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Tulsa, Oklahoma 74192

Via email: director@fasb.org

April 1, 2011

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

Re: Supplementary Document, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities, Impairment

File Reference: No. 2011-150

Dear Technical Director:

We appreciate the opportunity to comment on the above referenced proposed Financial Accounting Series Supplementary Document. BOK Financial Corporation is a $24 billion regional financial services company based in Tulsa, Oklahoma. We have extensive holdings of financial assets, including $10 billion of debt securities and $11 billion of loans.

Our responses to the questions asked in the Supplementary Document are based on three broad concepts.

First, although the scope of the Supplementary Document is limited to open portfolios, we believe that the final impairment approach must be operational for all debt instruments. The Financial Crisis Advisory Group clearly identified the complexity of multiple impairment approaches as a primary weakness in accounting standards. We agree with their conclusion. The nature of credit risk and the measurement objective is the same regardless of the form of the debt instrument. In all cases, the holder of the debt instrument is measuring impairment based on cash flows it may not receive. A single, comprehensive approach to measuring and recognizing impairment will improve financial reporting and enhance understanding by all financial statement users. This issue, which is somewhat raised in Question 2, is most fundamental for this project to be successful. It must be resolved before further action is taken on the Supplementary Document.

Second, credit risk is inherent from inception of every debt instrument. It can be reasonably estimated at the time the debt instrument is originated or acquired. Therefore, a minimum impairment allowance (a "floor") should be attributed to all debt instruments.

Third, credit risk changes in response to both general economic conditions and specific debtor performance. Although holders of debt instruments are compensated for assuming credit risk over time, recognition of credit risk and compensation are independent of each other. Recognition of changes in credit risk and compensation for assuming credit risk should not be parallel.

We offer the following responses to specific questions asked in the Supplementary Document:

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

The proposed approach is an improvement over the current incurred loss model and both of the previous proposals, but fails to fully address the weakness of delayed recognition of expected credit losses. Credit risk was building on the balance sheets of financial institutions throughout 2005 – 2007. Debt instruments were performing and minimal losses were identified in the foreseeable future. For example, our allowance for loan losses based on an incurred loss model ranged from 1.03% to 1.14% of outstanding loans. Net charge-offs ranged from .13% to .19% of average loans. We believe that the proposed approach would have continued understated the allowance for impairment losses expected for the "good book" of debt instruments. In 2008, net charge-offs which were largely unforeseen at the end of 2007, jumped to .81% of average loans and by year-end, the allowance for loan losses increased to 1.81% of outstanding loans. The time-proportional approach would not have adequately provided for the rapid increase in credit losses.

In contrast, an analysis of historical business cycle trends would show that credit losses were building during this time period and could be reasonably measured. A long-term outlook showed that annual net charge-offs ranged between .22% and .36% of average loans and that an allowance between 1.38% and 1.66% of outstanding loans would have better represented expected losses. Accordingly, we believe that the floor concept should be expanded to consider the present value of a range of expected credit losses on all debt instruments, not just credit losses expected to occur within the foreseeable future. The amount recognized within the range would depend on general economic conditions, timing within the credit cycle and other relevant factors, including losses expected in the foreseeable future.

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.

As previously stated, we believe the second paragraph of question 2 is the most important factor in the Supplementary Document. A single, comprehensive impairment approach for all debt instruments is critical for the success of this project. We do not believe that the approach proposed in the Supplementary Document achieves that objective.

The approach proposed in the Supplementary Document appears to be more operational for closed portfolios than either open portfolios or individual debt instruments. The time-proportional approach to impairment recognition allows sufficient time to fully accrue expected losses over a determinable period for a closed portfolio. However, the time-proportional approach to impairment recognition will generally understate risk in an open portfolio. The expected life will continuously extend as existing assets are removed from the portfolio and replaced with new assets. At best, this method of impairment recognition will result in half of the expected loss being recognized in the allowance for credit losses at any given point in time. Similarly, the approach proposed in the Supplementary Document will generally understate credit risk inherent in individual assets until losses can be expected in 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?

We agree that an impairment allowance should be recognized for all financial assets, including those in the "good book." However, we do not agree with the approach that recognizes the impairment allowance over time (the time-proportional approach). This approach continues to support a too little, too late outcome. As previously stated, credit risk is inherent in all debt instruments and should be recognized irrespective of the when the holder of the instrument may be compensated for the risk.

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

We believe that inputs required for the time-proportional basis to be operational can be made. However, we do not believe that this approach adequately recognizes credit impairment on a timely basis.

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

We believe the proposed approach continues to delay loss recognition and therefore is not useful for decision-making. A better approach is to measure "good book" impairment as

the present value of a range of expected losses based on long-term historical trends, timing and duration of the current economic cycle and expected changes that can be reasonably forecasted. Losses expected in the foreseeable future would represent the minimum amount in the range, but other amounts should be considered especially when losses expected in the foreseeable future are unreasonably low. The contractual interest rate is the best input to measuring the present value of expected losses. Impairment allowance for "good book" debt instruments would be recognized within this range of expected losses. We believe that measuring credit risk as the present value of a range of expected losses best achieves the economic matching objective of the IASB and the adequate allowance objective of the FASB.

