April 1, 2011

Financial Accounting Standards Board
Technical Director
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2011-150 Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities-Impairment*

Dear Technical Director:

SNL Financial LC ("SNL") appreciates the opportunity to comment to the Financial Accounting Standards Board ("FASB") on the Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities-Impairment*. SNL collects, standardizes, and disseminates corporate, financial, market and M&A data, in addition to news and analysis, for the following industries: Banking, Financial Services, Insurance, Real Estate, Energy and Media/Communications. Investment banks, investment managers, corporate executives, ratings agencies, government agencies, consulting firms, law firms and media all rely on SNL for timely, accurate information on the companies in our sectors. As a premier data aggregator, we feel that we have a unique perspective on the usage of information found in financial statements and their notes, as the presentation of data within our products is highly impacted by decisions approved by the FASB.

SNL's first impression of this supplementary document was that both the FASB and the International Accounting Standards Board ("IASB") are very passionate about their roles in enhancing global commerce and making financial statements more transparent and relevant for the end user. However, due in part to that desire to present the most accurate valuation of financial assets not held at fair value, the proposal is quite complex and at times, confusing. After closely reviewing the details, SNL feels that current impairment guidelines for loans under U.S. GAAP would not be significantly enhanced with the guidance proposed in this document. We would argue that the proposal would actually give companies more opportunity for income manipulation and make the data less transparent than it is now under current U.S. GAAP.

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Although SNL understands that convergence on every aspect of a proposal is difficult, we were disappointed that the FASB and the IASB could not come to a consensus about how to calculate the impairment for the good book. The idea of choosing the higher of two calculations in this scenario demonstrates the boards' indecision, especially since there were such strong arguments from each board for their respective calculations in the Basis for Conclusions section. SNL's clients heavily depend on our data regarding the quality, provisions, charge-offs, recoveries, and allowances of the loan portfolios of our covered companies. We are very interested in helping to ensure that this data remain meaningful, consistent, and accessible across all companies, especially now that SNL is covering European banking institutions in addition to our domestic coverage.

Question 1
Do you believe the proposed approach for recognition of impairment described in this supplementary document deals with this weakness (i.e. delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

SNL does not believe that the proposal will result in the accurate acceleration of recognizing expected credit losses as it is currently written. The idea of systematically allocating the expected lifetime credit losses of a portfolio over its remaining life appears to be in direct contradiction with this goal as this method is likely to recognize less reserve for the good book than under a "foreseeable" losses methodology (i.e. the "floor"), which we prefer.

Another complicating factor to this proposal is that during sharp economic downturns, it is not just the bad book that would suffer a sudden increase in actual credit losses. The good book would have the same experience, although admittedly less pronounced. In order to effectively prepare for the impact of potential credit losses, that line between the good book and the bad book has to be refined or the impairment for both the good and bad books must use a foreseeable future approach, similar to the FASB's original proposal.

Question 2
Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?
Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

SNL believes that the proposed impairment model would be more operational for a closed portfolio and that the allocation method does not seem as appropriate for open portfolios as it does for homogeneous

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closed portfolios. Specifically, the age of the closed portfolios would be more dependable for the estimated credit loss calculation of the good book under the time-proportional approach. Although the weighted average life of both an open and a closed portfolio of homogeneous loans would be similar, the ages of the loans in an open portfolio would have a larger range of values rendering the weighted average less meaningful. For example, two portfolios of similar size loans, each containing three loans, both have a weighted average age of 4. The first portfolio has individual ages of 1 yr., 2yrs., and 9yrs. (i.e. open) while all the loans in the second portfolio have an actual age of 4 yrs. (closed). Allocating the estimated remaining credit losses over four years for the open portfolio does not seem as appropriate as it does for the closed portfolio due to the special risk characteristics of younger loans.

Using this impairment model for single assets or a heterogeneous portfolio (such as real estate) might not be applicable as a whole but certain parts might be useful such as the guidance for the timeframe of the foreseeable future.

