American Bankers Association
Building Success. Together.

Donna J. Fisher
Senior Vice President
Tax, Accounting & Financial Management
(202) 663-5318
DFisher@aba.com

February 11, 2016

Mr. Russell Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: CECL

Dear Russ,

On behalf of the American Bankers Association, I would like to thank you, Larry Smith, and the rest of the FASB members and staff for conducting the community bank roundtable on February 4 on the CECL impairment standard. As you know, we first requested such a discussion among bankers, auditors, and regulators in January 2014, and we appreciate your efforts to bring together very talented participants. We are committed to working with you through all means to ensure that, when issued, the new standard is cost-effective for banks of all sizes.

We were hopeful that good progress could be made during the roundtable. However, we are disappointed that the vast majority of the discussion was targeted toward aspects of the CECL proposal that had either been resolved long ago or were never part of the proposal in the first place. As a result, there was little to no substantial discussion as to how bankers and auditors would address CECL issues in light of current and expected auditing standards and reporting expectations. Although a portion of the meeting involved technical discussions about CECL, our banker representatives had the opportunity to provide little more than cursory views about CECL and its application to their banks. Our primary goal – which was for the banking industry, auditors, SEC, PCAOB, and banking regulators attempt to reach a common base of understanding about what CECL requires for community banks – was not met. Because of this, as well as the outright confusion that a few participants seemed to have, we believe two very important steps need to be taken: 1) additional joint meetings, and, 2) some form of re-exposure.

Additional Joint Meetings

We strongly believe that a common understanding is needed about whether and how CECL is scalable for community banks in order to effectively evaluate costs vs. benefits. One accounting firm has indicated to us that CECL might not be scalable. Amidst increasing auditor scrutiny and measurement uncertainty, the intricacies of CECL's life of loan loss concept may unintentionally require significant costs to implement. If nothing else, CECL is expected to require significant additional data to be maintained and analyzed, and it is questionable as to whether such data can be effectively managed within existing community bank internal control systems. While we support the need for the FASB's Transition Resource Group (TRG), such decisions are too important to be made after issuance of the final standard.

The ultimate goal is to supply FASB and community banks with the necessary information to enable the FASB and the industry to evaluate costs and benefits. Therefore, we would like to sponsor additional meetings that focus on specific examples as points of discussion and debate. Our hope is that discussion of specific examples will help achieve a better understanding about how much complexity (and cost) will be expected by the various parties. The meetings should be held relatively soon.

We see the life of the loan loss concept, which requires a lifetime loss to effectively be recorded at origination, as the underlying source of complexity and confusion in the CECL model. In short, practically speaking, the life of loan concept:

- Potentially requires data and processes that the vast majority of banks do not currently maintain or use, which may be considered cost prohibitive for them.
- Will be extremely challenging for bankers in quantifying forecasts of the future and other adjustments to historical loss experience to the satisfaction of auditing and model risk standards.
- Has never been addressed in a fashion that gives bankers an idea of what would be expected on an ongoing basis. In other words, we need to determine the relevant metrics that will allow a bank – whether a large bank or a community bank – to analyze and concisely communicate to its board, its investors, and its regulators, why it changed its life of loan loss estimates and how those changes affected the performance of its portfolio.

Addressing these key issues in additional joint meetings will be instrumental in helping to avoid any unintentional consequences resulting from an initial lack of understanding that the life of loan loss concept might create.

<u>Re-Exposure of CECL</u>

Judging from the roundtable, as well as the continuing feedback we receive from our members, it cannot be denied that misunderstanding of CECL abounds among many bankers, auditors, and regulators. With this in mind, we request that you consider re-exposing CECL in some form to request comments specifically related to possible complexity and costs for smaller banks. Although you have done a significant amount of outreach and decisions made by the Board are posted for public viewing, the exposure draft was issued in 2012 and you have publicly disclosed that over 900 comments were given to the FASB by its constituents during its "fatal flaw" review. Though the FASB may believe due process has been sufficient, it is important that the FASB's constituents also believe an adequate due process has been followed.

If the FASB decides not to re-expose, we encourage you to consider adding another year to the effective date (a two-year delay rather than one) for non-SEC registrants. As you heard from the banking agencies and others, community banks will be encouraged to start gathering data upon issuance and, in some cases, community banks are already being encouraged by accounting firms to purchase specialized software that might not be needed. We believe data requirements may evolve over the next several years, and we are concerned that community banks may prematurely gather or exclude data and design processes without understanding what their specific data needs are. The one year delay may not adequately allow community banks to benefit from observing the experience of the larger banks during the larger banks' transition period.

We believe that targeting specific operational questions for community banks is essential going forward, and failing to do so could detrimentally affect transition efforts by the industry and possibly undermine confidence in the Board. Given this, we are committed to working with you to refine the proposal before it becomes final to ensure it is operational for banks of all sizes and to maximize the effectiveness of smaller bank participation in your due process.

We will contact you shortly to further discuss. If you have any questions, please contact Mike Gullette (202-663-4986; mgullette@aba.com) or me at (202-663-5318; dfisher@aba.com).

Sincerely,

Donna J. Fisher

Donna J. Fisher