

American Bankers Association

Building Success. Together.

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March 11, 2011

Sir David Tweedie, Chairman International Accounting Standards Board First Floor 30 Cannon Street London, EC4M 6XH United Kingdom Leslie Seidman, Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Via email: director@fasb.org

RE: IASB Supplemental Document: Financial Instruments: Impairment
FASB File Reference No. 2011-150 Accounting for Financial Instruments and Revisions to the
Accounting for Derivative Instruments and Hedging Activities: Impairment

Dear Sir David Tweedie and Chairman Seidman:

The American Bankers Association (ABA) appreciates the opportunity to comment on the Supplementary Document *Financial Instruments: Impairment/Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities: Impairment* (SD). ABA brings together banks of all sizes and charters into one association. ABA represents banks of all sizes and charters and is the voice for our nation's \$13 trillion banking industry and its two million employees. The majority of ABA's members are banks with less than \$165 million in assets. ABA's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities.

ABA supports the efforts of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to pursue changes to the impairment models initially proposed by the Boards. However, the short comment period, which coincides with the preparation of year-end financial statements and 10-Qs, puts tremendous time pressure on accounting and credit officers in evaluating each of the models presented in the SD. Work to provide the newly-required credit quality disclosures has further compounded this problem. To put it simply, companies have not been given enough time to adequately evaluate the SD. We are very concerned that a lack of appropriate consideration could result in a poorly constructed standard. Therefore, ABA recommends that the comment period be extended by a minimum of sixty days.

We believe that the FASB, IASB, the banking regulators, and ABA have the same goal: to get the accounting right and be responsive to the needs of the many users of bank financial statements. We have held a series of conference calls with ABA's loan impairment working group and many other discussions among bankers, but the complex nature of the proposal along with the need for more definition around key concepts in the SD have resulted in mixed views among bankers. This area of accounting is so important to the business of banking that the proposal should be thoroughly vetted among banks, their auditors, and their regulators. Importantly, we need to make sure that investors will understand the framework.

Given that banking institutions operate in various sizes, products, and regulatory environments, our initial reaction is that the proposal lacks sufficient clarity in order to adequately analyze it. Frankly, many of our discussions have focused on understanding the proposal and whether it will be consistently applied, and without further guidance it may be difficult for us to provide the quality feedback that the issue deserves. In any event, we are continuing our discussions within our industry and with banking regulators.

We understand that FASB and IASB have been working on financial instruments somewhat independently. A new standard on classification and measurement (IFRS 9) was issued by IASB, while FASB is continuing its deliberations on this part of its exposure draft. Both boards have also issued different proposals related to hedge accounting. Although we prefer convergence in any new standards, we strongly believe that the same standard should be used globally for measuring and recording impairment. Convergence of GAAP and IFRS on this is critical. With that in mind, a common impairment standard will be of high quality only if the information provided is understandable and it is operational on all practical levels. With this in mind, we request that the Boards – together – provide the additional time needed by constituents.

As you may recall, when the AICPA attempted to address the accounting for loan losses a number of years ago *under existing GAAP*, much more time was spent examining alternatives than this SD provides. The comment period is critical to analyze the financial and operational impacts, as well as whether key financial statement users will understand the results. Our industry is hopeful that we can help improve the existing standards by working with you and developing a methodology that provides useful information, can be easily explained and understood, and will be consistently applied. Additionally, we need to ensure that all parties agree to the meaning of the standard in order to ensure usefulness and avoid second guessing about the wording in the standard. As part of this process, it is critical that it be adequately tested and thoughtfully analyzed.

Thank you for your attention to these matters. Please feel free to contact me (<u>mgullette@aba.com</u>; 202-663-4986) if you would like to discuss this.

Sincerely,

Michael L. Gullette

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