January 24, 2014

Mr. Russell G. Golden  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  

Via email: rgolden@fasb.org

Dear Chairman Golden:

The American Bankers Association (ABA\textsuperscript{1}) appreciates the efforts by FASB to attempt to achieve a single global accounting standard on impairment. FASB’s work with the International Accounting Standards Board (IASB), the global banking regulators, and FASB’s many constituents during the past 3½ years in examining the accounting for credit losses in loans and debt securities has been an extremely important learning process for all parties. Working with, and understanding your international peers and constituents have also presented challenges that FASB has never had to handle before. Local customs, terms, previous accounting practices and economic policy all shape and influence constituent feedback and board member opinion. Indeed, this has been an extensive effort, with five exposure drafts\textsuperscript{2} issued by the FASB and IASB since 2009 – most of which was dedicated to trying to reach agreement with the IASB.

Impairment accounting is the heart of accounting for the banking industry. Given the role banking institutions have in the economy – both national and international – a final standard can have a significant and systemic impact. Further, since world banking regulators have agreed upon common goals related to capital requirements, it has been important that a common loan impairment standard be agreed upon by FASB and the IASB. With the international arena in which many banks now compete, a level playing field is a necessity. Indeed, the stakes are high and the importance of this project cannot be understated. For these reasons, it is extremely important that the FASB’s final standard:

- Reflect a bank’s estimate of all losses that currently reside in the loan portfolio.
- Retain a level of reliability critical to financial reporting integrity and required by banking regulators, and
- Be operational to implement and audit, building on current credit loss estimation systems and not requiring wholesale changes to them.

\textsuperscript{1}ABA represents banks of all sizes and charters and is the voice for our nation’s $14 trillion banking industry and its two million employees.

\textsuperscript{2}We consider the joint “Supplementary Document” issued in 2011 as an exposure draft.
As we, and many others, have continuously expressed to the FASB, the Current Expected Credit Loss model for impairment of loans and debt securities (CECL) does not meet these tests. Given the disparate feedback you have received worldwide by investors, bankers, auditors, and regulators, we are confounded with the recent decision to continue to pursue the CECL model. During our numerous discussions on the CECL model, we continually find no common understanding of what the model requires. For example, CECL Exposure Draft strongly indicates that portfolio vintage analysis will be required in order to support life of loan loss analysis. However, discussions with certain FASB members and regulators both confirm and refute this notion, depending on who responds. This lack of agreement among key parties (FASB board, FASB staff, investors, bankers, and banking regulators) leads us to wonder why roundtable discussions have not been conducted prior to this decision. We do not believe the overall objectives of your different constituents to be radically different and believe face-to-face discussions would clarify and reconcile their positions. We strongly encourage the FASB to hold roundtable discussions, and the ABA would be glad to host.

It is our understanding that the FASB intends to organize implementation groups during the transition period after the final standard is issued. However, as different FASB members have continually expressed throughout this process, words do matter. It will be unacceptable for FASB to issue a final standard that, due to the language used, results in unintended consequences that unnecessarily changes investor outlook, the cost of doing business, regulatory actions, and/or macroeconomic impact. Worse, it will be unacceptable to require such radical change to bank loan loss estimation systems if the investors and regulators receive information that is no more helpful than what is received today. We, therefore, urge you to initiate efforts to conduct U.S. constituent roundtables prior to moving ahead with the CECL model. In the remainder of this letter, we provide issues and questions that must be addressed during the roundtable discussion.

Background

ABA, as well as many individual banks – including national, regional, and community bankers – have had numerous discussions with and have written many letters to the FASB on this topic over the past few years. As noted above, we have emphasized that a final loan impairment model must:

- Reflect a bank’s estimate of all losses that currently reside in the loan portfolio.
- Retain a level of reliability critical to financial reporting integrity and required by banking regulators, and
- Be operational to implement and audit, building on current credit loss estimation systems and not requiring wholesale changes to them.

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3 Roundtable discussions were held by FASB for its original 2010 exposure draft. However, the vast majority of discussion during these roundtables centered on the requirement to record all financial assets on the balance sheet at fair value. Little discussion centered on credit losses.

