April 6, 2011

Ms. Susan M. Cosper  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
Post Office Box 5116  
Norwalk, Connecticut 06856-5116

RE: File Reference No. 2011-150 – Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - Impairment

Dear Ms. Cosper:

The staffs of the five federal financial institution regulatory agencies (the Agencies) appreciate the opportunity to comment on the Supplementary Document, Financial Instruments: Impairment, issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (together, the Boards). We trust that our comments will help the Boards as they further evaluate and develop appropriate and improved impairment standards that can be applied by the full range of entities holding financial assets. Our views are based on consultations with our internal credit experts; feedback from users, including the Agencies’ staffs; and our experience with credit risk management practices and impairment methodologies at financial institutions.

As noted in our previous comment letters, the Agencies support the development of improved impairment standards and believe it is imperative for the Boards to arrive at a high-quality internationally converged solution. In particular, we continue to advocate for an impairment standard that is more forward-looking and recognizes credit losses earlier than the current incurred loss model. We believe such an approach is consistent with providing transparency about changes in credit quality trends to financial statement users and achieving regulators’ prudential objectives of safety and soundness.

The Agencies note that the Supplementary Document refers to the Boards’ efforts to deal with the reporting issues arising from the financial crisis. In this regard, the Boards’ Financial Crisis Advisory Group (FCAG) pointed to weaknesses in accounting standards that included delayed

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1 See our September 30, 2010, comment letter on the FASB’s exposure draft, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities, and our June 29, 2010, comment letter on the IASB’s exposure draft, Financial Instruments: Amortised Cost and Impairment.

- **Robust disclosures** – Impairment estimates require the exercise of a high degree of management judgment. Therefore, robust disclosures that would supplement credit quality disclosures are critical to provide transparency about an entity’s provisioning policies and practices. Notwithstanding the converged nature of the Boards’ existing credit impairment standards, impairment methodologies are currently applied very differently worldwide. Comparability in the implementation of improved standards across jurisdictions can be bolstered with robust disclosures. For example, disclosures about the estimation methods, time frames, and significant inputs used in measuring impairment allowances provide information that is useful not only in understanding an individual entity’s provisioning practices, but also for evaluating how these practices compare across entities worldwide.

The Agencies also recommend the standards allow condensed disclosures for smaller financial institutions when such disclosures would reduce reporting burden while not substantially reducing decision-useful information.

The Agencies appreciate your consideration of our comments. We would be pleased to discuss our views with you further. We have attached responses to the questions in the Supplementary Document in the appendix to this letter.

Sincerely,

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Office of the Comptroller of the Currency

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cc: Sir David Tweedie, International Accounting Standards Board
recognition of losses on loans and other financial assets and the complexity created by multiple approaches to impairment recognition. As a consequence, the FCAG recommended the Boards simplify and improve their accounting standards for financial instruments, achieve converged financial instrument accounting standards, and explore alternatives to the incurred loss model for loss provisioning that incorporate more forward-looking information, including an expected loss model. The Agencies strongly encourage the FASB and the IASB to reassess their separate primary objectives for impairment accounting against the FCAG’s recommendations to ensure the impairment model in their respective final standards represents an improved converged model that can be applied by entities of all sizes and complexities.

The Supplementary Document lists six issues that require the Boards’ redeliberation after they decide on the operationality of the proposed open-portfolio approach. The resolution of these issues is fundamental to the evaluation of the quality and appropriateness of an impairment accounting proposal. Consequently, our comments on the Supplementary Document are conditional pending the Boards’ decisions regarding these separate matters. We appreciate that the Boards have solicited comments on certain aspects of impairment accounting as the project has evolved; however, we urge the Boards to re-expose the entire impairment proposal to ensure the individual elements fit into a coherent converged accounting standard as a whole.

On this point, the Agencies note that the Supplementary Document’s proposed converged impairment approach includes concepts that differ from today’s practices for estimating incurred losses and managing credit risk, particularly among small institutions. We recommend the Boards conduct appropriate field testing to ensure the application of the proposal’s concepts would result in an improved credit impairment model while minimizing unintended consequences. The field testing also should ensure the concepts are operational for entities of all sizes and complexities. Because improved standards for credit impairment are urgently needed, the Boards should complete field testing in a timely manner.

