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800 Nicollet Mall
Minneapolis, MN 55402

July 16, 2012

Via email: director@fasb.org

Ms. Susan Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. EITF-12C – Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution

Dear Ms. Cospers:

U.S. Bancorp (USB) appreciates the opportunity to comment on the Proposed Accounting Standards Update — *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution* (the “proposed update”). USB understands the principle objective of the proposed update is to address diversity in practice about how to subsequently measure an indemnification asset related to purchased impaired loans when there are improvements in expected cash flows from the borrowers. Such situations exist to a limited extent in the banking industry today related to Federal Deposit Insurance Corporation (“FDIC”) assisted transactions. USB does not believe there is sufficient practice diversity or financial statement user demand to necessitate additional guidance in this area.

The following summarizes our views:

- We have not observed a strong focus by investors and other financial statement users on the accounting for indemnification assets (as opposed to the accounting for the underlying loans and the reduction of risk on the loans as a result of the loss sharing agreements). Our financial press releases, financial statement filings, and other public communications include disclosures which we have found meet the needs of financial statement users related to our indemnification assets.

Financial Accounting Standards Board

July 16, 2012

Page 2

- The number of transactions involving government-assistance has significantly diminished. As a result, new guidance is applicable to a limited number of institutions for whom the related assets are likely declining in materiality.
- The accounting for purchased impaired loans (and as a result, related indemnification assets) is likely to be subject to substantial changes in a relatively short period of time through the FASB and IASB's financial instrument project. The cost of requiring changes to preparers' current accounting processes and systems under the proposed update and another round of changes that will likely be required to adhere to new financial instruments guidance is not unsubstantial and is not warranted.
- We encourage the EITF to consider whether enhanced disclosures may be a more efficient and effective way to resolve any perceived practice diversity related to indemnification asset accounting.

Further comments:

Relevance to financial statement users

The fundamental question is, when cash flow expectations improve, whether the reduction in cash flows expected from the FDIC should be recognized as an immediate charge to the recorded value of the indemnification asset, or recognized over time in conjunction with the accounting requirements for the change in expected cash flows on the associated loans. Because accounting for the loans as well as the indemnification agreements involves projections about the performance of the borrowers, interest rates and real estate market conditions, the resulting impact to the institution of the change in expected cash flows from the loans and indemnification agreements is inextricably linked. The authoritative literature is clear there is also an accounting linkage. USB believes an improvement in projected cash flows from the borrower should not result in an immediate charge to income related to the indemnification asset. A charge to income when expectations improve is illogical and would be confusing to financial statement users.

USB does not believe it is appropriate to limit the period over which the impacts to the indemnified asset of improvements in expectations on the loans is recognized to the lesser of the contractual term of the indemnification agreement or the remaining term of the indemnified assets. A different recognition period for the impact of the very same change in expectations on the indemnification asset and the indemnified loans could result in financial reporting which may confuse investors by portraying results inconsistent with the change that has occurred in the aggregate expected cash flows – the measure we've found to be relevant to financial statement users. We believe the language in ASC 805-20-35-4 "subject to any contractual limitations on its amount" requires preparers to consider contractual provisions that may limit the **amount** of coverage under a loss sharing agreement (such as first-loss positions (i.e., deductibles), specific claim submission requirements and procedures, and the period in which losses can be claimed), rather than being prescriptive as to recognition period.



Financial Accounting Standards Board
July 16, 2012
Page 3

USB believes transparency of how a company applies this linkage – through disclosure – is all that is needed to address the needs of financial statement users related to any practice diversity.

Enhanced disclosures may be a more efficient and effective way to resolve any perceived issues related to indemnification asset accounting

We believe it is important the Board consider whether accounting changes are necessary now or whether any perceived practice diversity can be addressed more efficiently and effectively through disclosures. Due to the significantly declining number of transactions occurring with FDIC loss sharing agreements, declining materiality of indemnification asset balances to many financial institutions balance sheets, financial instruments project decisions which undoubtedly will impact the accounting for indemnified loans and related indemnification assets, and lack of inquiries from investors on indemnification asset accounting, USB urges the Board to consider expanded accounting policy disclosure as an approach to address the question raised to the Task Force. We believe disclosures focusing on the terms of the indemnification agreements, the accounting policy related to changes in expected cash flows, the carrying amount of indemnification assets, and amount of reimbursements expected from the FDIC would resolve any perceived issues related to indemnification asset accounting without imposing costly and time consuming operational and system changes on preparers.

USB supports clarification of the accounting for decreases in expected cash flows from the indemnifying party when there has been a previous impairment recognized on the indemnified asset

We agree with the Board's proposed addition to paragraph 805-20-35-4B specifically relating to considering the sequencing of changes in expected cash flows on the combined assets. As noted in the EITF Issue Summary, the staff is not aware of diversity in practice on accounting for decreases in cash flows expected to be collected on the indemnified assets after the acquisition date. However, we believe it is important to be clear about this scenario because the sequencing of changes in expected cash flows has a direct impact on the required accounting entries and therefore entities must establish procedures and processes to track the sequence of the changes that have occurred to properly determine the impact when there has been previous impairment allowance recorded on the indemnified assets.

USB agrees with transition guidance being applied prospectively

The proposed amendments would be required to be applied prospectively to any new indemnification assets acquired and to changes in expected cash flows of existing indemnification assets occurring on or after the date of adoption. If a change in accounting for indemnification assets is warranted, USB agrees the proposed transition guidance should apply to new indemnification assets and only to prospective changes in expected cash flows related to existing indemnification assets that occur subsequent to the Board's ratification of a consensus.

The time, process, and costs to apply the proposed amendments in a fully retrospective application or by recording a cumulative-effect adjustment to beginning retained earnings would



Financial Accounting Standards Board

July 16, 2012


Page 4

significantly outweigh any benefits. An institution would be required to go back through every period's estimate of cash flows for every indemnified asset and corresponding indemnification asset recorded and analyze the sequencing of increases and decreases in these cash flows to determine the impact to the amortization of the changes to the indemnified assets and indemnification assets. This would require significant effort to retroactively re-establish each period's accounting.

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We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. Please contact me at (612) 303-5238 with questions or if you need additional information.

Sincerely,



Craig E. Gifford
Executive Vice President and Controller