In response to Question 5, we offer the following modification to the proposal:

- The scope of the approach should be expanded to include all debt instruments that are not carried at fair value with changes in fair value recognized through net income.
- Debt instruments should be segregated between good book and bad book. "Good book" instruments would be defined as more-likely-than-not that all principal and interest will be collected according to the contractual terms. Impairment would be estimated as a range based on the present value of expected losses over the life of the loans. The discount rate would be the either the average effective rate for open or closed pools of instruments or the single effective rate for a single asset similar to the concepts in ASC 310-10-35 and 320-10-35. The impairment allowance would be judgmentally determined within the range based on current and projected economic conditions, timing of the current credit cycle, and other relevant factors.
- "Bad book" financial assets would be defined as more-likely-than-not that all principal and interest will not be collected according to the contractual terms. The full amount of expected losses would be recognized through an impairment allowance.
- Expected losses on "bad book" that are probable of being incurred should be charged-off against the impairment allowance. The definition of probable losses would consider projected cash flows discounted at the asset's effective interest rate, collateral values, concessions or modifications of repayment terms and other relevant data. Losses to be charged-off would include the results of loan modifications which would allow the troubled debt restructuring concept to be discontinued. Additionally, once expected losses become probable interest accruals should be discontinued and interest income should only be recognized as received based on projected cash flows.

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

We believe that a "more-likely-than-not" that all principal and interest will be collected according to contractual terms provides a more clearly defined delineation between good

book and bad book debt instruments. This concept is already established in current accounting guidance.

Question 7. Is the proposed requirement to differentiate between the two groups (ie "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?

We believe that clarification to the definitions proposed in our response to Question 6 will make the requirement to differentiate more operational and is consistent with current practice for most financial institutions.

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

We agree with the proposed requirement to differentiate between the two groups, subject to a more standard definition of each group. More importantly, we believe that an adequate impairment allowance for "good book" financial assets is important to the success of the Supplementary Document.

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 agree with the concept of a floor for the impairment allowance related to good book debt instruments. However, we do not agree with the proposed method of measuring the floor amount. It will continue to delay recognition of credit risk depending on position within a credit cycle.

(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?

We believe that credit risk is inherent in all debt instruments and can be reasonably measured. It should be recognized within a range of possible losses. This suggested alternative will further delay recognition of credit risk.

(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis on 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?

We do not agree with the proposed minimum allowance amount based on losses expected to occur in the foreseeable future. We prefer the minimum impairment allowance for good book debt instrument to be within a range of losses. The range would be determined by the present value of expected losses over the life of the instruments considering historic trends, credit cycles, economic conditions and other relevant factors, including expected losses in the foreseeable future.

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

The foreseeable future may have to change depending on economic conditions, which further questions its usefulness in establishing a floor. The foreseeable future may have to extend beyond one or two years in the early phase of an improving credit cycle to adequately reflect growing credit risk.

(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 to be the case.

The foreseeable future for open and closed pools of similar assets is typically longer than twelve months. Trends may be developed to accurately project a range of expected losses over 24 to 36 month periods. These time periods are consistent with those required by banking regulators for capital and liquidity forecasts. However, we acknowledge that the ability to accurately forecast expected losses is shorter for individual financial assets

(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 the entity's reporting date)? If so, please provide data and/or research to support your response.

We do not believe that a ceiling is necessary for estimating credit impairment.

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.

We do not expect that the floor will typically be equal to or higher than the time-proportional amount calculated in accordance with paragraph 2(a)(i). However, we expect that either approach may understate the expected impairment in early stages of the credit cycle.

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?

We support using a discounted approach for estimating impairment, but not as described in paragraph B8(a). Expected losses should be discounted based on contractual rates to accurately measure cash flows not expected to be received in the future.

(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?

We do not agree with permitting flexibility in selecting a discount rate. The average contractual rate of a pool of assets or the single contractual rate of an individual asset is the most relevant input for measuring the present value of expected losses. Other rates are not relevant to the objective of measuring credit impairment.

Question 12. Do 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? If you would not prefer this specific approach, do you prefer the general concept of IASB's approach (ie to recognize expected credit losses over the life of the assets)? Why or why not?

We do not prefer the IASB approach for open portfolios of financial assets measured at amortized costs. There is no correlation between changes in credit risk and compensation for assuming credit risk. Accounting standards should not attempt to artificially create a correlation.

Question 13. Do 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 FASB's approach (ie to recognize currently credit losses expected to occur in the foreseeable future)? Why or why not?

While we believe the FASB's approach is preferable, we believe an approach that recognizes currently credit losses expected to occur in the foreseeable future understates estimated losses in the early stages of a credit cycle.

We appreciate the opportunity to provide comments on this Supplementary Document. If you wish to discuss this issue further, please contact me at 918-588-8673.

Sincerely,

John C. Morrow
Senior Vice President, Chief Accounting Officer