Overall, the Agencies support moving from an incurred loss model to an expected loss model that is more forward-looking. The Agencies also support differentiating assets based on the degree of uncertainty about collectibility for impairment measurement purposes (i.e., the ‘good book’/bad book’ split), recognizing the full amount of expected credit losses for the ‘bad book,’ and recognizing the higher of the time-proportional expected credit losses and the amount of credit losses expected to occur within the foreseeable future for the ‘good book.’ However, the Agencies have concerns about the requirement to estimate dual sets of expected credit losses for certain portfolios and the implementation challenges for smaller, less complex financial institutions. Accordingly, we have suggested a practical expedient for the Boards’ consideration in our comments as well (see “Overall complexity” below).

The Agencies would like to highlight the following specific observations and recommendations concerning the proposal:

- **The floor** – When evaluating the likely results of applying the proposed impairment model, the Agencies are concerned about the potential deferral of credit losses if a

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2 These objectives are discussed, for example, in paragraphs IN4-IN12 and paragraphs BC14-BC24 of the Supplementary Document.
reasonable floor is not mandated. The floor is critical to ensure allowances are at appropriate levels when expected credit losses within the foreseeable future exceed the time-proportional amount of remaining lifetime expected credit losses, which may be the case for certain financial asset classes. We agree that the floor should represent the credit losses expected to occur within the foreseeable future. We also agree with paragraph B11, which describes the foreseeable future as “the future time period for which specific projections of events and conditions are possible and the amount of credit losses can be reasonably estimated based on those specific projections.” The Agencies believe such a time period would vary by asset or group of assets and will be longer than 12 months for many types of assets.

If the foreseeable future language in paragraph 2(a)(ii) were interpreted as a limit, we would not view this as an improvement over the current impairment model. Accordingly, we recommend the parenthetical language in paragraph 2(a)(ii) be modified to read “which generally shall be no less than 12 months after an entity’s reporting date and in many cases would exceed 12 months.” We would object to a foreseeable future that would be limited to 12 months.

- **Overall complexity** – We believe the goal of improving the impairment accounting standards can be achieved in a less burdensome manner. The Agencies strongly recommend the Boards consider a practical expedient that would require only one estimate of expected credit losses when an entity can demonstrate that the time-proportional amount of remaining lifetime expected credit losses would be less than the floor (i.e., rather than calculating both the time-proportional amount and the floor and then selecting the higher amount). For example, this may be the case for assets with short weighted-average lives or where losses occur early in the assets’ lives. This practical expedient also could be used for portfolios where the weighted-average life is consistent with the foreseeable future time horizon. We believe this practical expedient could be useful for many of the financial institutions that will be affected by the proposal.³

The Agencies have concerns that smaller financial institutions do not have sophisticated data mining and risk management tools to be able to determine the weighted-average ages and lives of their portfolios. Without these capabilities, smaller institutions will struggle to operationalize the time-proportional component of the proposal. These concerns should be carefully considered by the Boards in their evaluation of the added complexity, cost, and burden of the proposal.

- **‘Good-book’ and ‘bad book’ portfolio designations** – We favor a principles-based approach for designating the assets to be included in the ‘bad book’ that would reflect sound credit risk management practices. For a new impairment model to be an improvement over the current model and increase transparency, we believe the population of assets to be included in the ‘bad book’ should not be narrowly defined as only non-performing assets or assets individually evaluated and determined to be

³ For example, the proposal would affect approximately 15,700 depository institutions supervised by the Agencies. The vast majority of the institutions we supervise are non-public entities with less than $1 billion in total assets.
APPENDIX – Questions for Respondents

Question 1: Do you believe the proposed approach for recognition of impairment described in this supplementary document deals with this weakness (i.e., delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

Yes, the Agencies believe the removal of the probable loss threshold and the incorporation of more forward-looking information into the estimation of expected credit losses will strengthen impairment accounting. Thus, the proposal is a step in the right direction for addressing the current impairment model’s delayed recognition of expected credit losses. However, the Supplementary Document, because of its limited scope, does not adequately address certain key principles and concepts that would play an important role in a new credit impairment standard. Further elaboration of these principles and concepts is needed to ensure the final standard results in earlier recognition of credit losses than under the current model and can be applied by financial institutions of all sizes and complexities without undue cost and burden.

