## Controller's Department

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Farm Credit Services of America
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May 31, 2013

Via Electronic Mail

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 068856-5116
File Reference No.: 2012-260

Dear Director:

We welcome the opportunity to express the Farm Credit Services of America Agricultural Credit Association's views with respect to the FASB proposed Accounting Standards Update, "Accounting for Financial Instruments-Credit Losses (Subtopic 825-15)".

Background Information about Farm Credit Services of America Agricultural Credit Association (ACA)

Our ACA is a federally chartered agricultural lending institution and is part of the Farm Credit System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible shareholders for qualified agricultural purposes in the states of Iowa, Nebraska, South Dakota and Wyoming. We make secured long-term agricultural real estate and rural home mortgage loans, and short-term and intermediate-term loans for agricultural production or operating purposes. We offer risk management services, including multi-peril crop insurance and crop hail insurance for borrowers and those eligible to borrow. As of March 31, 2013 our assets totaled \$19.3 billion, with \$18.3 billion of the assets consisting of 153,000 individual loans to customers, and liabilities of \$15.9 billion, with \$15.8 billion of the liabilities being notes payable to our funding bank, AgriBank, FCB.

The comments that follow are the result of consideration of issues related to the proposed Accounting Standards Update requirements.

## General Comment

We support the FASB's efforts to improve recognition of credit losses to provide more decision-useful information on financial assets and other commitments to extend credit. We also support the effort to simplify U.S. GAAP that currently includes several different incurred loss models. However, we do not believe that an expected credit loss model would simplify the credit impairment model as additional estimates and significantly more management judgment would be needed under this approach. As set forth in the proposed amendment, an estimate of expected credit losses would be based on internally and externally available information considered relevant in making the estimate including, information about past events, such as historical loss experience, current conditions and reasonable and supportable forecasts and their implications for expected credit losses. We do not believe that forecasts of future conditions will simplify the estimation process or provide more useful information. Further, we believe that the judgment involved in forecasts of life of loan losses would significantly diminish meaningful comparability between financial institutions.





We also believe that the requirement that an estimate of expected credit losses shall reflect the time value of money either explicitly or implicitly could cause significant operational challenges for our institution and other financial institutions. Using the explicit time value of money technique such as a discounted cash flow model for each asset would be operationally time-consuming, costly, impractical and add very little value. The time value concept appears to us to be an indirect approach to simulating fair value accounting for loans.

## Questions for Respondents

The following are answers to the questions we believe are applicable to our institution.

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?

Yes. We would foresee significant operation concerns if we would be expected to use a discounted cash flow model on a loan-by-loan basis for our 153,000 loans. The current incurred loss model considers the loss generally over a three year loss realization period and is difficult to estimate with accuracy. Forecasting loss experience for the life of the asset would be even more difficult and would require significant judgment. We also do not believe that the expected credit losses would be more useful than the current incurred loss model when it comes to comparability between companies. The estimate will include more variables and increased judgment and assumptions on the part of management and will not necessarily result in a better estimate of credit losses.

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. 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?

Yes. We foresee operability and auditability concerns with this proposal. While we agree a reasonable range created by reflecting both the possibility that credit loss results and the possibility that no credit loss results, the allowance booked should reflect the most likely outcome based on management's knowledge of all factors. Requiring the calculation of two outcomes is overly burdensome in terms of time and expense. Lastly, without more specific guidance as to what loss should be booked, inconsistency in financial statement comparability will result as forecasts of estimates based on expected credit losses will differ greatly by industry and by institution. In addition, because of the high level of uncertainty in this type of loss estimate, auditor comfort with the inputs and models used will take significant time and resources to achieve resulting in an additional cost burden to financial statement preparers.





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?

Yes, we foresee significant operability constraints with the proposal, especially related to the explicit time value of money. Developing risk-adjusted cash flow models would be extremely challenging for the 153,000 loans in our portfolio.

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We appreciate this opportunity to respond and hope our comments prove useful to the Board.

Respectfully,

Michael D. Verzal

Vice-President and Controller

Farm Credit Services of America, ACA

