



December 21, 2018

Ms. Susan M. Cospier
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft, Proposed Accounting Standards Update, *Codification Improvements—Financial Instruments* (File Reference No. 2018-300)

Dear Ms. Cospier:

We appreciate the opportunity to comment on the Exposure Draft, Proposed Accounting Standards Update, *Codification – Financial Instruments* (the Proposal). Bank of America Corporation provides a diverse range of banking and non-banking financial services and products domestically and internationally. As one of the world's largest financial institutions, we are very focused on the efforts of the Financial Accounting Standards Board (the FASB or the Board) to continually improve the Codification.

We are supportive of the Board's effort to address stakeholders' issues related to ASU No. 2016-01, *Financial Instruments— Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, ASU No. 2016-13, *Financial Instruments— Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. We have responded below to selected questions put forth by the Board in the Proposal in the Appendix to this letter.

We appreciate the opportunity to express our views in this letter. Should you have any questions, please feel free to contact Michael Tovey (980.387.6061) or me (980.387.4997).

Sincerely,

John M. James
Senior Vice President and Corporate Controller

Cc: Rudolf Bless, Chief Accounting Officer
Michael Tovey, Accounting Policy Executive

Appendix

The following are our responses to selected questions from the Proposal.

Topic 1: Codification Improvements Resulting from the June 11, 2018 Credit Losses TRG Meeting

Issue 1A: Accrued Interest

Question 1: Will the amendments in this proposed Update to (a) measure expected credit losses on accrued interest separately from other components of amortized cost basis, (b) make an accounting policy election to present accrued interest amounts separately from the related loan balance, and (c) elect a practical expedient to separately disclose the total amount of accrued interest included in the amortized cost basis as a single balance to meet certain disclosure requirements simplify and reduce operational concerns when implementing the guidance in Update 2016-13 related to accrued interest? If not, please explain why you disagree and what changes should be made instead.

We agree that the amendments in the proposal simplify and reduce operational concerns for accrued interest. However, we observed that in paragraph 326-20-30-5 that the term “applicable” is used in the context of accrued interest. It was unclear if this means that there would be some type of accrued interest that would not be applicable to the guidance. We recommend that the term be eliminated.

Question 2: Do you support the separate accounting policy elections that would allow an entity to choose to (a) write off accrued interest amounts by either reversing interest income or adjusting the allowance for credit losses and (b) elect not to measure an allowance for credit losses on accrued interest if the entity writes off uncollectible accrued interest amounts in a timely manner? If not, please explain why you disagree and what changes should be made instead.

We believe the elections should be binary: that is, an entity should first make a policy election as to whether or not it will record an allowance for credit losses on accrued interest. If the entity does not elect to record an allowance for credit losses on accrued interest (due to a timely write-off policy), it should be required to reverse uncollectible amounts through interest income. In contrast, if an entity elects to establish an allowance for credit losses on accrued interest, it should be required to adjust the allowance through credit loss expense. We believe this would result in more consistency and comparability across entities.

Question 3: If you agree with the policy election not to measure an allowance for credit losses on accrued interest if the entity reverses or writes off uncollectible accrued interest amounts in a timely manner, what period would you consider to be timely?

We believe that timely is a matter of judgment and will be dependent on the product in question. A specific bright line time period should not be established. While we believe that the current banking regulatory guidance of 90 days (for most products) for placing a loan on nonaccrual would be interpreted as a timely period, this time period would be difficult to apply for certain products, such as those that require semi-annual payments. Overall, we believe the establishment of a timely period should be a policy election that may vary by product.

Issue 1B: Transfers between Classifications or Categories for Loans and Debt Securities

Question 4: *Are the proposed amendments related to the transfer of loans and debt securities between classifications or categories operable? If not, please explain why you disagree and what changes should be made instead.*

While the proposed amendment is operable, we do not agree with the added sentence to 310-10-45-2 to require the allowance amounts reversed in the initial classification and then re-established in the new classification to be disclosed on a gross basis. As these transactions are conducted on a net basis, we believe that the net valuation adjustment amount related to transfers would be sufficient disclosure.

Issue 1C: Recoveries

Question 5: *Do the proposed amendments clarify that recoveries are inputs that should be considered when measuring the allowance for credit losses? If not, please explain why you disagree and what changes should be made instead.*

Question 6: *Do the proposed amendments clarify that an entity may record a negative allowance when measuring the allowance for credit losses using the fair value of the underlying collateral in accordance with paragraphs 326-20-35-4 through 35-5?*

For Questions 5 & 6, we find the proposed amendments to be understandable; however, we recommend that the phrase “negative allowance” be made explicit to increase clarity and ensure that that important concept is acknowledged.

Question 7: *Should an entity be permitted to record a negative allowance when measuring the allowance for credit losses on available-for-sale debt securities? If yes, why?*

Yes. An entity should be permitted to record a negative allowance on available-for-sale debt securities when measuring the allowance for credit losses. While this may be rare, there are potential scenarios that could cause an entity to write-off a portion of a security’s amortized cost. In the event that the value of such security recovers, we believe the ability to record a negative allowance on the debt security should be allowed similar to loans.

Topic 2: Codification Improvements to Update 2016-13

Question 8: *Do the proposed amendments clarify the guidance in Update 2016-13? If not, please explain which proposed amendment(s) you disagree with and why.*

We agree that the proposed amendments provide sufficient clarity.

Question 9: *Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification improvement projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvement project.*

We did not identify any other changes needed at this time.

Question 10: *The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?*

This question is not applicable to Bank of America Corporation.

