American Bankers Association
Building Success. Together.

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Mr. Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Via email: rgolden@fasb.org

Dear Russ:

The American Bankers Association (ABA[1]) appreciates the efforts by FASB to continue to improve the Current Expected Credit Loss model for impairment of loans and debt securities (CECL). Because several key challenging issues remain unresolved, we believe additional interaction among FASB and its constituents is needed prior the approval of the final Accounting Standards Update (ASU).

We appreciate the extensive outreach the FASB has had on this project. In addition to various open meetings and other outreach efforts, we found the June 2014 workshops to be especially useful, as they enabled Board and staff members to better understand the concerns of the various constituents, and it helped constituents see how others were interpreting the proposal. Both ABA staff and ABA member banks have been very active participants in this process and we are grateful for the opportunities to contribute.

With that in mind, we recommend that at least one additional workshop be held prior to issuance of the ASU. As the FASB continues to make improvements to the CECL, it is critical to achieve a common understanding – by FASB, bankers, auditors, regulators, and financial statement users – about what CECL entails. Currently, there is a lack of agreement among FASB's constituents regarding what will be required. If approved in its current form, we believe there will be no improvement to impairment accounting. In fact, we believe investors will be confused by the information provided, regulators will be frustrated in their desires to limit complexity for community banks, CPA firms will be unnecessarily subject to higher exposure to "audit failures", and bankers may not agree that the allowance for loan and lease losses (ALLL) truly represents losses that are anticipated. Our broad concerns are:

- CECL Complexity – There is not a common understanding among constituents about the requirements of CECL or how it will be operationalized. Based on discussions conducted in December by the ABA Accounting Administrative Committee, we observed significant differences in opinion between and among bankers, banking regulators and auditors about what will or should be required under CECL. This includes the extent of additional data required to be maintained, the

[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.

extent of complex financial modeling, and level of documentation[2] to satisfy audits and examinations.

- Impact of CECL – Most believe CECL represents a significant change for both the process of measuring impairment and the financial impact on banks, including the availability of credit. The "life of loan" loss concept introduced by CECL requires analyses that are unfamiliar to financial and credit officers at most banking institutions.[3] Because there is no common understanding about its operational requirements, the financial impact of CECL has yet to be quantified (with any acceptable level of confidence).[4] Absent this, it will be difficult for the FASB or its constituents to consider costs vs. benefits.[5] As part of this process, key questions are whether banks[6] will need to outsource much of this function (including procuring third-party data sources), whether banks will need to invest in extensive systems changes/experts, or whether there will be some alternative that is acceptable to FASB, PCAOB, auditors, regulators, and investors.

- PCAOB vs. FASB expectations – Although current GAAP has been in place for many years, some auditing firms have recently expanded their documentation requirements from clients, due to concerns raised in examinations by the Public Company Accounting Oversight Board (PCAOB). Further, based on some of the ideas being proposed in the PCAOB's consultation paper *Auditing Estimates and Fair Value Measurements* and those anticipated in its forthcoming concept release specifically addressing specialists, the level of work may continue to grow, even under current standards. ABA believes, therefore, that the additional work required under CECL that is envisioned by PCAOB (and, as a result, auditors) may be far in excess of what individual FASB members envision.

Words matter. There is currently no common understanding about CECL requirements, and while the FASB has been open in its process, new wording has not yet been distributed to constituents. Distribution of new wording and a fresh discussion among constituents at a workshop would help identify pitfalls, help gain a common understanding, and help ensure a reasonable implementation. While we believe participation in the workshop should be limited to a very small number of bankers, regulators, and auditors, it is imperative that the PCAOB be represented. Without collaborative work among all the key constituents, FASB cannot perform an adequate costs vs. benefits analysis. Further, the lack of a

[2] Documentation requirements for banks by banking regulators may differ significantly from those required by auditors. Although we recognize that banking regulatory expectations may not be the primary concern of the FASB, the banking regulators' interpretations of the standard and their documentation requirements will be part of the implementation burden. (Initial differences in opinion have been identified in the ABA Discussion Paper *CECL Implementation Challenges: the Life of Loan Concept.*
http://www.aba.com/Tools/Function/Acct/Documents/CECLImplementationChallengesLifeofLoanConceptOctober2014.pdf)

[3] Credit officers may manage loan portfolios based on long-term expectations of loss; however, those expectations are not necessarily meant to estimate a specific loss amount at a specific date for the full lifetime, as required under CECL.

[4] Although broad-based estimates have been provided by U.S. banking agencies as to the initial measurement impact on the ALLL, little or no specific work has been performed to estimate either losses or the period-to-period impact. As part of the costs vs. benefits analysis, the period-to-period impact should be assessed under potential stress periods in order to evaluate reliability and volatility, as well as during stable periods in light of earnings management concerns – a big concern of regulators and auditors during the previous decade.

[5] It is our understanding that the costs vs. benefits analysis will be done after the FASB's external review process. Feedback from the draft provided to constituents during the external review process will likely be the first real opportunity to evaluate the costs vs. benefits. Sufficient time needs to be provided to help ensure that costs vs. benefits are adequately considered.

[6] Although this is an important question for all banks, it is especially true for community banks. Most U.S. banks are considered to be community banks.

common understanding prior to approval of the ASU will likely lengthen the required period to effectively transition to CECL.

We believe this workshop should take place as soon as new draft wording is available. The workshop can be conducted as part of the external review process – as long as sufficient time is provided.[7] Although the external review process will give FASB the opportunity to receive feedback, we do not believe feedback can be adequately evaluated without a workshop, as it provides a dialogue opportunity among the FASB and its constituents rather than bilateral feedback.[8] We believe this must be performed as part of the standard-setting process rather than subsequent to issuance of the ASU. The ABA would be glad to host a workshop.

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,

Donna J. Fisher

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[7] It is our understanding that the external review process will likely differ from previous "fatal flaw" reviews, as feedback received during the external review process will be used as the basis for performing the FASB's costs vs. benefits analysis.

[8] Some constituent views could change as they learn through dialogue how other constituents interpret the wording. For example, banking regulators and certain investors might learn from auditors that the extent of testing required by auditors would be unduly burdensome to community banks.