JPMORGAN CHASE & CO.

January 10, 2019

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

File Reference No. 2018-300 Codification Improvements – Financial Instruments

Dear Ms. Cosper:

JPMorgan Chase & Co ("the Firm") appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Codification Improvements – Financial Instruments* (the "Proposed ASU"), issued by the Financial Accounting Standards Board ("FASB" or the "Board"). We commend the FASB's actions to address application issues that have arisen during the implementation of the recently issued ASUs[1] related to financial instruments, as well as the Board's efforts to continue to refine and improve those standards. As such, we support the issuance of the amendments in the Proposed ASU, subject to our below suggested modifications.

<u>Issue 1A: Accrued interest</u>
We support the proposed policy election to not measure an allowance for credit losses on accrued interest receivables when the applicable balance is written off "in a timely manner." We generally consider writeoffs recognized in accordance with bank regulatory guidelines to be "timely," but in certain situations, whether writeoffs are considered "timely" will depend on the specific facts and circumstances.

Additionally, given that Issue 1A is also applicable to available-for-sale ("AFS") debt securities, we believe that the elections/expedients extended for instruments in Subtopic 326-20 should also be extended to AFS debt securities in Subtopic 326-30.

<u>Issue 1B: Transfers between classifications or categories for loans and debt securities</u>
The guidance on loan classification as well as transfers between classifications should be expanded to apply to all financial instruments within the scope of ASC 310 and ASU 2016-13. Currently, the guidance is specific to nonmortgage loans and/or trade receivables only. Specifically, we believe the guidance in paragraphs 310-10-35-47, 310-10-35-47A, 310-10-35-48, 310-10-35-48A, 310-10-35-48B, and 310-10-45-2 should be clarified that the "not held for sale" and "held for sale" classifications and transfers between these classifications are applicable to all in scope receivables.

Further, we believe an example would be useful to illustrate the intended accounting model for transfers from AFS to held-to-maturity ("HTM") articulated in paragraph 320-10-35-10B.

[1] Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("CECL"); Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* ("Hedging"); and Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-1").

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Issue 4D: Remeasurement of equity securities at historical exchange rates
Paragraph 54 of the Proposed ASU states that the amendments to paragraph 830-10-45-18 would clarify that HTM debt securities are required to be classified as nonmonetary assets. However, under current GAAP, HTM securities meet the definition of a monetary asset, and as such, are subject to remeasurement at current exchange rates each period. The proposed amendment to paragraph 830-10-45-18(a)(2) to eliminate the reference to debt securities not intended to be held to maturity does not appear to change existing GAAP on this point. If it was the FASB's intent to change the remeasurement accounting model for HTM securities, we firmly believe that the magnitude of that change warrants further research, outreach, and deliberation in a separate agenda project.

Issue 5A: Vintage disclosures
We recommend removing the reference to "major security type" in paragraph 326-20-50-6A to avoid implying HTM securities are subject to vintage disclosures. It is our understanding that HTM securities were intended to be excluded from those disclosures, consistent with their exclusion from the definition of financing receivables referenced in the disclosure scope.

Further, when determining which line-of-credit arrangements that have been converted to term loans should be disclosed in a separate column, references to when an entity makes "an additional credit decision" or "its most recent credit decision" should be removed, as these terms are not defined in the accounting literature. We are concerned this new requirement could ultimately create diversity in practice due to varying interpretations. Additionally, as the vintage disclosures require information about the amortized cost basis of financing receivables by origination year, adding a "credit decision" condition necessarily requires an entity to evaluate its entire portfolio of financing receivables to determine whether and when a credit decision had been made in the past. Instead, we recommend that line-of-credit arrangements that have been converted to term loans in accordance with the original contractual terms of the loan or because of a troubled debt restructuring be disclosed in the separate column.

Issue 5B: Contractual extensions and renewals
As noted in paragraph BC 104, the Board decided not to prescribe methods for assessing the extension or renewal options that are not unconditionally cancellable by the lender in determining the life of the loan. We appreciate the Board's efforts to continue to offer flexibility in approach, but are concerned that using the language "shall" in paragraph 326-20-30-6(b) with respect to evaluating the likelihood that the borrower exercise the option suggests a higher level of analysis and estimation than what may be practicable in all cases. In certain circumstances, depending on judgment, data and other considerations, an entity may opt to use the full term of the extension period in addition to the contractual term of the instrument as the expected life of the instrument. Therefore, we recommend the Board strike the last sentence of paragraph 326-20-30-6(b).

In addition to the modifications suggested above, the Firm was involved in drafting the comment letter submitted by the Bank Policy Institute, dated January 8, and supports the views included therein.

We appreciate the opportunity to submit our views. We would be pleased to discuss our comments with you at your convenience. If you have any questions, please contact me.

Sincerely yours,

Bret Dooley

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