Question 11: *Should an entity be required to use a prepayment-adjusted effective interest rate if it uses projections of interest rate environments in estimating expected cash flows, including expected prepayments and defaults?*

We believe that requiring this measurement assumption imposes a false sense of precision into an estimation process that requires a large number of significant model inputs and other key assumptions. Hence, it should be a policy election. Additionally, there could be unknown operational constraints in applying this requirement. If this is a requirement, we believe that the Staff should provide additional guidance on which rate would be required if a loan is restructured as part of a TDR. In that scenario, for example, should the interest rate used to discount the cash flows be the original effective rate or the last prepayment-adjusted effective interest rate?

Question 12: *How much time would be needed to implement the proposed amendments for an entity that has already adopted Update 2016-13 before these proposed amendments are finalized? What transition method and transition disclosures should be required when adopting these proposed amendments and why?*

This question is not applicable to Bank of America Corporation.

Question 13: *Should the effective date and transition requirements for the amendments in this proposed Update align with that of Update 2016-13 for entities that have not yet adopted Update 2016-13 before these proposed amendments are finalized? What transition disclosures should be required when adopting the proposed amendments and why?*

We believe the effective date and transition requirements for the amendments in the proposed Update should align with the required effective date of Update 2016-13.

Topic 3: Codification Improvements to Update 2017-12 and Other Hedging Items

Question 14: *Do the proposed amendments clarify the guidance in Topic 815? If not, please explain which proposed amendment(s) you disagree with and why.*

We agree that the changes made to ASC 815-25-35-13B clarify that an entity may have one or more separately designated partial-term hedging relationships outstanding at the same time for the same debt instrument, as shown in the examples provided for interest rate risk hedge strategies. However, we believe additional examples should be provided to clarify whether there could be separately designated partial-term hedging relationships outstanding at the same time for an interest rate risk strategy and a foreign exchange risk strategy where the same time period is covered but with different durations. For example, would an entity be allowed to enter into an interest rate risk strategy that covers Years 1-3 of a 10 year debt instrument, with an assumed 3 year maturity, and also enter into a separate foreign exchange risk strategy that covers Years 1-6 of the same debt instrument, with an assumed 6 year maturity? We believe that such hedges should be permitted and such should be clarified.

Question 15: *Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the proposed Codification improvements related to (a) the change in hedged risk guidance for cash flow hedges discussed at the March 28, 2018 Board meeting and (b) use of the word prepayable in the shortcut method guidance discussed at the February 14, 2018 Board meeting will be included in a future proposed Update.*

We do not have any other proposals.

Question 16: *The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?*

This question is not applicable to Bank of America Corporation.

Question 17: *Should partial-term fair value hedging be expanded to all risks eligible for hedge accounting?*

We believe that the partial term fair value hedging should be expanded to all risks eligible for hedge accounting. The conceptual basis for the partial term application will also apply to scenarios that do not involve interest rate and foreign exchange risk and allowing for the expansion will be in line with improving hedge accounting.

Question 18: *Do you agree with the specific considerations for transition and the effective date for the proposed amendments to Topic 815? Please explain why or why not.*

We agree with the transition and effective dates as the changes in the amendment provide options versus requirements and allowing for earlier adoption would not harm entities that may need more time to implement the changes.

Question 19: *Should the proposed amendments to Topic 815 be effective as of the earlier of the beginning of the first quarterly period (if applicable) or the first annual period after the issuance date of a final Update? Would this provide entities with sufficient time to implement these amendments?*

We believe the proposed amendments to Topic 815 should be effective at the beginning of the first quarterly period after the issuance date of a final Update. Based on the types of amendments being proposed, we expect that entities would have sufficient time to implement the amendments.

Topic 4: Codification Improvements to Update 2016-01

Question 20: *Do the proposed amendments clarify the guidance in Update 2016-01? If not, please explain which proposed amendment(s) you disagree with and why.*

We agree that the proposed amendments provide sufficient clarity.

Question 21: *Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification improvement projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvement project.*

We did not identify any other changes needed at this time.

Question 22: *The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?*

This question is not applicable to Bank of America Corporation.

Question 23: *How much time would be needed to implement the proposed amendments for an entity that has already adopted Update 2016-01 before these proposed amendments are finalized? What transition method and transition disclosures should be required when adopting the proposed amendments and why?*

In our case, we would have the ability to implement the changes upon the issuance date of the proposed amendments.

Question 24: *Should the effective date and transition requirements for the proposed amendments align with that of Update 2016-01 for entities that have not yet adopted Update 2016-01 before these proposed amendments are finalized? What transition disclosures should be required when adopting the proposed amendments and why?*

This is not applicable to Bank of America Corporation as we have adopted ASU 2016-01. If the impact of the amendments are material, we believe the transition disclosures could be qualitatively described to explain any prior year presentations that are not consistent with the amendments.

Topic 5: Codification Improvements Resulting from the November 1, 2018 Credit Losses TRG Meeting

Question 25: *Do the proposed amendments clarify how an entity should present line-of-credit arrangements that convert to term loans within the vintage disclosure table requirement in paragraph 326-20-50-6? If not, please explain which proposed amendment(s) you disagree with and why.*

We believe the proposed amendments clarify the disclosure requirement; however, we believe a better policy would be to simply require all conversions of a revolver to a term loan be disclosed in the single new column. The requirement to classify only certain revolving line of credit arrangements that have been converted to term loans in a vintage year does not seem to improve the vintage disclosures, could be confusing to users and could be potentially burdensome to the preparers.

Question 26: *Do the proposed amendments clarify how an entity should consider extension or renewal options (excluding those that are accounted for as derivatives in accordance with Topic 815) that are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity? If not, please explain which proposed amendment(s) you disagree with and why.*

Yes, we find the proposed amendments to be understandable such that a reasonable person can apply the guidance accordingly.