Dear Board and Public:

Please find my comment for the public due process for Exposure Draft ("ED") of a proposed Accounting Standards Update of Financial Instruments—Credit Losses Subtopic 825-15. After my Introduction, my comments will follow the text of the ED (20Dec12). I also will use and quote from Dr George Benston’s “How Should Banks Account for Loan Losses?” (Benston and Wall, 2005 and DeGennaro, Dwyer, Frame, 2004) parts found on pg14 of my comment. Thank you for accepting and including my comment in the ED public due process.

Respectfully,
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Introduction:

"Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)... In the aftermath of the global economic crisis, the overstatement of assets caused by a delayed recognition of credit losses associated with loans (and other financial instruments) was identified as a weakness in the application of existing accounting standards. Specifically, because the existing incurred loss model delays recognition until a credit loss is probable (or has been incurred), the Financial Crisis Advisory Group recommended exploring alternatives to the incurred loss model that would use more forward-looking information."

There also was a comment about using "forward information" ie 'relevant' which is subjective, rather than relying on incurred credit events, which are reliable-realized, comparable across peers and more stable in that incurred credit events are generally not as subjective as an estimated- expected loss model based on 'forward information'.

The original buyers for bank loans and credits under this Scope, were other banks. They and their advisors have a well-worn groove in understanding and valuing incurred credit losses. Experts participating in these instruments and bona fide should be what guides this commerce. We have other investors and participants in our financial markets and buying all sorts of financial instruments different than in previous times in our finance history. Later I discuss the financialization of investing and the US economy, and this is why FASB has revisiting valuation of credit and potential credit losses. Ideally the FASB wants to avoid “bad accounting that would misrepresent objectively determined economic reality”. (Benston, p35)

Unless there is a hidden agenda of various sorts, for example expropriating resources and assets, or to contrive de facto forms of 'debtor's prison' or behind use of 'forward information', that would serve as a way to trade on material, non public and/or inside information that isn’t prohibited from use in the fixed income and non equity (stock) markets, then there still is no reason for FASB to explore a need to review credits under the scope of this ED. The reference to 'debtor's prison' is by way of forms of subtle punishments (which although the FASB is not responsible for producing or managing, but by allowing the co-opting of US GAAP to facilitate those who have a desire to vacuum up the resources of anyone other than the 1%) happens when those who borrowed money for reasons in the scope of this ED, if this system doesn't maintain the performance standard, also known as the 'incurred loss model', and borrowers suddenly encounter calamity impacting their means to handle their obligations, or a slow erosion over time tilts the means of many borrowers from being able to meet their obligations either of which affect their 'credit rating'. These circumstances put at risk their primary assets such as their homes, or their cars, or student loans which had been an investment in themselves and their futures, which are at risk for being disrupted in some form if management or other external forces are permitted to pre-empt a standard of performance – it is this that serves as a characteristic of a society with subtle forms of 'debtor's prison'.

Additionally if replacing the incurred credit event model, ie until these credits have not performed according to the terms of the agreement with and by the borrower, with one that estimates and recognizes expected credit risk, this is bad for customers and borrowers when credit risk already is factored into the pricing of the credit extended. Investors- in reality, many of these alleged investors are merely market players, who don’t like management’s credit appetite, do not have to own that debt or those shares or those of others in that sector. The balance between reasons for investing for example, of 'corporate governance' as opposed to investing in sectors one understands also reflects the maggotry of and financialization in the institutional and 'activist' investor clique looking to make easy money on the paper's turn. Rather than owning shares in companies in sectors they know very well, they presumptuously invest in a mix of sectors using 'corporate governance' metrics and think that with all the turbulence in the markets, the economy and especially in the financial sector companies, that their corporate governance metrics stand up under severe tests when the contrary is more true.
Add more subjectivity to the financial statements especially of the financial companies, and this helps a few knowing players by way of their definition of relevant, while depriving many others of the incurred loss model’s reliability, relative comparability, relative transparency, consistency and more stability. Perhaps like Bear Stearns for example, the ‘fair value’ framework in the reporting model has companies, including banks with balance sheets more exposed to financial instruments, these have to mark- to market, ie, ‘fair valued’ when the financial markets correct or when there isn’t something like quantitative easing to flush the markets with liquidity. In the Bear Stearns example, players can use the system, make it turbulent and wield it to destabilize a Bear Stearns or produce events to trigger a resolution plan to activate with a large bank, a systemically important financial institution “SIFI”. At least relying on the incurred credit event/loss model is again little more stable.

Credit Default Swaps (“CDS”) also make problems in a system using ‘fair value’ and its FASB proposed estimated-expected loss, vs. incurred loss or incurred credit events, because these instruments also can be used to ‘waste’ a company which may be vulnerable and/or attempting workout, and no longer allowed to survive to attempt to restore itself. The CDS are fouling with a commercial model of private enterprise that prior to CDS didn’t have to fear other than ordinary commerce and the economy.

We’ll assume that FASB wants to avoid bad accounting, and that the system is bona fide. Lenders and borrowers engage in commerce that are using ‘credit’. Loans or credit is extended to customers who are credit worthy and able to meet the terms of the loan or credit agreement or contract. If it payment terms are monthly, borrower will pay monthly principal and interest through the remaining life of the credit agreement. If borrower fails to perform according the terms agreed, the credit becomes impaired. The bank doesn’t incur a loss until the borrower defaults. (Benston, p35) These are economic/commercial realities. Ex poste institutionalize disorder that is characteristic in the maggotry and financializers have a difficult time refuting this however with fair value that the market turbulence can hijack, these participants that can dominate the markets, do not care. FASB also is in their cross hairs and again that is a reason for this ED.

Problems however have arisen in part because of the financialization (financial ‘paper products’ including financial engineering and most structured product of consumer and mortgage credits/loans, and derivatives of syndicated loans and those products’ used as an attempt to pirate the time value of money) of the US economy and investing. It is this financialization and its constituency of ‘investors’ that also has the Board considering what is in the scope of this ED which finds foundation in fair valuing and basing accounting for credit impairment on estimates. In financialization also we’re seeing the purpose isn’t to own shares in companies but to carve up their paper such as deeds or mortgages which have value and can be used as collateral, and from their ownership paper produce financial products. These are different items than capital investing in real assets and real property.

