2012-260
Comment Letter No. 303

AlaskaUSA
Federal Credit Union®

May 30, 2013

Ms. Leslie Seidman
Chairman
Financial Standards Accounting Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2012-260
Submitted electronically to: director@fasb.org

Dear Chairman Seidman:

Thank you for the opportunity to provide comments related to the Proposed Accounting Standards Update, Financial Instruments-Credit Losses (Subtopic 825-15), dated December 20, 2012. Alaska USA Federal Credit Union is both a preparer/issuer of financial statements and utilizes financial statements prepared by others. Our Senior Executive Management team has managed the same organization through two major economic recessions when different accounting principles for credit losses applied. The first was the recession in Alaska in the late 1980's when the 'expected loss' model was employed, and in the most recent recession when the 'incurred loss' model was utilized.

During the Alaska recession in the late 1980s, we experienced record credit losses. It was difficult to find a method to estimate our 'expected losses' during this time due to differences of opinion. The amount of 'expected' credit losses was a source of extensive and contentious discussion among management, regulators and external auditors over a five year period. History proved that the compromises reached from those discussions resulted in a substantially higher provision for credit losses than actually occurred. In the early 1990s, as the Alaska economy began to recover, Alaska USA reversed the excessive allowance for loan losses set up under the expected loss model and recognized the wisdom of changing to the current incurred loss model. We continue to believe the latter is more accurate and reliable than the expected loss model. We experienced far fewer offsetting fluctuations in our income statement and statement of financial position during the most recent recession than we did in the late 1980s and early 1990s.

Based upon this experience and our unwavering belief in basic accounting theory, which states that losses are recognized when known and expenses and revenues are recorded in the period earned or incurred, we oppose the proposed return to the expected loss model. Such a change could cause financial statements to seriously misstate the financial position of the issuer and, because estimates will vary, comparability of financial statements from different organizations will be impossible.

Regardless of how well supported estimates of expected losses are without being anchored to objective inputs and observations (actual losses), the biases of statement producers, attesters and regulators will influence the estimation process. This will ultimately lead attesters and regulators to require over recognition of credit losses during economically challenging times, as they it did in Alaska in the late 1980s. Conversely, issuers may be biased toward smoothing income recognition over multiple periods during economically good times. Ultimately, biases and motivations magnified by the economic cycle will corrupt the integrity of the estimation process.

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Specifically, we offer the following comments to your questions:

2. If it were possible to 'measure' credit losses earlier in a debt instruments life cycle, it may provide some useful financial information, but we do not believe such 'measurement' is possible. Such 'measurement' would in large part be based on economic forecasts. Longstanding analysis of 'consensus' economic forecasts in any period have proven to be of limited value. As with the most recent recession, if the ability to 'measure' expected losses based on economic forecasts was anywhere near accurate, the global economies may not have been subjected to the financial meltdown.

3. We do not agree that the "net amortized cost (which reflects the present value of cash flows…) results in more decision-useful information". In fact, we believe that such a presentation is only useful when considering the current value of an asset held for sale. In any other venue, this 'net amortized cost' information would tend to make it much harder to derive 'decision-useful information' about the issuer's ability to be a going concern or its capability to generate profits. Only the 'matching' of the true period cash flows from the debt held by the issuer versus their actual period cash expenses can provide 'decision-useful' information as to the long or short-term viability and expected profitability of the issuer.

4. As stated in our response to #3, we do not believe that recognizing 'all' or 'some' 'expected losses' rather than 'incurred losses' ever provides more 'decision-useful information'. Nonetheless, trying to estimate the likely collectability of debt instruments over a much shorter time horizon, rather than the life of the asset, has the potential to seriously distort the usefulness of such information. For example, an estimate of the likely collectability of 'underwater' mortgage loans at the bottom of the recession would have resulted in billions in additional book credit losses being recognized than actually occurred.

5 and 9. 'Expected credit losses' based on historical loss experience is auditable and verifiable. 'Supportable forecasts' are someone's calculated guesses. A combination of the two would produce no meaningful 'decision-useful' information to a third party user. Since a third party user would be unable to verify or rely on an auditor's assurance that they have verified such supportable forecasts or the assumptions used to generate such forecasts, the comingling of verifiable and unverifiable information would produce no useful information which a third party could rely upon.

In summary, Alaska USA does not see any benefit to users of financial statements by switching from an 'incurred' model to an 'expected' model for recognition of credit losses. In fact, we see the opposite in that it will be even harder to derive 'decision-useful' information from financial statements as a result of the proposed change. We believe that as a result of the highly subjective nature of the 'forecasts', the change would drastically affect the comparability of financial statements regardless of how well the estimates of 'expected losses' are supported. Expected losses that are not anchored to objective inputs and observations (actual losses) will include the bias of the producers, attesters and regulators. Ultimately, biases and motivations magnified by the economic cycle will corrupt the integrity of the estimation process and the resulting financial information.

Sincerely,

Norman P. West

Norman P. West, CPA
Chief Financial Officer