May 16, 2013

Technical Director
File Reference No. 2012-260
Financial Accounting Standards Board

Dear Sir:

The FASB's exposure draft (ED) on loan losses is a huge disappointment:

- Investors will not be helped by this approach;
- The numbers produced by the ED will be whatever the bank CEO wants;
- The wording of the ED is so permissive and allows for so much judgment that the CEO can get the number from his/her OUIJA board.

Were I back as staff at the SEC either as chief accountant or chief accountant of the enforcement division, I could not recommend to the Commission that it bring either an administrative proceeding or an action at law against any registrant or its auditor re loan losses. It will be impossible to prove that the registrant did not follow GAAP.

The FASB is making a huge mistake. In the end, investors who use bank financial statements will say that the FASB caved to the bankers. The FASB's credibility will suffer greatly.

So, how to fix this problem? The incurred-loss model, which is the current standard, does not produce credible information in times of financial crisis as in 2008. It is embodied in FASB Statement 5, which was issued in 1975, and which I signed. SFAS 5 was issued to stop insurance companies from establishing what they called "catastrophe reserves." Some insurance companies were recognizing catastrophe reserves before the occurrence of catastrophic events such as hurricanes. That practice is much the same as might be established pursuant to the words in the ED. It will not work; it will not produce useful, credible information.

What will work is to take the fair value information now in the notes to the financial statements and move it into the basic financial statements. That approach may not make bankers happy because the market place, not the bankers themselves, will be generating the numbers. Bank regulators may not be happy because they want rainy-day reserves, which might be accommodated by the words in the ED, but they have the authority to require whatever they want in filings by banks with the authorities. <u>But, investors, who are the FASB's audience</u>, will be happy, and that is the only thing that should matter.

Yours truly,

/s/ WPS

P.S. Just as I was about to email this letter, I became aware of a May 10, 2013 letter to the FASB re loan losses from fifteen major banks. The proposal in that letter would require banks to predict/forecast and recognize in their current financial statements future credit losses on their portfolios, just as in the ED. In concept, that would turn today's accounting model on its ear by requiring the advance recognition of the financial effect of future events. (Just like catastrophe reserves.) For example:

- Coca Cola's advertising expenditures for next year are extremely likely to happen as planned. Should Coke recognize in today's balance sheet a liability for tomorrow's planned ad expenditures? OF COURSE NOT.
- Some companies, most start-ups for example, plan for operating losses in the future; THEY HAVE WRITTEN, PAPER BUDGETS THAT SHOW/PROJECT FUTURE LOSSES. Should those losses be booked in advance? OF COURSE NOT.
- Some future cash outlays are required by come-hell-or-high-water contracts, for example, wages/salaries to movie stars and pro athletes.
 Should those cash outlays be booked in advance? NO. NO.

THE FASB SHOULD REJECT THE BANKS' PROPOSAL!

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