4 For example, the FASB has noted that investors want all “expected losses” to be accrued. Our discussions with investors indicate that they want management’s best estimate of those losses rather than “lifetime” losses, leading us to believe that investors want the most reliable number. These two sets of views may or may not result in the same measurement.
ABA supported FASB’s decision to discontinue pursuit of the so-called “3 bucket model” (3BM) that the IASB eventually proposed in its most recent exposure draft. Although the 3BM generally represents the way that U.S. banks analyze credit impairment in loan portfolios and it attempts to represent the economics of the lending business, the details of the 3BM convinced ABA that it would be unmanageably complex to operationalize for U.S. banks, would unnecessarily suppress loss recognition in many cases, and would make the loan loss allowance arbitrarily volatile. As we note above, words matter – and the words were unacceptable to U.S. banks and U.S. banking regulators.

FASB’s CECL impairment model, benignly proposes “expected credit losses” in the loan portfolio. However, given all the previous discussions with the IASB related to “one year’s losses”, “lifetime losses” and the so-called “expected value” concept (which implies a detailed analysis of periodic cash flows), FASB released a document of “Frequently Asked Questions” that emphasized the concept of “life of loan” (LOL) losses recorded upon origination of the loan. Through subsequent discussion with FASB members, ABA further learned that the LOL concept requires banks to make forecasts far beyond their capability, resulting in a much lower threshold of reliability in the amounts reported to users of financial statements. Because CECL is unrelated to how banks manage credit losses, it also requires wholesale changes to the systems banks use to estimate credit losses. In other words, not only does the CECL fail to represent any kind of step toward convergence with the IASB’s 3BM, the LOL concept of CECL contradicts two of the three aforementioned principles that U.S. bankers believe an impairment model should retain. Bankers will not be able to produce estimates that are sufficiently reliable (resulting in unnecessary volatility and violating regulatory “model risk” standards).

Within our comment letters related to the CECL and the 3BM, as well as the 2011 Supplementary Document, ABA endorsed the U.S. Banking Industry Model for loan impairment (BIM). The BIM, which essentially requires banks to record all inherent losses in the loan portfolio, has represented the only serious compromise between the CECL and the 3BM. However, it has become clear that very little consideration has been given to BIM, as the Boards on both sides of the Atlantic dug in their heels with their own impairment models. CECL is widely expected to require significantly higher allowances for loan and lease losses upon origination than those estimated within the 3BM. As a result, U.S. bankers will not only spend millions of dollars to build completely new systems that produce less reliable (and, thus, more volatile) estimates, they will also be at a competitive disadvantage to their international peers. Bankers in the U.S., both large and small, feel caught in the crossfire without justification.

Please note: bankers in the U.S. believe that all losses that are estimable with reasonable confidence should be recorded. Foreseeable conditions, including macroeconomic conditions in light of relevant contractual terms – even to the end of the contractual term – should not be ignored. However, long-term

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5 The proposal also applies the CECL model to debt securities, which is opposed by ABA. There has been insufficient discussion as to how the CECL model would apply to debt securities.

6 Based on our observations, it appears that FASB believes banks will leverage existing internal credit risk management approaches and systems. However, these existing systems are not meant to estimate losses over the entire lives of the loans, especially for those loans that are neither impaired nor exhibit higher credit risk characteristics. Therefore, there is very little “leveraging” that can be achieved.

7 BIM directly addresses impairment for unimpaired loans. It is assumed that measurement of impaired loans would not change from the current standards that measure impairment based on the present value of expected cash flows.
life-of-loan loss analysis, while it can be a helpful tool in analyzing impairment, is not an appropriate starting point for point-in-time estimates. Since the allowance for loan and lease losses (ALLL) is a point-in-time estimate that is critical for users as well as for regulatory capital management, the lack of reliability that CECL will result in is unacceptable to bankers, especially in view of the costs involved to implement and audit such processes. Combined with a lower loss recognition threshold, such a requirement also distorts the economics of banking. Neither bankers nor long-term bank investors desire this. Listening to the reasons that FASB members have given to pursue CECL, we can only conclude that FASB has ignored banker concerns, cherry-picked investor preferences, and disregarded its own conceptual framework.

Given the demanding agenda that FASB and IASB have pursued over the past three years, with projects addressing not only all of bank accounting, insurance accounting, lease accounting, and revenue recognition, we can understand how fatigue can set in. We understand that the Boards want to finalize a standard and move on. However, given the importance of bank accounting to the economy, this does not mean corners can be cut. Bankers are accused of “earnings management” when loan loss allowances are “too high” and faulted for “hiding losses” when too low. CECL will not change that. During the financial crisis, the current loan loss reserving standard was accused of “too little, too late”. CECL would not have prevented such criticism.