And the financializers, the maggotry are squatting on what now is the ‘garbage’ product produced that is illustrative of this ‘financialization’. What is lionized as financial innovation, or financial engineering, or risk shifting in virtually all of the instruments used in those activities, I characterize as financial garbage or as some others have labeled it as financial toxic waste. In any event, waste is on that which maggots feed. These are a life form that exists purely to feed its own belly and is focused on that. These cannot light on living flesh; maggots can only feed on rotting materials. That’s to what the US financial system in part has eroded and the turn of the paper and products that can make rentier situations, welfare/free-rider veins, are in part what is driving this ‘financial engineering’ or financial ‘innovation’ rather than making certain there is healthy commerce and associated industrial activity in the US and funding that with capital, and providing fair, safe non turbulent markets for that capital to prosper. Fair value as the framework in the financial reporting model facilitates the problems rather than the solutions.

Perhaps people should understand it’s also all “P” and fake “E” – “P/E”. Fake “E” is aided and abetted by risk shifting and ‘financial innovation’ that has obscured the erosion of the economy, whereby a pretense of profitability exists generally because of the Quantitative easing and the impact of fair valuing of derivatives packing the balance sheets of the large financial intermediaries. Derivatives are for these intermediaries to inflate their balance sheets and run the fair value gains through their income statements to game, ie goose their earnings or Other Comprehensive Income to inflate their Shareholders’ Equity.

The financial sector’s prominence and dominance also has served as a key force in the ‘financialization of the US economy while the production corpus of our economy has been significantly diminished. This finds roots from a non-evident source and from a higher level; rather than the US complying with the Constitution, the financial sector’s dominance and what’s been the economic and commercial erosion primarily has resulted from US compliance to multilateral agreements, ie, G20 Agreements. This compliance means the US is to constrain its economy to meet the Europeans’ ‘managed competition’ dominated by its National Champions such as Deutsche Bank and Daimler. De-industrializing is a mechanism used to achieve this constraining/shrinkage and the associated agreement for the US to have no-net-new-job-growth.

Thus multilateral-G20 Agreements have altered what policy makers are now choosing rather than complying with the Constitution’s Article 1 Section 8 institutional framework using tariffs on imports. “Free” trade is used as the marketing name for this policy adopted; “free” trade is used to motivate off-shoring production out of the US into cheap labor regions. This trade ‘liberalization’ results from circumventing the Constitution’s Article 1 Section 8 requisite for tariffs on imports. Management in off shoring production to cheap labor regions, achieves the deindustrialization as well as the no-net-new-job growth, the jobless recoveries, while lining its pockets with the difference in paying cheap foreign labor versus paying Americans that had helped frame our better quality of life and living standards.

The deindustrialization causes a contraction as many other industries and commerce in regions where companies left those regions or production subs left those regions for cheap labor countries/asymmetric economies, and the impact magnifies. From 1979 until 2008, data had showed that more than 15% of US GDP tied up on production, no longer is a part of that “statistical measure for the US economy. My takeaway is that it has been what has gone off-shore from the time of Paul Volcker and the ‘strong dollar’, until well into Bush 43’s admin
with several ‘free’ trade agreements such as NAFTA (North American ‘Free’ Trade Agreement) and PNTR (Permanent Normalized Trade Relations) with the PRC, ie China, Fast Track and the bi-lateral ‘free’ trade agreements the US contrived after 9/11.

This all means that there is significantly less domestic production in which to employ former middle class investor-Americans, and significantly less ‘ripple affect’ producing new companies into which there would be normal capital in one way or another. The notion that the developing world has been the new engine for growth is flawed; those societies are economically asymmetric with the US and their populations are nowhere near the living standards and ‘spend’ including investing - of what US citizens had enjoyed.

Some would debate all of what I've provided above which I also suggest if to question substance or credibility of what I provide, examine what’s happened over the last 30 years in the US. Are you better or generally are all Americans or even most Americans better off now? Is the US better off now than it was 25 years or 35 years ago, even with double digit inflation caused by the 2 Arab oil embargos and leaving wage and price controls after Breton Woods and completely removing the US from the Constitutions standard as money of account? It's hard to say that things are better.

And we used virtually NO ‘free’ trade then as opposed to now. We had economic recoveries that produced employment; we had the system that was the best motor for growth in the world. When ‘free’ trade is policy that violates the Constitutions, and I characterized this as ‘self-immolation’, virtually nothing has been better except for the 1% enjoying more asset concentration into their hands at the expense of, and on the back of the many.

I have identified multilateralism that is a driver behind these policies that violate the US Constitution and are contributing this ‘self-immolation’, naturally this would bring us, our huge economy into lurching, reeling. The knowing and ignorant, ignored people in positions of responsibility for this and in the US government and policy roles are and have been attempting to conjure new policy or propaganda and would give it amorphous names such as the ‘new economy’, the post capitalist society, the service economy, and the “new normal”, or the economy where ‘predator squid’ (Matt Taibbi’s nick-name for Goldman Sachs, the effigy of which I saw lay on the basement bar at an east Village libations spot where Occupy Wallstreet’s bank subgroup was meeting) gets to vacuum up the US economy while the US economy is circling the drain. Financialization also results from while aiding and abetting this vacuuming machinery.

I've given the reasons for the economy to appear to be, and somewhat has been circling the drain, although arguably Goldman and its peers have contributed to that and lobby congress and thwart virtually anything they can against people, institutions, opponents from helping restore the US economy and now using free-ride/welfare in many forms to maintain their own dominance. They would be advantaged by 'fair value' and an expected loss model using estimates, rather than relying on the incurred credit loss model and waiting for borrower performance before estimating potential deterioration of the credit. Likewise, they would be at risk if market 'gangs' went wilding and targeted Goldman or some other bully on the turf. In any event, the Predator Squid and other market players have contributed to producing and are a part of and beneficiaries of the financialization and the maggotry and probably are attendees at FASB’s meetings and while there heckling for cozy US GAAP.

