February 9, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, Connecticut 06856-5116


Dear Sir or Madam:

The staffs of the five federal financial institution regulatory agencies (the Agencies) appreciate the opportunity to comment on the Financial Accounting Standards Board’s (FASB’s) Discussion Paper, *Effective Dates and Transition Methods* (Discussion Paper).

The Agencies have safety and soundness oversight responsibility for more than 15,000 U.S. financial institutions, the vast majority of which are nonpublic entities with less than $1 billion in total assets.\(^1\) Accounting information prepared in accordance with U.S. generally accepted accounting principles (GAAP) serves as the starting point from which the Agencies evaluate the condition, performance, and risk profile of the financial institutions we supervise. GAAP-based regulatory reports are the foundation for calculating prudential ratios and limitations. These reports and, when available, general purpose financial statements are used to monitor the safety and soundness of individual institutions, industry trends, and overall stability of the financial system.\(^2\)

First and foremost among the seven Discussion Paper projects, the Agencies have a strong interest in the development and implementation of an improved, internationally converged credit impairment standard based on an expected loss approach (as noted in our September 30, 2010, response to the FASB’s financial instruments Exposure Draft).\(^3\) A credit impairment standard that is more forward looking and provides for earlier recognition of losses is urgently needed and should not be delayed because other standards are not yet finalized. Also, because of the likely

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\(^1\) Summary statistics for these supervised financial institutions are presented in the attachment to the Agencies’ October 7, 2010, comment letter to the “AICPA / FAF / NASBA Blue-Ribbon Panel” on Standard Setting for Private Companies. See comment letter 151 at http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=BRP-R.

\(^2\) Additional information concerning the Agencies’ use of U.S. GAAP in our regulatory activities is provided in our letter to the Blue-Ribbon Panel. (See link in footnote 1.)

\(^3\) The Agencies acknowledge the FASB’s recent issuance of the Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment*. The Agencies are evaluating the document and intend to comment on the proposal.
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use of forward-looking information and the significant judgments involved, the credit
impairment standard should be implemented on a prospective basis.

In addition, the uncertainty surrounding the outcomes of the Discussion Paper projects limits the
ability to comment on appropriate effective dates and transition methods. Significant accounting
changes should be implemented in a manner that minimizes disruption to preparers and users
(including the Agencies) and avoids unintended consequences. Accordingly, we encourage the
FASB to revisit effective dates and transition methods by again seeking comments after the
FASB and the International Accounting Standards Board (IASB) have reached consensuses on
the Discussion Paper projects. A second comment period would allow preparers and other
stakeholders to make more realistic estimates, which would then allow the Boards to make more
informed decisions.

Our responses to some of the specific issues raised by the FASB in the Discussion Paper are
provided below.

Issue 1: Preparing for and Transitioning to the New Requirements

Transition Period
Many of the key concepts underlying certain Discussion Paper projects are currently under
consideration by the Boards and some projects have not been exposed for public comment. For
the new or revised standards that will result from the Discussion Paper projects, the transition
periods needed by preparers will depend on whether these standards significantly depart from
existing GAAP, their level of complexity, the transition methods, and the availability of
implementation resources. Consequently, the Agencies cannot estimate reasonable transition
periods that would accommodate the orderly implementation of the various Discussion Paper
projects at this time.

That said, the Agencies and the financial institutions we supervise will need adequate lead time
to ensure an orderly transition. When setting effective dates for Discussion Paper projects, we
encourage the FASB to consider factors of concern to users as well as preparers, such as costs
and resources necessary to plan and implement system changes, update policies and procedures,
and train employees. We encourage the FASB to also consider the resources financial
institutions will need and the costs they will incur as they implement the comprehensive set of
supervisory reform measures known as Basel III. These measures, which will be phased in
between 2013 and 2018, were developed by the Basel Committee on Banking Supervision to
strengthen the regulation, supervision, and risk management of the banking sector and will
require a significant implementation effort by the affected financial institutions.