**Investor Feedback**

Bank financial reports are generally the most extensive of any other industries in the U.S. Bankers are constantly working with both investors and regulators in obtaining relevant information to assist them in their analyses. Since the CECL model contradicts what bankers hear from their investors, it is important to understand how investor preferences are considered during this process. FASB often cited investor preference for mark to market accounting (MTM) prior to its 2010 proposal to expand MTM, only to hear an avalanche of opposition from investors when the MTM proposal came out. In this instance, the general idea of expected losses within the CECL is attractive to all parties, including investors. However, understanding all the requirements and consequences of such an idea is a critical factor that has not been sufficiently or successfully described by the FASB. This issue is too important to have a repeat of the MTM investor outcry after issuance of the standard.

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8 ABA supports lowering the loss recognition threshold from the current “probable” level. The problem is that FASB has eliminated the loss recognition threshold altogether. By referring to long-term “unadjusted historical loss data”, there appears to be an implied loss recognition threshold of “reasonably possible.”

9 During the December FASB public discussion on this topic, we were stunned by the several references to community bankers either supporting or being able to implement the CECL. This is not what ABA’s community banker members or its larger bank members believe. This alone suggests that a roundtable is imperative.

10 We note that members of FASB’s Investor Advisory Council are split on their preference for the CECL model. One of the members who does not approve of CECL is the one member of the Council who, as a principal of a private equity firm, invests his own and others’ funds specifically in banks.
• Which investors have priority in FASB’s decision-making process?

As part of the FASB Conceptual Framework, the primary constituent of FASB is the user of financial statements, and the primary user is the investor or creditor. During the FASB and IASB outreach, there appears to be no consensus among investors related to their preferred impairment model. Acknowledging divergent views by investors on the impairment models, FASB members have noted that a majority of “long only” investors in the U.S. (those who invest with the objective of profiting from an increase in prices – typically a long-term investor) do not favor the CECL. Those investors prefer a model whereby loss estimates are more reliable. We surmise from this that “long/short” investors (typically hedge funds that wager on both short-term price increases and decreases) prefer the CECL. Additionally, investors who have more “skin in the game” from a long-term perspective – typically investors in privately-held banks and managers of private equity funds, have indicated to ABA a preference for a model with a higher level of reliability in loss estimates than the CECL provides.

If FASB is giving preference to “long/short” investors (for that matter, if it is giving equal weight to “long/short” investors) over those that invest for the long-term, we believe that this contradicts the spirit of the mission of the Securities and Exchange Commission (SEC). Indeed, in a September 10, 2009 letter, then-Chairman Mary Schapiro noted “I firmly agree that the commission’s focus must be on the protection of long-term investors”. 11 Therefore, we wonder why such a radical and untested CECL model would be approved without the support of a substantial majority of long-term investors.

• Do investors who favor CECL understand that current widely-used credit metrics will have no relation to the current financial statements?

Since losses are recorded upon origination, the allowance for credit losses or current credit loss provision expense under the CECL should have no relation to metrics, such as delinquency, the balance of nonaccrual loans, charge-offs, and loans modified in a troubled debt restructuring. Changes in these key metrics are assumed to be “expected” by the bank at the time of origination under CECL. Therefore, by design, disclosures of such metrics will obfuscate management’s actual forecast of credit-related charge-offs.

With the enhancement of credit quality disclosures approved in 2011, FASB was responding to concerns that the allowance for credit losses was derived from a “black box.” With the CECL model, such opacity is returning. While investors may try to rely solely on certain other credit quality disclosures proposed as part of the CECL proposal (for example, loans by credit quality classification), we believe that investors will then clamor for significant further disclosures to provide information based on “old” ALLL accounting.

11 While Chairman Schapiro was referring to the development of “dark pools” within certain capital markets, we have no reason to believe the mission of the SEC should differ between capital market structures and financial reporting.
• Have field testing results been shared with investors?

Prior to the December FASB meeting, FASB staff discussed analysis that compared the balance sheet and income statement impact of the CECL and the IASB model, based on different economic and loan growth assumptions. The analysis showed that, for a five-year balloon loan, a loan loss provision under CECL is expected to be over 200% higher than that under the IASB 3BM. While the 3BM built up allowances over the five years, CECL allowances were recorded the first year. This result comes as no surprise.