“Who Would Be Affected by the Amendments in This Proposed Update?” All entities that hold financial assets that are not accounted for at fair value through net income and are exposed to potential credit risk would be affected by the proposed amendments. Loans, debt securities, trade receivables, lease receivables, loan commitments, reinsurace receivables, and any other receivables that represent the contractual right to receive cash would generally be affected by the proposed amendments.

These are fixed income instruments. Although with regard to trading on insider-material, non-public information, the laws somewhat protect the equity markets and prohibit trading and using material, non public/confidential information, in fixed income instruments, little protects or prohibits the use of confidential, material non public information. These securitized and un-securitized versions of these instruments would be traded over-the-counter ie, "OTC" (or NYSE for bonds), which has little market surveillance to prohibit abuse. Additionally, little would prohibit or deter use of what would disrupt the markets while fair value would 'free-ride' on this turbulence. Moreover the financial markets are connected; as it were, particular enterprises' instruments and their permutations and their markets are correlated with other markets and also many of these banks have publicly traded shares.

What Are the Main Provisions? The proposed amendments would remove the existing probable threshold in U.S. generally accepted accounting principles (GAAP) for recognizing credit losses and broaden the range of information that must be considered in measuring the allowance for expected credit losses.

Again, “probable” was based on performance, which is consistent, reliable, measurable and helps with comparability. In a bank’s systems, performance can be watched; systems track this with ease. Little subjectivity exists if the borrower doesn’t pay after 90 days, ie the loan fails to perform according to the terms of the agreement with the borrower. Some subjectivity arises if management decides to allow this non performing loan to remain in the loan portfolio, rather than marking and taking action accordingly for it as non-accrual, and begin renegotiating or restricting the loan and/or putting the loan on cash basis, or a restructured loan portfolio, monitored more closely. The subjectivity of management’s decision to put a non-performing loan on non-accrual however, IS NOTHING LIKE THE SUBJECTIVITY/ MANAGEMENT DISCRETION OF FAIR VALUING AND ESTIMATING FOR EXPECTED CREDIT LOSSES.

As a result of the proposed amendments, financial assets carried at amortized cost less an allowance would reflect the current estimate of the cash flows expected to be collected at the reporting date, and the income statement would reflect credit deterioration (or improvement) that has taken place during the period. For financial assets measured at fair value with changes in fair value recognized through other comprehensive income, the balance sheet would reflect the fair value, but the income statement would reflect credit deterioration (or improvement) that has taken place during the period.
Even with some rules guiding these reporting steps, because of suspected impairment and associated estimates for those ‘charges’ or reversals, subjective, discretionary movement back and forth would occur between the financial statements for uncertain assumptions management would make on customer contracts now subject to forms of fair value rather than performance (incurred credit losses). This also often produces undue turbulence in the financial statements, and in the case of large financial companies, management use of derivatives which in the credit crisis was bad enough. If they’d been permitted or constrained by US GAAP, with turbulence and desperate use of offset and estimates for credit impairment back and forth between the financial statements probably during the credit bubble and crisis, all of this would have worsened the reflection of the financial statements of big credit issuers. I cannot say this ED proposes better than the incurred credit impairment model.

This also is why this ED isn’t necessary, as credit impairment should wait until performance is know, when customers to have failed to comply with terms and thus the credit is known to be impaired. Accrual basis, historical cost accounting represents some consistence based on actual, reliable events that if those occur, it is less subjectivity than if management estimated the potential credit impairment, took preemptive action. If the loan however performed and not only had management used what FASB is proposing for US GAAP, but those were subjective intrusions into the financial statements, THESE now have to be backed out or reversed out of the financial statements. Relevance rather than the reliable method: the borrower fails to perform on the loan and after 90 days or later, management backs the interest out of the income statement, if it must, it takes provisions out of revenues against the sour loan and indentifies the loan as non accrual. And this method is reliable about what runs through the income statement into retained earnings and shareholders’ equity, and creates stable capital formation to these sorts of enterprises. That capital also is paid with appreciation of that issuer’s stock price and dividends, unless management is slow to mark loans non-accrual, take collection action, and/or charge-off the non-performing loans.

“How Would the Main Provisions Differ from Current U.S. GAAP and Why Would They Be an Improvement?... The existing models generally delay recognition of credit loss until the loss is considered “probable”. This initial recognition threshold is perceived to have interfered with the timely recognition of credit losses and overstated assets during the recent global economic crisis.”

This reflects the disconnect of the credit bubble, even the dotcom bubble when loans were poorly underwritten or that should not have been underwritten, or were “A” paper loans made to borrowers over time eroded residing in regions eventually impacted by the commercial/economic contraction from ‘free’ trade agreements. Investment market players, call them speculators, bettors, or financializers, but people who had the means to listen to gossip or anecdotal evidence and trade on that. Different pools of bettors with different levels of means could speculate in different instruments according to their means, rather than occupy themselves constructively.

Judgment call between what is opaque versus what is ‘transparent’ again becomes an issue. It’s not difficult to do some spade work, effective due diligence, notwithstanding the ability for Countrywide or WAMU or other mortgage originators to self securitize non-conforming residential mortgage loan product in any condition, including no-doc and low-doc loans ie, mortgages underwritten with little to no documentation required of the borrower by the lender, and pack that into their private label versions of Mortgage Backed Securities, or Collateralized Debt Obligations with little documentation ‘doc lite’ for many investors in those products.

FASB however is proposing something more ‘high-touch’ required by management, although this too could be programmed into the systems, but still doesn’t solve the subjectivity problems, the lack of reliability, the spurred flux of reporting back and forth among the financial statements.

“How Would the Main Provisions Differ from the FASB’s Previously Proposed Accounting Standards Update? In contrast, the proposed amendments in this 2012 proposed Update would broaden rather than limit the information set that an entity is required to consider in developing its credit loss estimate. Specifically, the proposed amendments would require that an entity’s estimate be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets’ remaining contractual cash flows.”

