final ASU, we recommend that the FASB address the financial institution issue first and address the scope questions for other industries in a separate project.