With this in mind, however, we believe more insightful discussions can be held related to field test results. The big problem with the modeling discussed during December is that it assumes banks are able to accurately forecast long term loss results at a point in time. Indeed, the CECL provision booked at origination each year was assumed to be the ultimate actual loss provision required. We understand that shortcuts are sometimes needed in the interest of expediency. However, such assumptions not only are unrealistic, but they are a slap in the face of the biggest concern that bankers have with CECL: LOL loss estimates are unreliable, resulting in unnecessarily high allowance balances and exaggerated volatility.

We are aware of various banks that have performed field tests of both CECL and 3BM over periods of time and we believe those results should be shared with investors. It is not clear to us what the objective of the December modeling was. However, any substantial discussion should include field test results over a period of several years.

Additional points that need to be considered are:

• In the midst of long term economic stability, will investors accuse bankers of earnings management because long-term expectations do not match recent economic trends?
• Does CECL significantly address the “too little, too late” criticism?
• Will users tolerate the greater volatility inherent in the CECL?
• Will users tolerate consecutive periods of time when charge-offs are significantly higher than provisions?
• Is the increase in the cost of capital for banks – especially compared to banks outside the U.S. – justified in the CECL, or will the markets understand the differences between the IASB and FASB models?

It is generally accepted that CECL will increase ALLL levels in the U.S. and that they will be higher than those levels outside the U.S. Most view ALLL as an aspect of capital. Investors that are not concerned with the cost of capital are likely not long-term bank investors. However, this question also applies to the banking agencies who must determine whether regulations (in this case, the accounting standards they use) systemically put U.S. banks at a disadvantage. Long-term investment in banks is critical to continuing in banks’ financial intermediary function within the economy.
• Does the significant expansion of stress testing have an impact on investor preference?

Discussions we have had with some investors related to regulatory stress testing indicate the results of such procedures will have a greater impact on their view of future performance and net cash available for dividends rather than the financial statements. In light of this, is such a radical change necessary to users?

These above issues are critical to the credibility of FASB as it issues a standard that shapes not only an entire industry and its cost of capital, but also has an impact on the availability of credit in the U.S.

**Alignment with FASB’s own Conceptual Framework**

The mere fact that FASB has seriously considered a variation of the CECL, whereby allowances recorded at origination are amortized over an expected “emergence period,” is sufficient evidence that the Board realizes that CECL is a flawed impairment model. We believe CECL conflicts with the FASB’s Conceptual Framework (CF). The CF states that assets and liabilities result from past transactions and events, while CECL essentially requires banks to record losses well into the future. Making this worse, losses in the future are recorded while future interest income is not recorded.

Certain FASB members are justifiably concerned that the “Day 1 losses” (resulting from recording LOL losses up front) do not reflect the economic substance of a lending transaction. Others justify such a concept by believing that, in substance, the loss event that is recorded upon origination is the origination transaction itself.

This is simply illogical. No one makes loans believing the loans will go bad. Of course, certain losses are assumed in managing businesses over time. However, credit managers normally manage credit portfolios (and expected losses) by adjusting underwriting, pricing, and volume on a going-forward basis. Therefore, requiring LOL losses to be recorded at origination is essentially asking pro forma information to be booked. We find it ironic that FASB has been working steadfastly on revenue recognition and insurance projects whereby it has been critical to match revenues with the related costs and losses. So, why must a loan be treated differently? The conceptual framework is understandably silent on this.

**What is wrong with a foreseeable future?**

FASB has expressed frustration that alternatives to the CECL, such as the 3BM or a foreseeable future model (which the BIM most closely conforms to), are too difficult to implement consistently among entities. We agree that a consistent measurement objective is important. However, as long as FASB intends to avoid convergence with 3BM, these worries, for all practical purposes, are unfounded. Working within the parameters of current U.S. GAAP, the accounting principles are often interpreted through guidance and the eyes of banking regulators and their examiners. Even if FASB members fear erratic initial implementation, the U.S. banking regulators would, in their supervisory roles,
encourage consistency, as they do now. Understanding that large banks are naturally more capable of integrating market data and macroeconomic trends into loss estimates, current impairment processes throughout the industry in the U.S. are relatively consistent. Therefore, as we believe that peer data will continue to be heavily emphasized in examinations and independent audits, as well as analyzed by investors, with sufficient disclosure of an assumed foreseeable future, practices in the U.S. of a foreseeable future would likely achieve consistency in a relatively short time period. As noted above, peer data will not be comparable under a LOL concept, as charge-offs, allowances, and provisions are designed to have no relation to contemporary borrower behavior. We, therefore, see no improvement to financial reporting by continuing with a LOL concept.