According to the current incurred credit impairment model, this due diligence on the borrower is done on the front end and the loan as a result is underwritten differently according to relative ability for the borrower to pay. Meanwhile, in a better time before the serious erosion caused by ‘free’ trade, companies such as The Money Store, Household Finance and Beneficial Finance made loans to people with tarnished credit records. Prepaid and ‘credit cards’ with a prepaid characteristic and limited credit also appeared from the consumer finance companies. Larger financial competitors hotly pursued these companies as acquisition targets. First Union had acquired one of these companies providing these credit products to borrowers considered marginal. Wachovia and First Union merged and with all the consumer credit products on their books and the quality of some of that eroded or eroding, it was among the companies considered in terrible condition, but the FDIC permitted a virtual assisted merger with Wells Fargo.

“May 2010 proposed Update differed on the basis of whether the asset was originated or purchased.”

I am not certain why there should be a difference for the originator versus a buyer of a distressed credit. The key on the front end was management was to have done the better due diligence. In most cases this would have solved the credit impairment problem with fewer impaired credits. Moreover, purchasers of impaired loans run the risk that the courts will reject rather than recognize as a legitimate, action by the lender or the buyer of the impaired credit because Federal Rules of Evidence require original signatories and the original promissory note to be produced as evidence with original signatories appearing in court.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)? .....Most recently, the Boards worked together to jointly develop an expected loss approach using a so-called three-bucket impairment model. The discussion about the three-
bucket impairment model in this document refers to the model, as jointly developed, before the FASB decided in July 2012 to revisit its previous tentative decisions on this project. Specifically, U.S. stakeholders expressed concerns about the use of two very different measurement objectives and the ambiguity and operationality of the principle for determining which measurement objective should apply to assets held in a given reporting period. Also, many stakeholders viewed the principle for determining which measurement objective should apply as reintroducing an incurred loss recognition trigger into the model, which was a perceived weakness of existing U.S. GAAP that this project sought to address."

The current framework of performance assumption under accrual basis accounting, i.e., incurred credit impairment I don't think it discriminates between originators and paper investors, which would subsequently purchase these financial items, either way, the borrower has to have breached the performance framework before it can go to collection. Banks can't start collection proceedings until the terms are breached unless the loan is cash basis or the terms have accelerated collection after the loan was rescheduled differently than original terms. If sold to a collector, still the terms of the loan had to have been breached. Again in most cases the loan has been paid down and the originator or issuer received payments from the borrowers as well as the buyer of the paper. Whereas the lender may not have been made 'whole', the time value of money often is satisfied and the borrower over time is more at risk than the lenders and other players in the system relying on the pickings and ignorance of the borrowers.

Moreover, market capriciousness should not be used to determine values of banks' balance sheets however US GAAP now has this; some asset classes on a bank's balance sheet were fair valued during the credit bubble and then correction. Problems also arose when bank management made their loan portfolios investible and/or securitization of homogenous, cash-flow generating asset classes such as credit card loans and residential mortgages, and separated these items from the balance sheet. These had been moved from the loan portfolio, and included in financial structured product. These items are treated as if they're bonds with covenants, or common stock, and as if offsets are economically fair whether purchased or originated.

At this point with the financialization of the US economy and the increasing number of type of investible instrument, or instruments, what would spur divesting of loans for more product also I see lurking in the group that serves on the Financial Accounting Foundation that also helps decide what FASB will chose to review for promulgating new US GAAP. With that influence on FASB, it also has been on board with Fair Value and with this topic in this ED also by way of those with the means and ability to speculate who want banks to pre-empt perceived potential impairment in performance on their loans, and estimates of that would shadow the financial markets and/or other subjective metrics and now assume a different trigger for the charge-off process. I see all of this as creating more turmoil on the financial statements of these sorts of companies. This would advantage those with means, who are able to take indirect and eventually potentially direct advantage of those who are with less means and were the borrowers impacted by this new assumption. Most of the issuers affected by this ED are publicly traded. Trading their stock gives investors and speculators more ease to trade in and out of these names in the financial sector and/or dealing with the instruments in the scope of this ED.

I do not consider that a good reason to revisit determining credit impairment when performance worked for the lenders, the borrowers while the financializers-speculators and credit collectors would prefer what FASB is proposing in the ED.

**Question for All Respondents**

**Question 1** – I don't supporting taking credit impairment in this direction. As result, I don’t think this is a relevant question. I also consider loan commitments as contingent agreements which do not belong on balance sheet. Nor do I support considering these as if they’re loans, when they’re not and shouldn’t be fair valued as if they’re instruments subject to market conditions. What’s reliable is they will produce fees, and then interest revenues and expenses when or if they’re triggered. Until then, they’re contingencies which if fair valued, that isn’t reliable, although some financializer may think that’s relevant. GAAP isn’t for his self-interests. His ‘rage over the lost penny’ and the aggregate of that impacting the markets has us now with abusive practices such as dark pools and high frequency trading. Attempting to fair valuing perceived, potential credit impairment for these items in this scope (and I suggest excluding loan commitments), I group with these other market abuses.

**Question 2** – No

**Question 3** - No

**Question 4** Lending as a part of banking products and services, under incurred loss is better for commerce rather than what the FASB is suggesting in this ED. Moreover, the additional attention management would be required to give more attention to the credit part of their balance sheets, when the practice of banking is better served: 1) by front-end underwriting for credit standards, 2) on what we’ve relied for worthy credit relationships, and 3) monitoring the loan performance. If performance doesn’t comply, and the loan or the credit goes 90 days without the borrower paying, the lender should make some effort to determine reason for lapse. In cases of credit card products, late fees and penalties climb, although in cases of mortgages, there are remediators which presumably are part of the relationship between lender and borrower unless the mortgage was sold and a servicer now is involved with dealing with the homeowner.

