April 1, 2011

Susan M. Cosper
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856

Re: File Reference No. 2011-150; Supplement to Exposure Draft – Financial Instruments: Impairment

Dear Ms. Cosper:

International Business Machines Corporation ("IBM" or "the company") appreciates the opportunity to comment on the proposed Supplement to Exposure Draft, *Financial Instruments: Impairment* (the "supplement" or "exposure draft").

IBM's global capabilities include services, software, systems, fundamental research and related financing. The company operates in multiple functional currencies and is a significant lender and borrower in the global markets. The company maintains a broad receivables portfolio including trade receivables, financing receivables and customer loans. Resulting exposures are mitigated through the use of a variety of credit and risk management procedures. Therefore, although the company is not a financial services institution, it will be significantly impacted by the proposed guidance.

We support the Board's decision to undertake re-deliberation efforts on the initial exposure drafts to address concerns voiced during the comment letter process, specifically the lack of convergence between the Financial Accounting Standards Board (the "FASB") and the International Accounting Standards Board (the "IASB") proposals. Our view is that while the supplement is a step in the right direction, we would like to note that there are a considerable number of items unresolved, such as impairment considerations for closed portfolios, interest revenue recognition, methods for measuring credit losses and disclosure requirements.

We also note that the Boards' differences in scope due to the different measurement models will have to be addressed before finalizing the impairment models. We urge the Boards to converge on the measurement model as soon as possible since it will impact which financial assets will be in scope for the impairment model, and therefore may change the assessment of the model.

In addition, we would like to emphasize the importance of reviewing the revenue recognition exposure draft in conjunction with this supplement to ensure seamless and holistically sound guidance on revenue recognition and related allowance accounts.

Further, we strongly recommend taking current disclosure requirements under IFRS 7 and Accounting Standard Update ("ASU") 2010-20 into consideration when re-deliberating disclosure requirements under this exposure draft. We also assume that the supplement would be applicable to both lease and loan receivables and encourage consideration of both in further deliberations.

Detailed comments on the supplement are set forth on the following pages. We hope that you find them helpful. If you have any questions about our comments or wish to discuss any of the issues raised in this letter please contact Gregg Nelson at +1 914 766 2008, Cheryl Graziano at +1 914 766 2934 or Joerne Schroedter-Albers at +1 914 766 2869.

Sincerely,

Gregg L. Nelson
Vice President, Accounting Policy & Financial Reporting

Question 1

Do you believe the approach for recognition of impairment described in this supplementary document deals with this weakness (ie delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

In general, we support the introduction of an impairment model that requires earlier recognition of expected credit losses and that allows consideration of future impairments consistent with market knowledge and expected changes in the credit cycle. We agree that this approach will ensure earlier recognition of losses for both performing and non-performing financial assets compared to the current incurred loss model.

Question 2

Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?

Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

In our view, conceptually the proposed impairment model should work for both open and closed portfolios. However, we would recommend that the implementation guidance provide examples of how this model would apply to both open and closed portfolios. In general, we believe that it is imperative to have a single impairment approach for all financial assets in order to ensure transparency and comparability.

Question 3

Do you agree that for financial assets in the 'good book' it is appropriate to recognise the impairment allowance using the approach described above? Why or why not?

Question 4

Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

Question 5

Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

We agree with the theory of recognizing expected losses over the life of performing financial assets instead of immediate recognition. We also believe that the "good book" approach is a more practical approach than the previous model introduced in the exposure draft; however, the time-proportional approach may still be difficult to implement in corporate systems for a large, constantly changing open portfolio. Also, the 'higher of' test would call for additional calculations to be performed at recognition of the financial asset. For a large portfolio this could be onerous. Furthermore, we believe that expected credit losses based on the foreseeable future period may be higher than or close to the time proportionate amount. In this instance, the cost of identifying 'the higher' of may outweigh the benefits.

Question 6

Is the requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

Question 7

Is the requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?

It is our belief that most entities have a "good book/bad book" approach already in place. However, we note that the threshold of when a good asset becomes a bad asset and vice versa can differ from entity to entity based on the subjective credit risk management criteria that an entity employs.

Question 8

Do you agree with the proposed requirement to differentiate between the two groups (ie 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

We support the proposed new model that differentiates between the good book and the bad book for the purpose of establishing an allowance.

Question 9

The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this model. Specifically, on the following issues:

(a) Do you agree with the proposal to require a floor for the impairment allowance related to the 'good book'? Why or why not?

(b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the 'good book' only in circumstances in which there is evidence of an early loss pattern?

(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?

continued...

a) We agree that the two proposals for establishing an allowance for the good book assist in ensuring a sufficient allowance reserve. The floor requirement will provide a good reasonableness test for the overall adequacy of the time-proportional loss calculation and estimate.
b) It is our view that adding additional principle based thresholds such as early loss patterns may negatively impact comparability between entities as it would require management's judgment as to when a floor was required and what constitutes an early loss pattern.
c) We believe that it is difficult to ascribe a specific timeframe to foreseeable future and would therefore recommend avoiding any attempt of further defining foreseeable future.

...continued

Question 9

(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

(e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.

(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a 'ceiling' should be established for determining the amount of credit impairment to be recognised under the 'floor' requirement (for example, no more than three years after an entity's reporting date)? If so, please provide data and/or reasons to support your response.

Question 10

Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.

d) Since the foreseeable future floor requirement is a check point to ensure the adequacy of the allowance reserve in the near future, the estimate itself should change based on changes in economic conditions that are known or expected. As discussed in (c) above, we recommend the Boards not further define foreseeable future.
e) See (d) above.
f) The floor requirement ensures adequacy of the allowance reserve in the foreseeable future. We do not see the necessity of a ceiling. If future events are known today which would increase the allowance reserve compared to the time-proportional approach, then it should not matter when those events take place.

We believe that expected credit losses based on the foreseeable future period may be higher than or close to the time proportionate amount. In this instance, the cost of identifying 'the higher' of may outweigh the benefits.

Question 11

The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the approach described in paragraph B8(a)? Why or why not?

(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

We agree with the flexibility permitted for both discounted versus undiscounted estimates and the rates used in case of discounting.

Question 12

Would you prefer the IASB approach for open portfolios of financial assets measured at amortised cost to the common proposal in this document? Why or why not? If you would not prefer this specific IASB approach, do you prefer the general concept of the IASB approach (ie to recognise expected credit losses over the life of the assets)? Why or why not?

We prefer the common approach for open portfolios presented in this supplement. Overall, we support the expected loss model which will allow the earlier recognition of losses. We also support the general concept of recognizing expected credit losses over the life of the assets as long as the model ensures a sufficient allowance reserve is established for the credit losses incurred in any given period.

Question 13

Would you prefer the FASB approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific FASB approach, do you prefer the general concept of this FASB approach (ie to recognise currently credit losses expected to occur in the foreseeable future)? Why or why not?

Operationally, the FASB approach is the more feasible concept as it does not require system or process changes to calculate time-proportional reserve allocations over the life of the asset.

However, the following open issues will have to be re-deliberated by the FASB before comments can be provided on the impairment model:

- Credit impairment requirements for purchased loans and loans modified in troubled debt restructurings
- Measurement of impairment measured at fair value with changes in fair value recognized in other comprehensive income
- Concept of non-accrual relating to interest revenue recognition
- Presentation and disclosure