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Leslie Seidman, Chairman
Financial Accounting Standards Board
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Submitted via electronic mail to director@fasb.org

File Reference No. 2012-260, Exposure Draft: *Financial Instruments – Credit Losses*

Dear Ms. Seidman:

Intel is pleased to respond to your request for comment on the Exposure Draft: *Financial Instruments – Credit Losses* (the ED). We support the Board's efforts to provide users with more decision-useful information about expected credit losses on financial assets and understand the goal of reducing complexity by replacing the five different impairment models in current U.S. GAAP with a single impairment model. However, we believe that the proposed expected loss model does not reflect the economics of financial asset transactions, especially when applied to purchases of debt securities. Should the approach to impairment measurement remain as proposed, we believe that the Board's objective to prevent delayed recognition of credit losses on financial assets can be better served by limiting the scope of the credit losses project to loans. Our suggestions are further explained in the following paragraphs; detailed responses to the questions presented in the ED are included in an Appendix to this letter.

The Proposed Model Does Not Reflect the Economics of a Debt Security Transaction
We have a significant portfolio of purchased debt securities, for which our philosophy is to preserve principle while maximizing yields. We primarily invest in high-grade debt securities where the probability of actual credit losses is remote, as evidenced by the credit rating standards we adhere to and our limited historical loss experience. The proposed approach does not consider that debt securities are purchased at fair value, which contemplates the market's expectation of credit loss risk. We believe that purchased debt securities should represent their fair value at the balance sheet date, not an "accounting value" that is not reflective of economic reality. We are concerned that the proposed guidance ignores the true expected loss from credit defaults, in favor of an arbitrary requirement to recognize the possibility that a credit loss results, even when the risk of loss is remote.

The Diverse Risk Profiles for a Range of Debt Instruments Makes a Single Credit Loss Model Impractical

The Board has identified the delayed recognition of credit losses associated with loans as a weakness in the application of existing accounting literature. We are not aware of any issues with the recognition of credit losses in relation to the accounting for other contractual rights to receive cash, such as trade receivables and debt securities, under current accounting requirements. The FASB Staff Position on FAS 115-2 and FAS 124-2, issued in 2009 and codified in ASC 320, addresses the timing of credit loss recognition for debt securities. To our knowledge, there is no evidence to suggest the changes implemented with these FSPs are not providing sufficient decision-useful information to users. Similarly, we believe ASC 310, *Receivables*, provides high-quality guidance around the allowance for doubtful trade receivable accounts that the users of our financial statements understand. Furthermore, these instruments exhibit different accounting risk profiles than loans, including their ease of exchangeability and contractual or expected lives, which support different impairment models. We believe that a change in the accounting for debt securities or trade receivables, solely to achieve a single credit loss model, will result in unnecessary complexity for both preparers and shareholders.

The Board has agreed with excluding trade receivables and debt securities from the scope of other projects because of their respective risk profiles. In the currently proposed Revenue Recognition guidance, the Board concluded that it was appropriate to exclude receivables with an expected duration of one year or less from the time value of money requirements because the impact to profit recognition is expected to be limited (BC148b). The Board also recognized the excessive cost to provide disclosures around credit quality of trade receivables and debt securities and excluded them from the scope of ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20) (BC7-8). For these reasons, we recommend that the Board remove trade receivables and debt securities from the scope of this ED.

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We believe that a change in the accounting for loans may provide financial statement users in the Financial Services industry with decision-useful information. However, we strongly urge the Board to consider the comment letter responses to this ED from Non-Financial industries to ensure that any resulting changes truly result in improvements to the current requirements of U.S. GAAP.

Thank you for your consideration of the points outlined in this letter. If you have any further questions or would like to discuss our responses further, please contact me at (971) 215-7931, or Liesl Nebel, Accounting Policy Controller, at (971) 215-1214.

Sincerely,

James G. Campbell

Vice President, Finance Corporate Controller
Intel Corporation

Appendix

Scope

Question 1: Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

We do not agree with the current scope of the proposed credit losses guidance, and think it should be limited to loans. We believe the primary purpose of this proposed guidance is to respond to the recent global economic crisis and record more timely expected credit losses on loans, with a secondary purpose of achieving a single credit loss model. However, the costs necessary to implement the changes outweigh the benefits of a "one-size-fits-all" impairment model. Additionally, the expected loss model as proposed is particularly challenging when it is applied to debt securities and does not reflect the actual economics of the financial assets.