Perhaps as an analyst on this sector and an investor in its shares, the incurred loss model works for me. Even if I were trading in and out of these stocks, the incurred loss model worked for me. And I was a Lehman and JPM Chase investor and sold when the economy determined my action, rather than the market determining my action or in what those financial intermediaries were doing, not what the market was doing. Hedge fund, similar portfolio managers, and financializers who are ignorant about these companies and their businesses and/or other investors who think that from company to company, standard stock price information and a little due diligence gets
them a short or long term holding but are ignorant about the business of these names, I suggest they invest in more tame things that are better to day trade or speculate.

Question 5 – Even if I again were an investor in this sector, I prefer the performance metric rather than perception and market turbulence to determine what the balance sheet and income statement should reflect on these items.

Question 6 (1) – No - I prefer performance and the incurred loss method for determining credit impairment. In the SEC and shareholder filings, since these are paper assets, these aren’t above needing due diligence. In their loan portfolio quality ‘aging’ schedules, Banks’ balance sheets are to reflect loans at amortized cost (net of reserves). On any other assets purchased, there would be some realized or implied certification of quality which the footnotes presumably would disclose. On purchasing credit impaired assets, for FASB to continue with the assumption that the estimation should not be included in interest, well, the estimation of implied credit losses is an estimate and usually unrealized. Over time as the credit matures and interest and principal are paid by the borrower, the estimates of credit impairment which change and again do not belong in interest income. I think this also is what the ED is suggesting?

Seems like staff saw the degree to which investors and financializers want to ‘free’ ride on what would alter perceptions of credit quality and look to profit any way, even in welfare/’free’ rider on the markets that would yield premium on playing in these financial items.

Moreover, price is a negotiation between buyer and seller. These instruments are sold as if in a department store, out of inventory, for example if in Available for Sale, “AFS”, if the bank originated the loans it has in that account and would sell, is selling, presumably these loans would reflect the quality of the bank’s underwriting. Mortgage loans originated conforming to the underwriting of Fannie Mae and Freddie Mac, have to remain in the seller’s portfolio for at least 6 months for the ‘seasoning’ process. This helps to confirm performance as well as enable the interest rate and market conditions to give potential seller and buyers, Fannie or Freddie, time to see what the condition of the loan will be when the originator decides to sell the loan(s).

And except the ISDA banks, virtually all other banks, investment banks, and thrifts are examined, presumably thwarting toxic asset build up on their balance sheets and in their loan portfolios. There are many other intermediaries out there and are NOT on Deposit Insurance. If they’re bank subs of any bank, thrift, investment bank or insurance company, any sort of financial company that came under the Fed’s direct or indirect ‘jurisdiction’, the FDIC and Fed had full reach into being able to examine these subs and discipline against abuses, unless the information that they provide on their websites and to their examiners is fraud and misrepresenting the power and reach of their organizations. That the regulators failed to do that (failed to enforce Prompt Corrective Action) doesn’t mean that FASB needs to issue an ED to revisit accounting for credit impairment.

Allowance is different for banks; banks always have Allowance for Loan and Lease Losses account. Provisions to Reserves are regularly made. Even in the best of times, credits underwritten by good management occasionally go sour. If loans failed to perform or management engaged in aggressive lending whereby some of those credits go non-performing, but before putting them on non accrual basis, management could make provisions to the reserve. Provision is made in the Income Statement, and presumably other companies with instruments affected by this ED, likewise follow a similar process when having to fund their Allowance for Loan and Lease Losses.

The bank regulators also can mandate larger reserves when seeing financial deterioration reported in the required quarterly filings by their insured institutions. The regulators have made these forms detailed and these depository institutions have to provide very detailed financial information on their enterprises, products, services and financial condition, and Income Statement of their operating activities. These materials serve as ‘off-site’ monitoring that when analyzing the data for individual and peer purposes, can determine from that if those financial companies must increase reserves because asset quality is deteriorating. Except for the SIFIs, insured financial institutions which include the investment banks with banking subsidiaries are examined. This on-site monitoring also facilitates if the condition of asset quality and sufficiency of reserves. Either way, the regulators can mandate additions to reserves.

Regulators and supervisors including the Fed also employ economists which monitor the economy. Perceptions that a sagging economy in an area where banks made loans or in a sector having economic problems into which financial companies made loans and engaged in forms of financial activity, which would spur increasing amounts of non accruals in those areas, the oversight bodies typically would require additional reserves and even indicate basis points of reserves per size of the loan portfolio.

Whereas in the credit bubble, regulatory framework such as Prompt Corrective Action the FDIC failed to enforce and the Fed had contributed to that obstruction, that fits also with other gate keepers which failed or engaged in lax efforts in their roles according to interests of policy makers and other decision makers which had ability to tweak or in some cases lurch the framework of the system to weak turf Comment Letter: Fed, FDIC, OCC, SEC Public Due Process Comment regarding Basel III adoption, analysis, in narrative style http://www.federalreserve.gov/SECRS/2012/December/20121206/R-1442/R-1442_113012_110903_367981921547_1.pdf.

I am not supportive of the lurch of US GAAP or any public policy that prefers investors, speculators, and financializers’ interests over that which is more safe and sound banking practices and representation of that. Fair Valuing credit quality breaches stable, reliable, comparable and borrower suitable safe and sound banking practices. Moreover, our problems exist in part because standard setters such as the FASB are courted and targeted by the financializers’ interests and means that would attempt to drive the quality of reporting for ‘relevance’, rather than reliable from one reporting period to the next, and commercially stable representation, and the interests of the issuers and other stakeholders which use financial statements and/or activists monitoring the quality of conduct of the financial sector including its agency behavior and reporting.
Question 11- This seemed somewhat vague and an example would have helped with understanding this question. What the Board is proposing however still means too much subjectivity and movement back and forth between financial statements and what is promoted as ‘relevant’ is in the eye of the user, while reliability is crippled and further disrupting bank balance sheets for power to game the income statement or take it down the drain.

