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To: [Director - FASB](#)
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Subject: File reference # 2011-150 Financial Instruments: Impairment
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Tioga State Bank (TSB) is a closely held, \$385mm community bank. We have always taken a very conservative approach to our allowance level and will continue to do so. We appreciate the opportunity to provide our comments to you regarding the Supplemental Document on Impairment.

I understand that the intent of this SD, beyond bringing FASB and IASB together are:

- 1) improve the timing of loss recognition,
- 2) explore the operational practicality of the process as defined, and
- 3) improve the usefulness of financial statements to the readers.

For community banks such as TSB, I do not believe there will be much change, if any, in the timing of our loss recognition. Using our current methodology, for FAS 5 loans, we calculate a historical loss rate based on the previous 3 years. We then add an additional amount based on qualitative factors. These factors include current economic conditions and how we believe these conditions will effect the payment practices of our borrowers. To do this, we must look ahead. I don't know of any community banker who doesn't look ahead when calculating their allowance. We do not forecast events or guess where rates will go; we consider likely scenarios and reserve accordingly.

Regarding timing, if all banks begin to look forward and reserve based on some industry-wide expectation, I do not believe you will eliminate the "glut" of losses occurring all at one time. You will simply move it into a time period before the expected event. Then, if the event does not happen, you will have everyone reversing these large entries. Therefore, I do not expect this change to eliminate problems with timing, but we may add an enormous amount of volatility into the system as an unintended consequence.

This SD would pose quite a challenge to community banks on an operational level. Our systems do not hold sufficient data to track average lives (or possibly even identify them in cases such as revolving lines of credit). If we could identify all average lives, we would then be required to run 2 separate analysis for the "Good Book" segment, which will add time and resources to a process that is extremely subjective to begin with. I suspect the results from this more complex system would be no more accurate than what we are recording today.

Because so many of the variables are being left up to the individual institutions, it seems as though the end result will be less useful for readers who are trying to compare financial statements between companies. Which economic forecast should you follow? How long is your foreseeable future? Are you using a discounted approach? These types of inconsistencies between companies can cause distortions that are difficult to understand without digging into footnotes and re-analyzing results. The requirement to calculate losses based on expected events is asking us to predict the future, although no longer a "probable" future. As a CPA for almost 30 years, this goes against everything I have learned about financial statements.

If this methodology moves ahead, I would request increased guidance to assist in both the operational aspect as well as the comparability. Clearer definitions of "Good Book" and "Bad Book" would help. Defining "foreseeable future" would also help. When is an economic "prediction" considered reasonable and supportable?

My final general concern, before answering your specific questions, is moving ahead with such a big change before doing any field testing. As I understand it, there has been no testing done to verify the intended consequences, never mind surfacing the unintended consequences. This fact alone should

make us pause and rethink the speed with which this is moving. It seems as though it would be much better to go slowly and get it right the first time than to rush it and have to deal with significant fall-out after the fact.

Specific answers:

Q1) As stated above, I do not think this will eliminate years of much higher losses, it will just move those large recognitions into a different time period.

Q2) I'm not convinced that a single approach is needed for different financial instruments. Sometimes "one size fits all" does not produce the best results. Different approaches for different assets may be more useful and informative.

Q3) I believe the proposed approach for recognizing losses in the "Good Book" adds too much operational complexity and would result in too many inconsistencies among companies.

Q4) No. I believe the proposed approach on a time-proportional basis would require an enormous amount of systems work for smaller institutions.

Q5) I do not believe this approach improves the information, therefore it does not make it more useful for decision-making as written. If timeliness were standardized and there was additional guidance on external factors that would add more consistency across organizations it could be more useful.

Q6) I believe more clarity would be helpful. For instance, would you handle collateral-dependent loans differently? Does a pattern of missed payments require a loan to be moved to the bad book?

Q7) As long as we can clearly define our methodology and our systems can differentiate, it should be operational and auditable.

Q8) Yes, I agree with the differentiation between good book and bad book. We are, in essence, doing this today (FAS5 and FAS114).

Q9) I do believe having a "floor" for the good book is a good idea. Since we are looking into an unknown future, I would caution against having a foreseeable future that is too long. The longer you go, the more guesswork and inconsistencies there will be and, therefore, the less useful the financial statements will be. Changing the timeframe for foreseeable future based on economic conditions adds another layer of complexity that does not seem to be needed. As stated before, I believe the foreseeable future should be an established timeline used consistently by everyone, so I do think there will need to be a Ceiling as well as a floor.

Q10) Without significant analysis, I cannot say.

Q11) I disagree with adding additional flexibility. I believe this will diminish comparability and usefulness.

Q12 & 13) Using either the FASB or the IASB's approach would remove one layer of complexity.

Respectfully submitted,

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