Question 3
Do you agree that for financial assets in the 'good book' it is appropriate to recognize the impairment allowance using the proposed approach described above? Why or why not?

SNL feels that the calculation for the good book is cumbersome and unnecessarily complicated. There is no apparent accounting benefit in having two calculations. SNL believes that there are certain conceptual inconsistencies with the time proportional method of estimating credit losses which is why SNL supports the foreseeable future method as the stand alone calculation for the good book.

First, SNL agrees with the FASB in Paragraphs BC81 and BC83 when the Board states that actual credit losses do not occur ratably over the life of a loan. Spreading out the estimated credit losses over the remaining life of a loan to coincide with the interest revenue recognition does not conceptually make sense for this reason. In reality, companies constantly adjust the reserves for their loan portfolios, most likely on a monthly basis, especially for an open portfolio. The idea of systematically allocating estimated credit losses over the life of an ever changing portfolio is not feasible operationally nor is it theoretically sound. In contrast, the cost to purchase a piece of equipment makes more sense to spread out equally over the life of the asset because of that more linear relationship of the expense to the benefit gained.

Continuing with the depreciation comparison, although not a perfect example, helps to point out SNL's second issue with the time-proportional guidance for the good book impairment calculation. In Paragraphs B8(a) and IE8, the explanation for how to calculate the estimated annual credit losses is not what SNL would expect from a simple straight-line or annuity approach. We would expect that the amount of estimated credit losses for the remaining life of the portfolio would be divided by the number

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of expected remaining years of the portfolio's life to arrive at the annual amount to record rather than multiplying it by the ratio of the portfolio's age to its expected life.

For example, if you had a 3 year old piece of equipment with a useful life of 5 years (similar to Portfolio Z in IE6), the remaining cost left to be depreciated would be evenly divided up between the two remaining years of life. Why does this proposed guidance seek to apportion the estimated remaining credit losses to the entire life of a portfolio in a time weighted fashion rather than just allocate the expected losses equally over the remaining life of the portfolio similar to simple straight-line depreciation? The proposed approach would allocate losses you expect in the future to years that are in the past for which you have already reserved and charge-offs/recoveries have already occurred. With this calculation, inordinately high credit losses would drag the income statement down in the first year of adoption as compared to much smaller amounts in subsequent years (unless you put a portion of those first year losses directly to retained earnings to preserve the income statement's historical consistency).

Question 4
Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

SNL does not think it would be operational or appropriate as discussed in Question 2 and Question 3. However, most companies presumably would already have a portfolio management system in place to calculate weighted average ages and weighted average lives that could be linked to their general ledger system if a link does not already exist.

Question 5
Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

Foreseeable credit losses in the near term are closely based on the actual experience of the individual company and its industry as a whole, and would be more comparable across companies than a lifetime loss estimate allocated over time. Giving a company the ability to project credit losses over a time period greater than the near term, especially for companies with loans portfolios that have longer life spans (i.e., mortgages), could lead to results that are arbitrary, hard to verify for auditors and hard to interpret for financial statement users. Forecasting financial results far into the future is not necessarily the job of the financial reporting team. The financial statements should tell a story of the past and present state of affairs of a company which can be influenced by conditions that might extend into the next year or so. In order for the proposed approach to provide useful information, SNL feels that the time-proportionate approach should be eliminated from the good book calculation.

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Question 6
Is the proposed requirement to differentiate between the two groups (i.e. 'good book' and 'bad book')
for the purpose of determining the impairment allowance clearly described? If not, how could it be
described more clearly?

The proposal does a good job of drawing the line conceptually between the good book and the bad book. However, SNL feels that there must be a strong guideline for movement between the two books if the Common or IASB approach is approved. Companies might move loans between the two books arbitrarily if no guideline is set in order to use it as a tool for income smoothing. In order to make this differentiation work for the purpose of an impairment calculation, loans with early loss patterns, in addition to nonperforming loans, should probably fall into the bad book or have a category of its own.

