April 25, 2013

Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org


Dear Chairman Seidman:

I appreciate the opportunity to comment on the Exposure Draft of a proposed Accounting Standards Update of Subtopic 825-15, Financial Instruments – Credit Losses (the ED). Having worked with and in the financial institutions industry for over the last 26 years, I am quite sure that the proposal has taken a topic that is somewhat complex given the degree of judgment involved and made it overly complex to the point where it will result in even less consistency between entities and won’t provide any better information. While the current approach to estimating credit losses has its shortcomings, to replace it with a model that requires information that is both extremely judgmental and in most cases is not easily accessible without outrageous costs, is the wrong approach. The current methodology could be strengthened by tweaking the qualitative factors to provide more of a forward looking component. To say a change is needed because loss reserves were “too little and too late” is a poor excuse ignoring the responsibilities of management of the financial institutions, their boards, their auditors and their regulators to develop and test a reasonable methodology to estimate credit losses inherent in the balance sheet. Recording expected losses upfront goes against everything I learned in school and my career about the matching principles of GAAP.

While a sophisticated approach may work well for the larger entities with staff solely devoted to such projects, the costs of complying with the proposal for smaller entities (those under $20 billion or so in assets) would greatly outweigh any benefits, if there are any. It is imperative that the FASB get out and talk to the people in the trenches at the smaller entities and understand the magnitude of changes that would need to occur for those entities to comply with the ED. It would not be an exaggeration to state that implementation could take three to five years or longer in some cases. Also, inclusion of
debt securities in the scope of the ED makes no sense as the topic was addressed thoroughly through the OTTI guidance issued some year ago.

Why such a wholesale change when the current process although not perfect works for a vast majority of financial institutions? It's not broke but it could be improved with slight changes as noted above. The Board needs to approach this topic with a higher degree of reasonableness.

Thank you for your attention to this matter and I look forward to seeing sensibility prevail.

Regards,

Brad Crain, CPA