As noted in our June 29, 2010, response to the IASB’s exposure draft, Financial Instruments: Amortised Cost and Impairment,4 we believe an impairment model which requires recognition of credit losses over time could result in loss deferral or, without safeguards, negative allowances under certain conditions. The Boards have therefore proposed the use of a floor for the ‘good book’ and a separate ‘bad book’ to address this concern. However, if the application of the proposal in the Supplementary Document results in recognition of impairment that is similar to the amounts determined under the current incurred loss model, then the objective of earlier recognition of credit losses would not be achieved.

As indicated in the Supplementary Document, the Boards have not redeliberated all aspects of their previously issued impairment proposals. For example, open issues include the methods used to measure credit losses, the impairment requirements for financial assets that are not part of open portfolios or are evaluated individually, and the impairment model for investments in debt securities. In addition, the Boards have not deliberated and clarified the distinction between important concepts such as “write offs” and “expected losses,” and the timing of when they occur, which are integral to the proposal. We believe it is critical to develop a complete proposal that includes all of the concepts that are integral to understanding and applying a new credit impairment standard as well as an overarching principle describing what the allowance for credit impairment is intended to represent. As a result, it is difficult for the Agencies to fully respond to the proposed open portfolio impairment approach in isolation.

As the Boards further deliberate the proposal and the other elements of an improved impairment model, the Agencies recommend the Boards provide a transparent explanation of how the new model, taken as a whole, satisfies the goal of providing earlier recognition of credit losses. It is also imperative that the new model be thoroughly field tested at entities of various sizes and levels of sophistication to ensure that it is operational for all entities and to minimize any unintended consequences.

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4 Link to the Agencies comment letter to the IASB.
**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?*

There are significant operational issues with the application of this proposal to open portfolios, specifically as it relates to smaller financial institutions and their ability to implement the time-proportional approach. Smaller financial institutions would be challenged to reasonably estimate the weighted-average age (WAA) and the weighted-average life (WAL) of an open portfolio. These financial institutions would have to modify or purchase systems to identify and calculate these weighted averages for numerous open portfolios, adding to their operating costs. In addition, estimating a portfolio’s WAA and WAL requires consideration of prepayments, renewals, and other factors affecting repayment which will be much more challenging for smaller financial institutions where it is uncertain whether such data would be readily available. Moreover, incurred loss models in small financial institutions traditionally focus on annualized net write-offs (charge-offs net of recoveries),\(^5\) which are periodically updated for actual experience, as opposed to expected lifetime credit losses. The Agencies are also concerned about these institutions’ ability to estimate the amount and timing of lifetime credit losses on pools of longer-term assets (such as residential mortgages or commercial real estate loans) in a cost-effective manner. Developing the appropriate systems and the information necessary for small financial institutions to estimate these key variables for the time-proportional approach could represent a significant cost and burden.

It is also unclear how the WAA and WAL estimates would be calculated for revolving lines of credit such as credit cards or commercial working capital loans. For example, payment patterns for revolving lines of credit and transactions in credit card portfolios are very different from other loans. For commercial lines of credit, the seasonal nature of some line usage could present an issue; while these lines can have short contractual maturity dates (one year in some cases), the lines are regularly renewed at maturity leading to a challenge in measuring estimated WALs and WAAs.

The Agencies believe that many of the operational limitations of the proposal that arise in connection with open portfolios would also carry over to individual financial assets and static pools of debt securities and loans. Furthermore, it is unclear how the WAA and WAL concepts would apply to individual loans or other assets. In either case, without proper field testing, it is very difficult to draw conclusions related to the operationality of the proposed model.