Question 7
Is the proposed requirement to differentiate between the two groups (i.e. 'good book' and 'bad book')
for the purpose of determining the impairment allowance operational and/or auditable? If not, how
could it be made more operational and/or auditable?

Based on the fact that many companies already isolate their nonperforming loan portfolios in a similar manner out of necessity for existing disclosure requirements leads us to believe that the differentiation laid out in the proposal would be both operational and auditable.

Question 8
Do you agree with the proposed requirement to differentiate between the two groups (ie 'good book'
and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement
would you propose and why?

SNL does not take issue with the differentiation for the purpose of calculating the impairment but believes that the amount of loans in the bad book should reconcile to the disclosures on asset quality in the notes of the financial statements. We also feel that there should be separate allowance rollforwards for both the good book and bad book if this differentiation survives for the final accounting update. Disclosures on troubled debt restructurings, nonaccrual loans, restructured loans, and past due loans should all be required to cross-reference the disclosure on the composition of the bad book and the resulting impairment recorded for the current period. As SNL mentioned in a previous comment letter, the analysts that collect our financial data sometimes have difficulty linking data from the notes to other notes and also to the face of the financial statements. That is why SNL feels that the FASB and the IASB need to require more simplified disclosures that financial statement users can clearly relate to the rest of the financial statements.

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Question 9
The boards are seeking comment with respect to the minimum allowance amount (floor) that would
be required under this proposed model. Specifically, on the following issues:
(a) Do you agree with the proposal to require a floor for the impairment allowance related to the
'good book'? Why or why not?

We believe that there should not be two calculations and the Boards need to agree on one or the other for
the good book. SNL supports the foreseeable future concept for the impairment calculation for reasons
mentioned in answers to several questions contained herein, including those for Questions 10 and 11(a).

(b) Alternatively, do you believe that an entity should be required to invoke a floor for the
impairment allowance related to the 'good book' only in circumstances in which there is evidence of
an early loss pattern?

Refer to answer at 9(a)

(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be
determined on the basis of losses expected to occur within the foreseeable future (and no less than
twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to
be determined and why?

Refer to answer at 9(a)

(d) For the foreseeable future, would the period considered in developing the expected loss estimate
change on the basis of changes in economic conditions?

SNL does not believe that companies should have the ability to adjust the foreseeable future timeframe
based on changes in economic conditions because of comparability reasons as well as the issue brought
up by other commenters about the inverse relationship (i.e. the idea that during economic downturns,
the foreseeable future would shrink, resulting in less estimated losses and the opposite would happen
during good economic times).

(e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is
typically a period greater than twelve months? Why or why not? Please provide data to support your
response, including details of particular portfolios for which you believe this will be the case.

A period of twelve months is practical for companies to be able to foresee but any further than 2 years
becomes less reliable. For instance, many companies on average put together a solid corporate budget for

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two years in the future but beyond that, it is less substantial and constantly adjusted. Trying to project credit losses past two years is arbitrary for this reason and not meaningful to the financial statement user. Further, the foreseeable future estimate for credit losses will be adjusted every period, regardless. It is the job of each company to be honest about the inputs for that estimate and it is the job of their auditors to appropriately validate those inputs in order to ensure that their reserve has the necessary capacity for unexpected near term losses.

With the increasing use of cash flow analysis in the FASB's recent proposals on the valuation of assets and their potential impairments, SNL would like to propose that the FASB coordinate with the Auditing Standards Board of the American Institute of Certified Public Accountants in order to strengthen the auditing standards around verifying inputs used in a cash flow analysis. Potentially, these audit standards could require that auditors use third party consultation, much like an actuary is used to validate the valuation of projected benefit obligations for pension plans.

(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a 'ceiling' should be established for determining the amount of credit impairment to be recognized under the 'floor' requirement (for example, no more than three years after an entity's reporting date)? If so, please provide data and/or reasons to support your response.