Question 15- Again borrower performing or not on loan is to remain the driver when management takes action on a loan. What isn't different than common practice was what went non-accrual and when, and then went ‘cash-basis method', and if it doesn't become performing to original terms or performing as a loan, payment on this should not be captured in interest income, unless it's restructured into a new loan. If it is on cash basis, the borrowers' payments are fees; this isn’t an asset accruing interest although borrower is paying towards the obligation (825-15-25-10). If management is conservative, then after 90 days when the loan has failed to perform, management would in placing it on non-accrual basis, back out the interest and attempt collection or reschedule the loan. If necessary, management would report increased Provision or a provision in the Income Statement and in turn mark down the loan against Reserves. The provision would add to the Reserves. If the loan cannot be restructured, management can sell the asset or handle in on a cash basis, accepting payments from it towards pay done on the asset.

Notwithstanding, fair value doesn’t have reliability worth less than what is promoted for relevance.

Proposed Guidance Section

825-15-10-1
There needs to be concrete examples for what are suggested to be an entity’s current expectations and why, by whom it is referring and which ‘investors’ ie, the financiers which have been seeing what’s been the current environment. Removing it from the context of the credit bubble and collapse, their contempt is unplaced for the current method of reporting for Impaired credit when loss happens.

825-15-10-2
To which debt instruments are they referring and in which accounts such as Available for Sale?, Held to Maturity? As I already had mentioned, I don't support what the Board has suggested for this subtopic and I would exclude “Loan Commitments” from this Scope.

Debt Instrument –Consideration: Whatever it is, must realize to cash in the reporting cycle.

Effective Interest Rate:

This description exposes the significant uncertainty at time of acquisition. Thus the risk of abuse is high, along with the amount of discretion that's too high. What hasn’t accrued from the origination in principal and interest and the time value of money should be the difference. Additionally, unless underwriting wasn’t bona fide, such as ‘liar-loans’ mortgages or robo-signed mortgages, the ED needs to provide a list of classes of different sorts instruments such as mortgage paper, Repos and the like, and commercial paper.

Expected Credit losses
Again, these losses are recognized when performance has lapsed after 90 days.

Fair Value
Forced or liquidation sale needs to exclude events such as the ‘flash crash’, or any sort of sudden financial market panic – although the owner of the asset doesn’t have to sell the asset.

Purchased Credit-Impaired Financial Assets… the value of collateral relative to commitment for nonrecourse assets, and other factors that may influence likelihood of debtor electing to default.

Barter arrangements such as in derivatives trading, or having to post collateral tat when a buyer doesn't follow ___ the servicing in a sale? The fails to deliver they collect is seized?

Reinsurance Receivable- policy benefits
What are these and these should be defined for the intelligent but under-informed reader?

Recognition-825-15-25-1
This should be at realization of non-performing to terms after 90 Days, such as at 91 Days.

Estimation of Expected Credit Losses-825-15-25-3… An entity shall consider information that is available without undue cost and effort that is relevant to the estimated collectability of contractual cash flows. Just out of curiosity, what would be? And run if gains or losses through the Income Statement or OCI?

What also happened at underwriting time and if the loan was a conforming (to GSE underwriting guidelines) loan? Were there problems then that made the loan go non performing? Market Value of how a financial asset is perceived (and a financial asset in the case of a
mortgage backed security, has hard assets that serve as its collateral and has a cash flow). And if a borrower doesn’t perform under the contact after 90 or 91 days, there is credit losses but not before the performance has lapsed for 90 days. On the front end is where credit underwriting should be, rather than more management discretion and subjectivity later, when according to this ED, the estimation of when the poorly underwritten credit’s potential impairment becomes the impact of more subjectivity in the financial statements and with movement back and forth if it is or is not realized. I oppose what the ED, albeit well-meaning, is attempting to promulgate.

More discretion is opaque versus what the theme of this ED is promoting – to increase management discretion with reporting their financial condition, and go to a more subjective basis, ie, fair value for relevance and ‘transparency’, when that is quite far from what the mechanics of what this would be. And relevant to ‘estimated’ of collectability and all of this similar language is for unreliable disclosure. ‘Relevance’ is vague, subjective, and uncertain in part because of the ad hoc method, different from one issuer to the next, and data assumed to be used for relevance, is itself flawed because it’s from estimates. It’s not from performance. I won’t condemn it as idiotic, however a critic of FASB and this ED perhaps would.

825-15-25-5 An entity is prohibited from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). Where do they get this? Again, relying on performance means less judgment call as is proposed here. Moreover, what is proposed is too capricious: “How can you possibly award prizes when everybody missed the target?” said Alice. "Well", said the Queen, "Some missed by more than others and we have a fine normal distribution of misses, which means we can forget the target". Attributed to Lewis Carroll from his Alice books.

825-15-25-6 NO -this also presumes the account should be using fair Value and that as our reporting framework, rather than use what is reliable and consistent in having relied on performance which peers also would be using and more comparable rather than management using a number of different metrics for estimating potential credit impairment. This is significantly more directionary and that is another risk, while thwarting virtually any heralded ‘transparency’.

The more I see this attempt to use Fair Vale as the framework for estimating potential credit impairment, the more it looks like GAAP facilitating more ways to profit on the ‘turn’ of the paper – each new arbitrage we’re seeing here. And FASB is aiding and abetting that with what this ED proposes.

825-15-25-6 An entity shall recognize in the statement of financial performance (as a provision for credit loss) the amount of credit loss (or reversal). Again this is rightly ridiculed for earnings smoothing where this estimation proposition is going to provide for reserves and reverse those provisions and to restate the financial statements for credit losses. Playing these reporting games for ‘relevance’ to dominate over reliability again gets ridiculed that GAAP is CRAP (according to my friend Dr. Larry Parks). And if the guarantor is separate entity? Yes, I support that so as to minimize conflicts of interest and inside dealings. If the guarantor is in bad condition however, why use it for the credit enhancement?