Specifically, we believe debt securities and trade receivables should be excluded from the scope of this guidance as they exhibit different accounting risk profiles than loan portfolios. Debt securities are acquired at fair value, which already contemplates a risk of credit loss. To recognize a day one loss on these investments seems to double count the risk of credit loss at best and at worst, creates fluctuations in the income statement that do not reflect reality. The purpose of trade receivables is to facilitate payment by customers for goods or services provided and they are generally short-term in nature. We believe current U.S.GAAP provides high-quality guidance around the allowance for doubtful accounts that the users of our financial statements understand. In addition, we are not aware of any issues with the timely recognition of credit losses for both debt securities and trade receivables under current accounting requirements. As further explained in our response to Question 9, we do not believe the cost to change from the current methods of determining impairments on debt securities or allowances for doubtful accounts outweighs the benefit of achieving a single model.

Recognition and Measurement

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

We expect that the process of estimating expected credit losses by individual financial asset will take a significant amount of time and resources and will not provide the users of our financial statements with any more meaningful information.

Quantifying the risk of credit losses for debt securities by separating credit and non-credit factors embedded in the purchase price will be challenging due to the lack of credit specific data. We anticipate that information from third party pricing sources, which is not currently available, will be necessary to isolate and quantify the impact of changes in credit risk on fair value. Depending on the final scope and impact of this standard, system updates may be necessary.

Recreating an estimation process for application to 100% of our trade receivables balance, while on the surface appears relatively easy, will actually require us to re-estimate what the appropriate allowance rate should be on our entire receivables balance, which is largely made up of current accounts. In addition to having to create that estimate, we would need to validate that estimate with our external auditors and this may need to be performed for each segment of our business. While we believe that the expected credit loss percentage to be applied to our trade receivables that are current would be very low, it would need to be adjusted as our current balance may be greater in certain quarters due to seasonal trends. Because of this, using actual past due accounts to drive the allowance estimate is more meaningful and directly correlated with credit risk.

Because we primarily invest in high grade instruments, we do not expect a significant change to our current financial position upon implementation of the proposed guidance. Our historical rate of write-offs has, on average, been less than 0.1%. The proposed disclosure requirements, however, are extensive and likely would not offer any incremental benefit to the users of our financial statements that existing disclosure requirements do not already provide. In addition, preparing and providing support for our estimates to our external auditors, in accordance with the proposed requirements, will require extensive effort, despite the minimal financial impact expected. We believe that limiting the scope of the credit losses project to loans would both meet the Board's objective and the needs of the financial statement users.

Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

We have access to historical loss data, such as data on historical delinquencies and defaults, for some (but not all) specific assets. For many instruments, we will not have sufficient historical loss data, and will need to resort to alternative sources such as general loss and recovery data grouped by credit rating.

To develop an estimate of expected credit losses, we anticipate that historical delinquencies and defaults on specific assets will provide the most relevant information along with changes in credit rating information of our investments, which should predict current credit worthiness.

Question 11: The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

We do not foresee any significant operability constraints in preparing an estimate of expected credit losses that reflects both the possibility that a credit loss occurs and does not occur, other than those previously noted in Questions 9 and 10. However, we believe a model that requires recognition of day one losses on all financial assets, especially when the risk of impairment is considered to be remote, to be fundamentally flawed. The purchase and sale of securities at fair value already takes into consideration the risk of credit loss as do the contractual terms of initiated loans. The current proposal requires an impairment charge on day-one when losses are considered remote and this recognition is incongruous with all other impairment standards that exist in U.S. GAAP.

We urge the Board to consider a model that recognizes losses when there are known or expected changes in credit quality. We agree that deferring recognition until a credit loss becomes the "most likely outcome" or "probable" may no longer be appropriate in today's environment. However, we trust that recognition of expected credit losses when they become reasonably possible, at such a time as when changes in credit quality are identified (i.e. credit downgrade or initial indication of credit deterioration), would accomplish the Board's objective for a more timely recognition of credit losses.

The current proposal is particularly burdensome and irrelevant for entities that do not participate in lending activities, especially for those that primarily invest in financial assets in an effort to preserve principal where expected credit losses are truly not expected and considered to be remote. Therefore, as outlined in our responses to Questions 1 and 14, we propose limiting the scope of the ED to loans and/or providing a practical expedient based upon qualitative and quantitative factors.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

No, we do not foresee any concerns or constraints.

Question 13: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

This question is not applicable to Intel. We defer to respondents that purchase credit-impaired financial assets.

Question 14: As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

We foresee significant operability issues in applying the practical expedient as currently proposed. We believe that the proposed practical expedient is too narrow in scope and will ultimately require preparers to estimate an impairment loss for a significant number of financial assets, even if the assets exhibit little or no sign of credit deterioration. Changes in the fair value of financial assets that report changes in fair value through other comprehensive income are impacted by factors other than credit risk, such as fluctuations in interest rates and foreign currency exchange rates. As a result, these assets may qualify and then not qualify for the practical expedient quarter to quarter despite there being no changes to the expected credit risk. The tracking of these assets will be onerous and the related financial statement and footnote disclosure impact will quite possibly confuse the users of our financial statements and introduce variability in earnings that is not indicative of any real changes in credit risk.