**Question 3:** *Do you agree that for financial assets in the ‘good book’ it is appropriate to recognize the impairment allowance using the proposed approach described above? Why or why not?*

Generally, we believe the proposed approach could result in an improved measurement of impairment compared to the current incurred loss measurement. However, we believe the

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\(^5\) In accordance with the Uniform Agreement on the Classification of Assets and Appraisal of Securities Held by Banks and Thrifts, a “loss” classification is assigned when an asset is considered uncollectible or of such little value that its continuance on the books is not warranted. The assignment of a “loss” classification normally results in the write-off of the portion of the asset so classified, which may be the entire asset.
Boards should include a practical expedient for certain portfolios that would achieve the same improved result while reducing operational challenges. If institutions are able to document and demonstrate that either the WAL of a portfolio is consistent with the foreseeable future time horizon or the asset type generally has losses that manifest early in the assets’ lives, then the institution should only be required to estimate its impairment measurement based on the credit losses expected to occur within the foreseeable future for this portfolio.

**Question 4:** Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

No, we do not believe the time-proportional basis is operational for all entities. Based on our observations and examinations of current practices and allowance methodologies, the time-proportional approach may be operational for larger financial institutions, although the model risk associated with implementation of such an approach is significant. Thousands of small financial institutions (the vast majority of U.S. financial institutions) will be challenged with estimating remaining lifetime credit losses at the level of precision presumed in the proposed approach in a cost effective manner.

Therefore, as discussed in our response to Question 3, the Agencies support a practical expedient for certain loan portfolios that would functionally replace the need to regularly compute a time-proportional amount for the ‘good book’ loans that are likely to have a higher measure of impairment under the foreseeable future approach (e.g., auto loans, credit cards, and lines of credit).

**Question 5:** Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

Yes, credit impairment information based on expected credit losses will be useful in our supervisory activities. Accounting information prepared in accordance with U.S. generally accepted accounting principles (GAAP) serves as the starting point for the Agencies’ evaluation of 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. The Agencies have long supported an expected loss approach to ensure timely recognition of credit losses.

The proposed approach, when supported by robust disclosures, should also provide more decision-useful information to other users of financial statements compared to the information provided under the current incurred loss impairment model.

**Question 6:** Is the proposed requirement to differentiate between the two groups (i.e. ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?
Yes, although additional clarifications are recommended. The Agencies find the requirement to differentiate between the ‘good book’ and the ‘bad book’ relatively clear and understandable and believe the requirement should remain principles-based. We agree in concept with the reliance placed upon appropriate internal credit risk management practices to identify ‘bad book’ loans. However, the quality of these practices may vary across institutions. Therefore, to promote a greater degree of comparability, the Agencies encourage the Boards to provide further clarification about minimum expectations for the characteristics of loans that should be placed into the ‘bad book.’ For example, loans to borrowers who have a well defined weakness in their repayment capacity or have indicated an inability or unwillingness to perform in accordance with the contractual terms should generally be placed in the ‘bad book’ even if the creditor has not yet changed its credit risk management activities for these borrowers.

Although the overall principle behind the ‘good book’ and ‘bad book’ is clear, the Boards’ example in paragraph B4 can be misleading. The references to criteria such as ‘days past due,’ or whether management identifies loans as ‘doubtful’ or as ‘problem loans’ are helpful. However, the criteria should be enhanced to clarify expectations so as not to discourage sound credit risk management practices when signs of credit deterioration first appear. Also, criteria such as ‘days past due’ or the identification of loans as ‘doubtful’ are often lagging indicators in the credit risk management process. If these criteria are used as the sole determinant for when to transfer loans to the ‘bad book,’ they would likely result in an inappropriate delay in the recognition of the entire amount of expected credit losses for these loans’ remaining life. Instead, the Agencies believe the identifiers of a ‘bad book’ loan should be broader to include assets that show signs of credit deterioration even if they have not yet demonstrated performance issues. This would improve transparency about changes in credit quality to financial statements users.

In addition, analogies are often drawn to the regulatory definition of a default during discussions about the proposed impairment model (in particular, when determining which loans meet the criteria to be moved to the ‘bad book’). Under Basel II, a default is considered to have occurred, among other factors, when a financial institution considers that the obligor is unlikely to pay in full or the obligor is more than 90 days past due. The Agencies believe most loans should be moved to the ‘bad book’ before they become 90 days contractually past due, especially where collectibility is questionable. As such, the use of the regulatory definition of a default would not be an appropriate benchmark for moving loans to the ‘bad book.’ Defaulted loans should be a subset of the ‘bad book,’ not the standard for transferring loans to the ‘bad book.’ We strongly recommend a clarification that ensures the ‘bad book’ is a broader concept that includes more than just non-performing loans or loans individually evaluated and determined to be impaired under ASC Section 310-10-35.

