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

Re: CECL

Dear Mr. Golden:

Thank you for your letter of December 22, 2015, and for your positive comments about the usefulness of the interaction ABA members and staff have had with the FASB regarding the Current Expected Credit Loss (CECL) impairment model and for committing to have a public roundtable with the Board and community bank constituents. We believe the FASB's goal and the ABA's goal is the same – to develop a credit impairment accounting standard that provides credible information to users of banks' financial statements.

We appreciate the time that the Board and FASB staff have spent with our bankers and staff in attempting to develop an effective new model for accounting for loan losses. I understand that the FASB has been more accessible and spent more time with us on this issue than any previous accounting issue, and we thank you. We also appreciate the additional year that FASB is providing to smaller banks for implementation, as it will not only provide them with additional time to implement the standard, but will also provide them -- and their auditors -- with the opportunity to learn from the larger banks' implementation experiences. Depending on what is expected of community banks and their auditors, the FASB may need to consider further extending this as the various parties begin to seriously evaluate the implementation challenges inherent to CECL.

That said, ABA remains extremely concerned about whether and how banks can implement CECL, and whether it will result in an improvement in the accounting for credit impairment. We believe there is still time for the FASB to consider some of the significant issues we have expressed in the past, so as ABA's new CEO, I am writing to ask for your help.

The CECL model represents the biggest change – ever – to bank accounting. Our bankers and staff have had many discussions with the FASB, as well as with the banking agencies, accounting firms, the SEC, and the PCAOB related to CECL implementation. Despite these meetings, we see no agreement about what will be expected with regard to needed methods, processes, data or documentation, as well as how CECL might be scalable for smaller banks. While FASB believes that CECL builds upon existing GAAP practices, we are doubtful that auditors and the SEC, PCAOB and banking regulators, in whole or in part, would accept current processes or levels of documentation. This rejection may result from the significant reliance CECL places on predictions of future economic conditions and on how those predictions should relate to specific loans and debt securities. Further, to our knowledge, there has been no work performed on the impact CECL will have on bank operations and costs on an ongoing basis.

As you know, there is a history of those outside of FASB influencing bank accounting practices, especially the bank regulators, SEC, and PCAOB. This is sometimes due to changes in regulatory personnel with new views on existing issues, changes in rules or regulations, or reactions to economic trends. We anticipate that the influence of those outside the FASB will be even stronger under CECL because of the forecasting requirement, and it is important that those with the power to affect interpretations of CECL have a common understanding about what is required. For example, there have been public statements by banking regulators that that they are working with FASB to ensure CECL will be scalable to community banks. We believe the goal of scalability is linked to simplicity, which is extremely important both for banks and users of their financial statements. However, it is difficult to see how most community banks can implement a non-complex CECL model that will pass audit or examination muster in this environment. As a result, we are concerned that there could be substantial cost burdens not only at implementation, but also subsequent to implementation as a result of audits and examinations.

The FASB's upcoming roundtable for community banks is an important event. As you may recall, ABA has requested several times – as far back as January 2014 -- that roundtables be held, as doing so could help establish a common understanding about what is expected, whether CECL will result in useful information for investors, and whether it can be implemented in a cost-beneficial manner for banks of all sizes. Your upcoming roundtable is essential to addressing these questions, especially as to whether and how CECL can be scaled and simplified for smaller banks. At this point, we do not know whether CECL can be adopted in a manner that is acceptable to all parties, and we are hopeful that the roundtable will bring the FASB's views and our bankers' views closer together.

As you prepare your agenda for the roundtable, I urge you to reconsider some of the issues that ABA and our members have raised with you during the years the FASB has worked on this project. Your letter gave us an opportunity to reevaluate our recommendations in the context of the meeting, and it appears to me that the root issue is whether the standard can pass a costs-benefits test, particularly for smaller banks. Questions we have been raising that should be addressed at the meeting and during subsequent FASB deliberations include:

- Given that long-term economic forecasts, even by professional forecasters, are notoriously unreliable, does a requirement to forecast "lifetime" losses actually improve impairment accounting over what is currently practiced in the U.S.? How will smaller banks obtain information about the future that specifically applies to their own credit losses, and what will the documentation expectations be? Can the ABA-endorsed Banking Industry Model, which was proposed in 2011 and provides for forward-looking estimates, be a low-cost solution that is agreeable to all parties?
- Can bankers perform these forecasts and other analyses on their own, or will they need to acquire new systems and vendors to capture, analyze, and calculate the required information? Will those systems be simple enough that bankers can understand and explain the inputs and results? Are the costs of external audit and examination of those systems included in your cost vs. benefits analysis?
- Will investors and board members understand loan performance when current credit metrics, such as delinquencies, may have little relevance under CECL? Has this been considered within your costs vs. benefits analysis?

- Is it acceptable that smaller institutions may be put at a competitive disadvantage, especially if the non-complex CECL models result in larger allowances and less capital early in the loan's life?
- Are there answers to some of the fundamental questions that the ABA has raised with FASB, such as those provided in the white paper that ABA provided to the FASB, *CECL Implementation Challenges: The Life of Loan Concept*?

We recognize that the FASB's focus is to ensure that its standards provide credible information to users of financial statements, rather than to control or prevent an adverse impact on businesses or the economy. However, this is an important issue, and if the theory behind CECL is unworkable, the overall repercussions could seriously outweigh the rewards, even for investors. This risk needs to be evaluated. It is difficult for our members to fathom the notion that banks will be faced with a standard for which the questions raised in this letter have not been answered, and we strongly encourage the FASB to do so in a public way so there is a clear understanding among all parties. This would have the added benefit of helping the FASB perform a meaningful evaluation of costs vs. benefits.

No doubt this is an extremely complex and difficult issue, and we appreciate your continued time and consideration of our bankers' views. Our goal is to continue our dialogue in order to ensure that the impairment model is acceptable and workable for all sizes of banks and their financial statement users. I look forward to meeting you soon.

Sincerely,

Bob Nichols