As discussed in response to Question 1, we believe the scope of the credit losses project should be limited to loans. However, whether or not the Board makes any changes to the scope of this proposed guidance, we recommend that the Board develop a practical expedient that will allow a more effective application of the proposed guidance by putting the focus on those instruments with actual credit risk. As opposed to the current proposed requirement that a financial asset have both a remote possibility of credit loss as well as a fair value that exceeds amortized cost to qualify for the practical expedient, we suggest that the Board amend the guidance so that the financial asset only has to meet one of the criterion to qualify for the practical expedient. This would allow for the focus in the financial statements to be on those instruments that are truly at risk for credit loss. Only in the event of deterioration in the counterparty credit worthiness, would the practical expedient no longer be available.

Question 15: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

This question is not applicable for Intel except in very infrequent instances. We defer to respondents who have assets that would be placed on nonaccrual status.

Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45–BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?

This question is not applicable for Intel. We will defer to respondents who are impacted by troubled debt restructurings.

Disclosures

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

We strongly feel that any proposed disclosures should be contemplated in association with the FASB Disclosure Framework project. We appreciate the Board's explicit acknowledgement in paragraph 825-15-50-3 that an entity must strike a balance between obscuring important information through too much aggregation and overburdening the financial statements with excessive detail. The proposed disclosures may be relevant to users of financial statements of entities with large portfolios of loans or other financial assets where historical losses are prevalent or whose primary business is investing. However, the same may not be said for users of financial statements of entities whose primary purpose in investing is principal preservation with low exposure to credit losses; the extensive disclosures may in fact obscure other important information. Additionally, when expected credit losses are insignificant, many of the proposed disclosures are redundant to what is already required for financial assets.

We believe it is the disclosure requirements that will prove to be the most arduous part of implementing this proposed guidance. Without a change in the scope and/or a more practical expedient, the costs of preparing and supporting the proposed disclosures will be significant without providing any meaningful benefit to the users of our financial statements.
Because the risk of credit losses is remote, the proposed disclosure for our overall portfolio will not provide decision useful information to the users of our financial statements.
Disclosure of increases in credit risk of specific contracts where we are recording an allowance because expected credit losses are no longer insignificant may prove more valuable information to our users.

Implementation Guidance and Illustrations

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

As there is significant judgment involved in estimating the expected credit losses at initial recognition we are concerned that unintended diversity in practice will develop in how that estimate is established, resulting in a wide range of allowance calculations, particularly in light of having to consider the forecasted direction of the economic cycle. In addition, the current implementation guidance and illustrative examples are focused on loans. If the scope of the final standard includes financial assets other than loans, we respectively request that the Board include some guidance and examples around these financial assets, such as debt securities and trade receivables. We worry that without explicit guidance from the Board on what constitutes reasonable and supportable forecast information and how debt securities should be evaluated, external audit firms and the PCAOB may require extensive support of what external market forces should be considered and what the related impact would be on expected credit losses. Further clarification on the type of information that should be considered related to reasonable and supportable forecasts information and how financial assets other than loans should be handled would help to alleviate these concerns.

Transition and Effective Date

Question 20: Do you agree with the transition provision in this proposed Update? If not, why?

Yes, we agree with cumulative effect transition as currently proposed.

Question 21: Do you agree that early adoption should not be permitted? If not, why?

Yes, we agree that early adoption should not be permitted to uphold comparability.

Question 22: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

Yes, we agree the effective date should be the same for public entities as well as non-public entities for purposes of comparability of financial institutions.

Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

Yes, we believe cumulative effect transition will be operable.

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

Due to the comprehensive scope of the ED, we will need to evaluate the impact on our trade receivables and investment portfolio as well as evaluate the impact resulting from the required disclosure requirements. We have not quantified the time needed to implement the guidance as proposed, but with the current scope, we will need to identify possible changes in systems, and spreadsheets and models for estimating expected losses will need to be developed, tested, documented and implemented. We will need to establish new processes and system functionality to isolate expected credit losses and gather the disclosure information, which may require changes in third party pricing information. If the Board agrees to scope changes or changes in the practical expedient as we have outlined in response to Questions 1 and 14, we believe the time and effort to implement this proposed guidance will be significantly less.

We strongly recommend that the effective date coincide with the effective date required by the Proposed Accounting Standards Update—*Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This will reduce the impact from estimating expected credit losses on financial assets that will ultimately be classified as FV-NI, as indicated by the direction of the most recent ED on Recognition and Measurement of Financial Assets and Financial Liabilities.