How will such balances be audited?

During our discussions with auditing firms, it has become obvious to us that there is high uncertainty as to how accounting firms will audit LOL loss estimates in conformity with existing or future standards set by the Public Company Accounting Oversight Board (PCAOB). PCAOB has remained silent during the comment period, which has been frustrating to many constituents. We believe that PCAOB input is critical prior to finalizing the wording of a final standard. Auditing rules should not result in new interpretations of accounting standards.

Contrary to what some may expect, however, it is not defining expectations such as “reasonable and supportable forecasts” that has the ABA worried. Within the exposure draft and FAQ document, it is explained that FASB expects historical data to be used as a “starting point”. We believe the challenges of auditing LOL loss estimates lie in the assumption that historical long-term loss averages are always good bases for estimating expected losses at a specific point in time. For credit losses, this assumption is misguided. Credit losses largely reflect economic cycles: several years of very low losses are often followed by one or two years of acutely high losses. Starting with average historical LOL loss rates will generally require enormous adjustments from the average.

A good example of the unreliability of estimating losses using historical LOL loss rates as a base is an analysis of defaults on conforming residential mortgages. Cumulative default rates between 2002 and 2007 ranged from less than 2% to greater than 12%. In this example, the average of 7% might not be the best approximation of actual expected loss under CECL, and a bank would need to adjust the loss rate based on reasonable and supportable assumptions. However, this is obviously a very wide range. How will banks determine and document – and accounting firms audit for consistency among banks – the appropriate number within this 10 percentage point range? How will auditors distinguish between a 500 basis point adjustment, either higher or lower than the 7% average? Both adjustments (as well as the difference between the two) will often exceed materiality thresholds. We speculate that the range of

12 We also reject the notion that a problem exists when foreseeable futures differ based on product and credit risk characteristics. While it may be expedient for a regulator to arbitrarily set one (such as the 12 month time period for incurred losses), different foreseeable futures necessarily reflect a cost beneficial way to analyze the credit risk in the portfolio.

13 LOL loss rate analysis requires vintage analysis, much of which is not performed currently by banks.

14 The clearest example of this is presented in the quarterly Credit Supplement currently published by Fannie Mae.
reasonable and supportable assumptions will be significant and we do not believe auditing firms will take comfort in that.

Many bankers, especially community bankers, have asked how to credibly forecast what will happen several years in the future. FASB responded to this by suggesting that entities could revert to unadjusted historical averages for future periods beyond which an entity is able to make or obtain reasonable and supportable forecasts. At first blush, this appears to be a reasonable suggestion. However, reverting to unadjusted historical averages for the “out years” requires vintage analysis to be performed. Vintage analysis is currently not performed by most banks and is of questionable applicability to many corporate loans. Two other critical questions immediately come to mind:

- Understanding the challenges with unadjusted historical averages on LOL losses noted in the above example, why would a bank (or auditors) accept unadjusted historical averages for an expectation of losses in those “tail years”?  
- Absent the ability to estimate LOL losses, how do unadjusted historical averages on LOL losses provide the basis for a better estimate than management’s best estimate of loss over its foreseeable time period?

Other Implementation Questions Must Still be Addressed

ABA believes there are numerous implementation questions related to unadjusted historical LOL loss averages. Implementation questions can normally be reserved until after issuing a final standard. However, we believe these issues, if not addressed prior to issuance, can have an impact not only amounts recorded in the ALLL, but also internal control opinions.

- Will banks have sufficient history on which to legitimately use historical averages? If not, where will they obtain such information and what processes will be required to ensure such data is accurate? How will de novo banks and small community banks base estimates on historical losses?
- Will banking regulators be required to alleviate standards related to “Model Risk Management”?

Such standards require back-testing, the results of which are expected to be dubious under a LOL loss model.

