2012-260
Comment Letter No. 159

John R. Buran
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May 30, 2013

Honorable Leslie F. Seidman
Chairman Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

RE: File Reference No. 2012-260: *Financial Instruments – Credit Losses*

Dear Ms. Seidman:

Flushing Bank appreciates the opportunity to comment on the Exposure Draft: *Financial Instruments – Credit Losses* (ED).

Flushing Bank is a full service commercial bank serving the Greater New York City area. As of March 31, 2013 we had total assets of $4.5 Billion with $3.2 billion in Real Estate and Commercial/ Industrial loans. We have 18 branches and 379 active employees.

Flushing bank would like you to consider what we believe to be significant drawbacks to the proposed Current Expected Credit Loss (CECL) model and pose for your consideration the advantages of using the Banking Industry Model (BIM) to estimate the Allowance for Loans and Lease Losses (ALLL). We understand the FASB's objective to recognize credit losses earlier than the current incurred loss model and thereby more accurately estimate the ALLL. However, the proposed CECL model requires an institution to make numerous complex assumptions about future economic conditions and the related impact of those conditions to credit obligations over their estimated life. While these types of forecasting models can be useful for risk management or strategic planning purposes, they are not well suited for financial reporting purposes. Accountants are responsible for proper recognition of income and expenses and estimating expected losses during the accounting cycle. Loss estimates based on predictions of economic conditions and related losses beyond the accounting cycle or beyond a period of time that is reliably estimable and predictable, could distort the relationship between current income and current expenses. The BIM estimates losses reasonably expected to occur within the "foreseeable future" which refers to the loss emergence period. The loss emergence period is a length of time after the balance sheet date that is qualitatively and quantitatively determined based on the loan terms, anticipated borrower behavior, and workout process, in which losses in the portfolio are confirmed. Within the BIM, creditors are required to deliberately analyze whether the direction and continuation of economic conditions will uncover impairment in

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portions of the portfolio. This includes specific identification of loan product terms or geographic characteristics that may be especially at risk in such an environment. As these risks are identified and segregated, separate impairment analysis may be appropriate or the loss emergence period can be extended. In addition to the standard loss emergence period concept of the BIM, we believe this part of the BIM – the requirement to analyze and identify "forward looking loss events" (the special conditions that can be reasonably expected to cause a loss event) – makes the BIM a workable, expected loss impairment model. Furthermore, we believe the BIM is more aligned to the principles of Concept 6 "Elements of Financial Statements" Recognition, Matching and Allocation, paragraph 145 which states: *"The goal of accrual accounting is to account in the periods in which they occur for the effects on an entity of transactions and other events and circumstances, to the extent that those financial effects are recognizable and measureable."*

In contrast to the BIM, we believe the CECL does not align well with paragraph 145 of Concept 6. For the CECL does not account for effects of losses on an entity in the period for which they occur. It also attempts to quantify losses before they are truly recognizable. Finally the measurement of loan losses under CECL may become very challenging. It will require complex models to predict long term economic conditions and correlations to loan losses. The models will require the use of many different economic variables, credit metrics, portfolio management assumptions and discounting of the losses to present value either explicitly or implicitly. In addition, the following items would vary considerably from entity to entity:

- selection of which economic variables and credit metrics to use
- how to weight and apply these measures and correlations
- the related assumptions made regarding probability, impact and timing of future economic conditions on credit losses
- prepayment assumptions for the credit instruments

These variations would make individual analysis and comparisons across entities very difficult for most users of financial statements. The more individual assumptions required in an econometric model the greater will be the variability of results among the companies using the model. Also, the longer the time horizon covered by the model, the greater the likelihood that economic conditions and business environments will differ from expectations and the greater the variability in expectations themselves. These factors would significantly decrease the comparability and consistency of the ALLL estimations both between companies and within the same companies from period to period. Thus increased variability in the calculations would

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result in the ALLL estimates being less meaningful for comparing and evaluating levels of financial strength. Also, the responsibility for auditing these complex models and opining on their accuracy, suitability and consistency would be quite onerous for most public accounting firms.

In conclusion, we believe the Banking Industry Model (BIM) will satisfy FASB's objective to institute a more robust model for estimating credit losses than the current incurred loss model.

However, unlike the CECL model, the BIM does not require long range economic forecasting, is more consistent with the FASB Statement of Concept 6, is more straightforward to apply, and thus better facilitates the integrity, comparability and usefulness of ALLL estimations. Therefore we believe the FASB should amend the ED to follow the BIM instead of the CECL.

Thank you for taking the time to consider our views. Please feel free to contact us if you would like to discuss these issues in more depth.

Sincerely,

John R. Buran
President and CEO Flushing Bank