**Question 7:** Is the proposed requirement to differentiate between the two groups (i.e. ‘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?

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Yes, we generally find the requirement that loan placement within the 'good book' or 'bad book' should be consistent with an entity's approach to managing the loan to be operational and auditable, provided certain minimum requirements are defined as noted in our response to Question 6 above.

Although the IASB's proposed disclosure example illustrating the reconciliation of the changes in the 'bad book' financial assets during a reporting period depicts transfers from the 'bad book' to the 'good book,' we encourage the Boards to clarify in the impairment measurement section of their final standards that assets can move from the 'bad book' to the 'good book' if facts and circumstances demonstrate that previous credit problems have been resolved.

**Question 8:** Do you agree with the proposed requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

Yes, the Agencies agree with the requirement to differentiate between the 'good book' and the 'bad book' for the purpose of determining the impairment allowance. In our view, it is critically important that the entire amount of expected lifetime losses on 'bad book' loans be recognized immediately upon transfer and that the 'good book' allowance equals the higher of the credit losses expected to occur within the foreseeable future and the time-proportional expected credit losses.

**Question 9:** The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this proposed 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?

Yes, as previously indicated, the Agencies find a floor is critical to ensure credit losses are not deferred to future periods. For amortizing secured loans, losses historically occur relatively early in a loan's life. As such, we believe the requirement to have a floor is imperative to ensure timely loss recognition on certain loan products.

(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?

No, a floor should be required in all cases. An entity might disclose loss patterns by asset class, thus putting the impairment allowance information into context.

(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?

We support a floor for expected credit losses within the foreseeable future without a "bright line" for the length of this time period. A principles-based approach to determining the foreseeable
future period supplemented by robust disclosures would help to address comparability issues arising from different implementation methods.

The Agencies are concerned that the 12-month minimum in the Supplementary Document might become the default for all asset types and produce results that are not substantially different from practices under the current incurred loss impairment model. In addition, including a “bright line” time horizon in the accounting standard that artificially limits the foreseeable future could result in deferred recognition of expected credit losses. We agree, however, with the general guidance on the foreseeable future period outlined in paragraph B16 and suggest it be included in the body of the standard. We more fully explain why the foreseeable future typically is a period longer than 12 months for most loan types in our response to Question 9(e).

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

The Agencies generally agree with the concepts in paragraph B14 that suggest that while the foreseeable future period for a portfolio would be fairly constant, it could vary by portfolio based on the characteristics of the assets in a portfolio.

(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.

Yes, the Agencies believe the foreseeable future period is typically longer than 12 months for most loan types. The Agencies believe that an entity can develop a reasonable estimate of credit losses for the existing loans in its loan portfolios for periods of 24 to 36 months, depending on the loan type. Based on our examination activities, we have found that financial institutions have the ability to reasonably estimate their credit losses over at least a 24-month period. Financial institutions also routinely use reasonable forward-looking estimates for a variety of purposes, including portfolio risk management, loan pricing, budgeting, and strategic planning. At the time these estimates are completed, we have generally found them reasonable and supportable. We also believe it is a reasonable safety and soundness expectation that financial institutions should have a view of expected credit losses over the next 24 months at a minimum. As such, the Agencies believe that financial institutions possess credible information to support estimates of expected credit losses beyond a 12-month period.

During our discussions we have heard from proponents of a time-proportional approach that the foreseeable future should not exceed 12 months because they consider it to be the limit for reasonable estimates. We find this position inconsistent with and contrary to the notion that losses should be estimated over the remaining life of the loan portfolio, as is required under the time-proportional approach.

(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 recognized 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.

The Agencies do not support a ceiling for the credit losses expected to occur within the
foreseeable future. We support robust disclosures that would address comparability issues
arising from different implementation methods.