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15 We also note that business cycle turning points, the key aspects of reasonable and supportable forecasts, are one of the main sources of economic forecasting errors. See Congressional Budget Office, CBO’s Economic Forecasting Record: 2013 Update. This report also notes “Business cycle turning points often occur during periods of high uncertainty… Under such uncertain conditions, widely different outcomes can appear equally probable, making it difficult to gauge whether an economic downturn is imminent.” In fact, economic output during 2008 was 4% under the CBO two-year forecast.

16 Of course, adjustments to current loss data are currently performed. However, the data is not based on life of loan (vintage) losses and the resulting adjustments are significantly smaller than what will be necessary under a LOL requirement.

17 Reverting to unadjusted historical averages also poses a challenge, since it often requires a separate vintage analysis than what is required for impairment within a foreseeable future.

18 All U.S. banks with over $1 billion in assets are required to obtain an auditor’s attestation regarding the effectiveness of internal controls.
How are the expected lives of credit cards and other revolving line facilities to be determined?

There is no accepted method to determine the life of a credit card loan/advance. Bankers not only disagree with regulators, but also disagree with one another on how the lifespan should be determined. In fact, while credit cards present the most obvious challenge in determining lifespan, there are disagreements over how lifespans over other revolving facilities can be determined and supported.

What is the life of a renewable loan?

Procedures to analyze LOL losses expected on portfolios of unimpaired loans are anticipated to include estimating the expected life of the portfolio. Generally, LOL models will likely have higher loss estimates as the assumed life increases. Since many commercial loans and lines of credit issued today are renewable, an expected life will normally be longer – much longer – than the contractual life. For example, many banks have open lines of credit for their customers that have spanned decades (and the banks hope these lines to remain for additional decades in the future).

In its attempt to provide guidance on how to address renewable loans, FASB further defined the contractual term as the expected life limit for renewable loans, unless a troubled debt restructuring is expected. This guidance makes little practical sense. First, the guidance appears to apply to individual loan impairment evaluation, whereas the CECL relates primarily to estimating allowances for portfolios of loans. It would be unnecessarily complicated to factor in the likelihood of a TDR into the LOL analysis for an unimpaired loan portfolio. Second, for unimpaired renewable loans, banks currently look out farther than the contractual life in order to estimate impairment.

Although we would like to believe that charge-offs (the ultimate resolution of a loan loss) can be forecast with precision, the truth is that there is enormous judgment involved and allowances for loan losses are naturally volatile. Further, lowering the threshold to recognize losses, while also extending the time period for estimating loan losses to the far future, is a combination that leads to unacceptably low levels of reliability. Natural volatility in a very judgmental area is, thus, being multiplied by

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19 Corporate loans and certain consumer loans are subject to individual loan reviews. However, estimated losses on loans that are not classified (generally rated “pass” – unimpaired loans that have no foreseeable conditions to be rated as “special mention”) are normally performed in a pool.

20 For example, if a two year renewable loan has nine months remaining in its contractual life, banks are normally estimating two years in the future. The CECL guidance will, thus, result in lower than believed portfolio lives (and lower corresponding allowances). We believe that for these commercial loan products, the ALLL will inappropriately decrease from current levels – often by half. We do not believe this will be viewed an improvement in accounting.
volatility required by the impairment model.\textsuperscript{21} It is important that the key implementation issues are resolved prior to issuing the final standard.

It seems that FASB is making a sincere effort to improve loan impairment accounting. However, the job is far from over. Face-to-face discussions among bankers, regulators, auditors, and investors must take place before the final standard is issued to help ensure a common understanding of the words in the standard and to avoid major conflicts after the standard becomes effective. ABA is happy to organize and host any such efforts and we look forward to expediting those efforts if your schedule permits.

Thank you for your attention to these matters and for considering our views. Please feel free to contact Mike Gullette (mgullette@aba.com; 202-663-4986) or me (dfisher@aba.com; 202-663-5318) if you would like to discuss our views.

Sincerely,

\begin{flushright}
Donna J. Fisher
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\textsuperscript{21} Bankers may find that the volatility of bouncing in between capital adequacy and conservation levels (which further restricts dividend distributions) is not acceptable from a regulatory perspective, which may result in an additional capital buffer. Although this is not necessarily a concern to the FASB, it is a cost that should be considered by regulators and others when determining the costs versus benefits of the standard. It further expands the cost of capital differential between U.S. banks and non-U.S. banks.