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May 31, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
File Reference No.: 2012-260

Re: "Financial Instruments—Credit Losses (Subtopic 825-15)"

Dear Director:

On behalf of the Banks of the Farm Credit System (FCS or the System), we welcome the opportunity to express the FCS's views with respect to the FASB proposed Accounting Standards Update, "**Financial Instruments—Credit Losses (Subtopic 825-15)**."

Background Information about the Farm Credit System

The Farm Credit System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Through its four Banks and 82 Associations, the FCS provides sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. The Associations are cooperatives owned by their borrowers, and the Banks are cooperatives owned by their affiliated Associations or principally owned by cooperatives and other eligible borrowers. As of March 31, 2013, the FCS's combined assets totaled $247.5 billion, with $190.5 billion of the assets consisting of net loans, and liabilities of $207.9 billion, with $199.0 billion of the liabilities being Systemwide debt obligations that are publicly traded.

The comments that follow are the result of consideration of issues related to the accounting changes proposed by the FASB. Some FCS institutions may be submitting comments separate from this letter in order to address specific issues not discussed or to clarify or emphasize positions expressed herein.

General Comments

The FCS supports 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 five 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 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.

In addition, 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 FCS institutions 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 and costly. However, if collective or individual asset estimation such as loss-given defaults and probability of default models were used, there would not be the same operational challenges as we currently use this type of model.

In addition to the specific concerns discussed above, the System encourages the FASB to continue to strive for convergence with the IASB. The current differences will generate vastly different results with U.S. banks increasing their allowance for loan losses by a greater amount than those banks following the international accounting standards.

Questions for Respondents

The following are answers to the questions we believe are applicable to the System.

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?

> No. We do not agree with the scope of financial assets included in the proposed Update. There are enough differences between debt securities accounted for at FV-OCI and financial assets, such as loans accounted for at amortized cost. Under the proposed classification and measurement update, the business model/strategy would be considered in determining the measurement and we believe that the impairment model should also follow the business strategy for a debt security. The current accounting classification of and the required disclosures for FV-OCI for debt securities and the impairment model currently in use provide decision-useful information based on the business strategy for the investment portfolio.

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. The current incurred loss model considers the loss generally over a 12 month time horizon 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.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly of 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 challenging. The implicit time value of money approach appears to be more operationally feasible but additional clarification would be needed to ensure our understanding of this method is correct.

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We appreciate this opportunity to respond and hope our comments prove useful to the Board. If you have any questions with respect to the contents of this response, please call me at (201) 200-8081.

Respectfully,

Karen R. Brenner

Karen R. Brenner
Managing Director –
Financial Management Division