825-15-25-9 The allowance for expected credit losses for purchased credit-impaired financial assets shall be recognized in accordance with paragraph 825-15-25-1 and, therefore, shall be an estimate of all contractual cash flows not expected to be collected. Changes in the allowance for expected credit losses shall be recognized in accordance with paragraph 825-15-25-7 in the statement of financial performance (as a provision for credit losses) in the current period. This still isn’t historical cost, accrual basis more reliable accounting. The estimate method attempt isn’t reliable, and thus a provision that isn’t fairly reported is biased by perceptions and as a result the estimates for relevance are inferior to on what reliability is based. Loans made with sound underwriting are unlikely to go non accrual and need Provisions added to reserves.

825-15-25-10b. Cash receipts that exceed the amount of interest income that would have been recognized in the period had the asset not been placed on nonaccrual status shall be applied to reduce the carrying amount of the asset. This speaks of yet more movement around the balance sheet, in and out of the income statement, and this also is a NO, and would worsen in a turbulent or correcting market. Again, heckle for regulator examinations, and enforce conservative management practices to put loans on non-accrual after 90 days under the historic cost scenario.

Subsequent Measurement
Write-offs
825-15-35-1 Recovery of a financial asset previously written off shall be recognized by recording an adjustment to the allowance for expected credit losses only when consideration is received. Most reasonably, it still means that the loan didn’t perform. This says the payment has to actually be received. It has to use performance factors to improve its ‘relevant’ framework with reliability. All the subjectivity estimates, and perceptions of relevance are inferior anyway however for their remote credibility still need performance of the credit. And when management is using sound underwriting and allowance practices, this minimizes the risk that the market will trash the stock when using reporting that is reliable rather than ‘relevant’ and market connected.

Other Presentation Matters
825-15-45-1 NO, again performance and reliability override this.

825-15-45-2 If there is a performance breakdown and it was an instrument, again this is more the turbulence in the Balance Sheet, and the Statement of Position. Other Comprehensive Income movement is in the Shareholders’ Equity with less than reliable information. All of this is because of the perception of Fair Value of both a management and market convinced by a notion which produces disorder rather than
something more reliable. In safe and sound banking practices, the later must dominate rather than disorder. I view fair value for ‘relevance’ as disorder.

825-15-45-3 Again, these values are not to change unless there was breech in performance and then accordingly their associated financial statement impact would be reported.

Disclosure
825-15-50-1 a. Credit-quality information But on this again, we’ve relied on performance rather than subjectivity.

825-15-50-2 a. The credit risk inherent in the portfolio and how management monitors the credit quality of the portfolio
This again reflects the financialization of investing and the maggotry squatting on garbage wallstreet produces that sets up a part of this financialization problem. Here again with performance/incurred loss model, within the reporting period the customer pays, the system records this and properly amortizes the loan. The payment which in the reporting cycle realizes to cash is run through the income statement. If after 90 days Customer didn’t pay, the system reports this and management takes action on the loan which then is put on non accrual, and the reported revenue, which on an accrual basis was recognized in the Income statement, is backed out of Income.

b. Management’s estimate of expected credit loses What did they underwrite?

825-15-50-3 An entity must strike a balance between obscuring important information as a result of too much aggregation and overburdening financial statements with excessive detail that may not assist financial statement users to understand the entity’s financial assets and allowance for expected credit losses.
Reliability is by way of historical cost, accrual basis accounting. Does this not increase GAAP lurches, but for ‘relevance’ using FV and perceptions of asset quality rather than based on performance and reliability?

Credit-Quality Information
825-15-50-4 Management was bona fide, assumed borrower was bona fide. After doing due diligence on the customer, when Management extended credit, it operated under the assumption that the borrower can and would pay. The stakeholder and the FDIC insurance assume management is engaging in safe and sound banking practices (for which they’re examined except for the SIFIs). Extending credit to customers is to those which will ‘service’ and perform on the loan according to terms. There isn’t a need for maggotry and the financializers, which have appearances of having co-opted FASB to attempt promulgate disordered GAAP that will contribute to producing more turbulence in the financial statements, by free riding on the markets to serve as the shadow that will contribute to destabilize the enterprise with financial instruments and credit instruments fair valued on the balance sheet.

825-15-50-5 Credit indicator...Example 7 Example 7—Disclosure of Credit-Quality Information
825-15-55-43 The following table illustrates certain of the disclosures in paragraph 825-15-50-5.
This is again flawed, although ratings on industrials and non financial credits are better than on structured product. In any event, these are relying on flawed and discredited metrics such as ratings. It surprises me that after the public airing of the problems of which the rating agencies were involved in the credit bubble and collapse, that FASB wasn’t mortified to have used credit ratings of the National credit rating agencies (http://blogs.reuters.com/alison-frankel/2013/04/29/will-cdo-investors-deal-boost-litigation-against-rating-agencies/ Reuters, 29Apr13, Frankel.‘Will CDO investors’ deal boost litigation against rating agencies?’). This example table also tells you nothing about what is actually performing or not performing.

825-15-50-6 There are models which exist however usually performance is a factor. What if asset quality reflects timeliness of borrower servicing/performing on the loan?

825-15-50-7 Trade Receivables
These specifically are what? Please use examples. Financial instrument or Accounts receivable arise when booked when customer purchased/contracted for goods or services.

Allowance for Expected Credit Losses
825-15-50-8 a. Understand management’s method for developing its allowance for expected credit losses
b. Understand the information that management has used in developing its current estimate of expected credit losses
This method again suggests subjectivity and more management discretion and risk of agency self dealing, rather than reliable.

825-15-50-9 These only add to subjectivity problem while attempting to improve ‘transparency’ and quality, when subjectivity doesn’t get the user there.

825-15-50-10 ...enable financial statement users to understand the activity in the allowance for expected credit losses for each period...
Who are these “users”? Again I’ve said the financializers and the market maggotry are part of the problem and pandering GAAP to them is part of the problem. So which users are we protecting? The financializers and often the maggotry have some sophistication and do not need more subjectivity characterized as ‘relevant’ in the financial statements at the cost of reliability. Often they have professional ability to do due diligence but as maggot and financializers, they often are concealed and there isn’t that much to them, such as a deep body of
knowledge of banks and thrifts and how these are operating, their business as usual, and as a result want FASB and GAAP to do their power-lifting.

c. Writeoffs charged against the allowance
d. Recoveries of amounts previously written off

These deviate from true performance. The presumption that reconciliation serves the financial statement users also is not able to solve for the impact on the financial statement of GAAP serving as the means to hijack and pirate the time value of money.