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4 Additional information about the Basel III implementation timeline is included in Annex 4 of Basel III: A global regulatory framework for more resilient banks and banking systems, which is available at www.bis.org/publ/bcbs189.pdf.
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Transition Methods
The Agencies agree there is no single transition method appropriate for all new accounting standards. However, for the reasons discussed below, the Agencies recommend the FASB generally require prospective application for the Discussion Paper projects.

In developing our response, we considered three primary transition methods:

- Immediate-retrospective (initial application is pushed back to a date before issuance of a final standard)
- Delayed-retrospective (initial application is subsequent to issuance of a final standard)
- Prospective (initial application is applied on a go-forward basis after issuance of a final standard)

Retrospective application enhances comparability over time and is the preferred method under GAAP. Users generally benefit from the enhanced comparability of the immediate-retrospective application of new accounting standards. However, this approach increases the implementation costs and burden on the preparers, and also raises concerns about practicability and the use of hindsight to recognize prior period estimates. Therefore, the immediate-retrospective application should not be required unless the benefits to users clearly exceed the costs incurred by preparers.

Delayed-retrospective application mitigates those drawbacks and allows preparers time to implement necessary process changes and gather restatement data; however, it also postpones users’ access to financial data prepared under the new accounting standard. Therefore, this may not be the optimal approach in meeting the needs of users.

Prospective application without an extended transition period should result in an earlier implementation than delayed-retrospective application and, thus, may be more beneficial to financial statement users.

Retrospective Definitions
The Agencies recommend the FASB clarify the terms retrospective and limited or simplified retrospective as they are used to describe various distinct methods of retrospectively applying new accounting standards. For example, the Master Glossary’s definition of retrospective application is so broad as to apply to both (1) all prior periods presented (as described in paragraphs 250-10-45-5 through 7 of Accounting Standards Codification Topic 250, Accounting Changes and Error Corrections) and (2) the statement of financial position for the reporting period that immediately precedes the effective date (as in the proposed standard on financial instruments). Similarly, the Discussion Paper’s definition of limited retrospective is so broad that it could also apply to the transition method for the financial instruments project even though the method for that project is labeled retrospective rather than limited retrospective. Clarification is needed to ensure a better understanding of the implementation approach for each new standard, as well as to promote more effective communication between the FASB and its constituents on transition method issues.
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Issue 2: Effective Dates for the New Requirements and Early Adoption

The FASB seeks feedback on two broad approaches to setting the effective dates of the Discussion Paper projects: (1) a single date approach and (2) a sequential approach. The Agencies understand the appeal of a single adoption date to some constituents; however, such an approach may not be realistic based on the differences in the current status of the outstanding projects. Therefore, we encourage the FASB to group related standards and establish sequential effective dates for similar issues.

Issue 3: International Convergence Considerations

The Agencies support the efforts of the FASB and the IASB to develop a single set of high-quality, globally accepted financial accounting and reporting standards. Developing such standards should significantly enhance the comparability and transparency of financial information of global market participants. Moreover, the Agencies encourage the Boards to reach consensus positions and require the same effective dates and transition methods for comparable U.S. GAAP and International Financial Reporting Standards.

Issue 4: Effects of Possible Changes to Standards Setting for Private Entities

The Agencies support the implementation of the standards resulting from the Discussion Paper projects as soon as practicable for public entities. However, given the resources of private entities and the potentially different needs of their users, private entities may need a longer transition period for certain standards.

As stated in our comment letter to the Blue-Ribbon Panel, the staffs of the Agencies encourage maintaining one set of high quality accounting standards applicable to public and private companies with the same recognition, measurement, presentation, and disclosure objectives applying to all entities. With respect to private companies, the staffs of the Agencies recommend that:

- Recognition and measurement principles in accounting standards should accommodate these entities' circumstances and needs, including consideration of resource and technical constraints, by incorporating practical expedients whenever possible,
- Standards permit implementation by these companies in a cost-effective manner, and
- Standards permit condensed disclosures for these companies when such disclosures reduce burden and do not substantially reduce decision-useful information.
The Agencies appreciate your consideration of our comments. We would be pleased to discuss in more detail our views on the Discussion Paper.

Sincerely,

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