**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.

The method that produces a higher allowance amount may depend on the point in time in the
economic cycle:

- In times of economic expansion when credit losses within the foreseeable future are
  expected to be lower than long-term average loss rates, the time-proportional amount
  may be higher.
- In times of a recession or downturn in the credit cycle, the time-proportional amount may
  not result in a higher allowance amount than the amount expected in the foreseeable
  future.

In addition, regardless of the stage of the economic cycle, for some portfolios the foreseeable
future period may always result in a higher allowance amount. As indicated above, we generally
believe the foreseeable future period is greater than 12 months and would more appropriately
approximate 24 months or more for many loan types. Our experience suggests that most
portfolios have WALs that range from 1 to 4 years. Assuming a stable-state portfolio of
amortizing loans where there is neither growth nor contraction, the WAA would generally be
50 percent or less of the WAL for most portfolios. Mathematically, this would imply a ‘good
book’ allowance under the time-proportional approach that would be based on WAAs of
approximately 24 months or less. In contrast, a foreseeable future allowance amount for such a
portfolio would be higher than or equal to the result of the time-proportional calculation.

The exception to this outcome would be longer-life portfolios such as residential and commercial
real estate loans. The Agencies anticipate these portfolios have WALs in the 7-to-12 year range.
Because of these longer WALs, the time-proportional methodology would possibly suggest
allowance amounts covering WAAs of 36 months or longer. Using the same stable-state
portfolio assumption as above, this could result in a higher time-proportional allowance in times
of economic expansion than the foreseeable future allowance amounts for such loan types.

Also, as the Agencies have discussed in meetings of the Expert Advisory Panel on Impairment
and during presentations to both Boards, losses tend to occur relatively early in the life of most
loans at the financial institutions supervised by the Agencies. This is especially true for most
consumer products in the U.S. (e.g., residential mortgages and auto loans). For this reason, the
“straight line” recognition of losses across the WAL under the time-proportional approach would
defer credit losses that the foreseeable future approach would capture earlier. These early losses
are another factor that would cause the foreseeable future floor to exceed the impairment recognized under the time-proportional approach for certain products.

**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 proposed 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?*

Response to Questions 11(a) and 11(b):

Discounting implies a certain level of precision which inherently does not exist in estimates related to open portfolios of loans whose composition changes from period to period, especially considering the high degree of management judgment that must be exercised in the estimation process. As such, we do not support the application of discounting concepts for the purposes of measurement of impairment for ‘good book’ open portfolios since it would tend to add unnecessary complexity, particularly for smaller institutions, and would not improve the precision of impairment estimates.

**Question 12:** *Would you prefer the IASB’s approach for open portfolios of financial assets measured at amortized cost to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the IASB’s approach (i.e., to recognize expected credit losses over the life of the assets)? Why or why not?*

**Question 13:** *Would you prefer the FASB’s 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 approach, do you prefer the general concept of the FASB’s approach (i.e., to recognize currently credit losses expected to occur in the foreseeable future)? Why or why not?*

Response to Questions 12 and 13:

As stated in the Agencies’ June 29, 2010 letter to the IASB, recognizing losses over the life of an instrument would often defer loan loss recognition rather than achieving earlier recognition even in comparison to the current incurred loss model. Without any real-life practical examples or portfolio modeling that would demonstrate otherwise, we strongly oppose using only a time-proportional approach that does not incorporate safeguards (i.e., a floor) to prevent deferral of losses.

In most cases, the Agencies prefer the FASB’s approach to recognize credit losses expected to occur within the foreseeable future. In our view, the FASB’s approach addresses the critical weakness inherent in the current incurred loss model, which is delayed recognition of expected credit losses. Although the FASB’s approach did not specify a minimum period for the foreseeable future, a concern with the Boards’ common proposal is the risk that 12 months will
become the standard for the foreseeable future for all loan types instead of the foreseeable future described in paragraph B11, i.e., the future time period for which specific projections of events and conditions are possible and the amount of credit losses can be reasonably estimated.

The Agencies prefer an approach that reduces complexity in the current impairment accounting and can be implemented by institutions of all sizes and levels of sophistication worldwide. As previously recommended, we request that the Boards carefully consider a practical expedient to the required use of the ‘higher of’ test for determining the allowance under certain conditions.