As we mentioned in the answer to Question 9(e), two years seems to be the far reaches of a company's ability to project into the future. Therefore, the guidance could state that the foreseeable future is defined as one to two years past the ending date of the current reporting period. SNL believes that this gives companies enough discretion to appropriately estimate their future losses without sacrificing comparability across companies which is so vital to our client base. In addition, we think it would be beneficial for the proposal to state that individual companies cannot change the timeframe of their predicted losses from financial period to financial period without penalty. This would create financial statements that are consistent across time for each individual company which is also essential for financial statement users.

Question 10
Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.

If the calculation for the time proportionate credit losses is adjusted to the method we discuss in our answer to Question 3, than the floor would always be larger. This supports our opinion that there is no need for two calculations. The nature of a good book theoretically entails a portfolio of loans that are

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performing with no indication of default or nonperformance. One of the few ways to project future credit losses on these good portfolios would be a hypothetical cash flow analysis based on historical loss rates coupled with current economic conditions and macroeconomic near term expected trends. Due to this, the time-proportional value would most likely range from equal to the floor to half of the floor. The example at IE6 does not seem to portray this idea that the time-proportional approach and the foreseeable future approach would most likely use the same cash flow model. It appears that the values in Column G ("FFP expected credit losses (Floor)") are more arbitrary and it is not clear how these numbers were calculated. SNL feels that the examples should be refined for the final standard and both Boards should perform more research on the behavior of actual loan portfolios before reaching a conclusion.

Question 11
The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:
(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the proposed approach described in paragraph B8(a)? Why or why not?

SNL thinks that the weighted average life should dictate the use of a discounted or undiscounted method of allocation if the time-proportional aspect of the calculation remains as part of the proposal. If a loan portfolio is very short term in nature, i.e. less than two year such as most credit card portfolios, the calculation should be based on undiscounted amounts and the time allocation should not be an annuity. If the portfolio has a weighted average life older than two years, the calculation should utilize discounted amounts and the companies should have to use the annuity approach for the time allocation. If no additional guidance is given, companies are bound to choose discounted amounts for the most part because they can book less credit losses in the current period that way. Companies might also switch back and forth if no guideline is set in order to use it as another tool for income smoothing. All of the above mentioned complications with the time-proportional method in B8(a) is further reason for SNL to only support the other method of estimating credit losses for the good book.

(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

If the time-proportional aspect of the calculation remains, the discount rate should be required to be the effective interest rate since the IASB objective was to correlate the recognition of interest income with the allocation of estimated credit losses. The proposal mentions that companies should be given the option to select the discount rate from a range of the risk free rate to the effective interest rate for operational feasibility. However, if the calculation of the effective interest rate has to be performed for

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the purpose of interest income recognition anyway, than the argument of giving companies the option to choose a different rate for the sake of simplicity is ineffectual.

Question 12
Would you prefer the IASB's approach for open portfolios of financial assets measured at amortized cost to the common proposal in this document? Why or why not?

SNL would not prefer the IASB's approach to the common approach. See Question 13.

If you would not prefer this specific approach, do you prefer the general concept of the IASB's approach (i.e. to recognize expected credit losses over the life of the assets)? Why or why not?

SNL does not prefer the IASB's general concept as discussed in various questions above.

Question 13
Would you prefer the FASB's approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the FASB's approach (i.e. to recognize currently credit losses expected to occur in the foreseeable future)? Why or why not?

The FASB's approach and the general concept behind it would result in more meaningful and realistic provisions and allowances for credit losses. SNL believes that this approach will also allow for more accurate comparability across companies as well as over the history of an individual company.

SNL greatly appreciates the massive undertaking that the FASB and the IASB are currently working on to converge global accounting standards. Our business depends on the availability of consistent financial data. This convergence of methodology for loan impairment will enhance our ability to provide high quality information to our clients provided that the merge is performed in a well thought out manner with plenty of outreach to stakeholders that will be affected by the changes. We would be glad to discuss our comments with the Board members or the FASB staff at your convenience.

Sincerely,

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