825-15-50-10
This is too inconsistent and putting relevance into question while trashing reliability.

Roll Forward for Certain Debt Instruments
825-15-50-12 expected credit losses
825-15-50-13 expected credit losses

How here is expected estimated? And this will vary from issuer to issuer? For the financializers, relevance is to dominate over reliability, comparability and relative predictability, stability and measurability? This would erode US GAAP to suit the maggotry and bring more reproach on the Standards setters to cater to a few loud pockets that again are part of the financialization problem.

Reconciliation between Fair Value and Amortized Cost for Debt Instruments Classified at Fair Value with Qualifying Changes in Fair Value Recognized in Other Comprehensive Income
Reconciliation is not necessary with working with the current incurred credit loss model. Subjectivity is minimized, while reliability is preferred.

Past Due Status
825-15-50-16 No on this. Again I oppose sacrificing reliability, comparability and relative predictability, stability and measurability for ‘relevance’. Example 8—Disclosure of Past-Due Status 825-15-55-44
As long as the values are based on performance then the example seems to have the same qualities as what’s in current use. If the values however are relying on estimates of expected credit losses then the method is inferior.

Non-Accrual Status
825-15-50-17
This seems to be like what is Standard – the incurred loss model that is in use.

d. The amortized cost of debt instruments on nonaccrual status for which there are no related expected credit losses as of the reporting date because the debt instrument is a fully collateralized collateral-dependent financial asset.

For example, these are what? And time value and other fair value ‘rules’ are suspended when fully collateralized? But supposedly this sort of offset isn’t permissible?

Collateralized Financial Assets
825-15-50-19 An entity shall describe by class of financial asset the type of collateral. The entity also shall qualitatively describe the extent to which collateral secures an entity’s financial assets. 825-15-50-20 An entity shall qualitatively explain by class of financial asset significant changes in the extent to which collateral secures an entity’s financial assets, whether because of a general deterioration or some other reason.

This should be disclosed anyway and I think these instruments anyway are marked to market.

Estimation of Expected Credit Losses
This again by its name is more subjective and discretionary, less reliable, less consistent in its measurability

Estimation of Expected Credit Losses –Time Value of Money
825-15-55-3
Applying this still assumes ability to pre-empt virtually without regard to performance. Meanwhile agency can restore previous provisions while they’d take in periods of aggressive lending into earnings using recapture?

825-15-55-4 For collateral-dependent financial assets, an entity may use, as a practical expedient, methods that compare the amortized cost basis with the fair value of collateral

If these are what is in scope, then perhaps that should be re-iterated here because it is vague as to what are these assets.

Moreover, if these are performing loans backed with collateral, then again keep the current incurred loss model with performance as the driver. Reliability is better than relevance because subjectivity is inferior.

Estimation of Expected Credit Losses—Multiple Possible Outcomes
825-15-55-5 Paragraph 825-15-25-5 requires that an estimate of expected credit losses, always reflect both the possibility that a credit loss results and the possibility that no credit loss results. However, in making this estimate, a variety of credit loss scenarios are not required to be identified and probability weighted to estimate expected credit losses, when a range of at least two outcomes is implicit in the method.

This again is nonsensical. This is lurching relevance into what is wanted by proponents of fair value and that subjectivity.

Estimation of Expected Credit Losses—Lease Receivables
This is based on reliability? Performance is defined as the same as for loans? When leases don’t pay after months, then these would be non-accrual.

Disclosure—Application of the Term Class of Financial Asset

Most financial companies already disclose this information.

Disclosure—Application of the Term Credit-Quality Indicator

Basel I and II already have capricious, flawed capital requirement treatment on these assets. Basel I and II treat industrial loans with a higher capital weight than residential mortgages or sovereign debt, which in some cases has been defaulting but had required no capital backing that asset class.

Again this is more subjectivity rather than performance driven when impaired when impair credits are imported as that.

This Section provides the following Examples:

Example 1: Estimation of Expected Credit Losses Based on a Loss-Rate Approach

IT Systems track and know which loans are performing, not performing

Again subjectivity and a lack of comparability

This rate exists from its underwriting and performance. This historical loss also is a look back on how the underwritten loans are performing given the economy. Investors are tired of income statement and balance sheet games of fair value market turbulence, agency discretion, and subjectivity. I view this as attempts to erode US GAAP yet more and and make it a vehicle for mild forms of vandalism.

This is acting ahead of performance and brings yet more play into the balance sheet and more opportunity for gaming the financial statements, interfering with comparability

The little banks do not need this and the big banks haven’t been examined in several years. Even during the credit bubble, exams were minimized and the regulators looked at their risk-based capital models rather than giving thorough exams to the largest banks. This however will not solve for agency self dealing with increased subjectivity promoted in this Ed. Subjectivity is part of the problem that gets agency abuse.

By the remaining years of the asset’s contractual term because loss experience is often not linear.

There is enough movement on the balance sheets of these enterprises. It isn’t up to FASB to bridge some perceived gap in due diligence of the big money hedgies and other market maggotry and financializes which have significant means if they wanted to due deeper due diligence. Moreover again as I’d said that there are all of these market players which do not understand this sector, this business and reporting for it. Their presumption that reporting should have some other metric rather than historical cost –whereby the credit quality and performance is one of the remaining vestiges of historical cost accounting on the banks’ balance sheet must really disturb some of those players.

Example 2: Estimation of Expected Credit Losses Using a Base Component. And a Credit Risk Adjustment.

More lack of comparability and reliability

The credit risk adjustment would be estimated using macro-level factors such as management’s evaluation of the current point in the economic cycle, as well as other important current credit indicators such as borrower behavior and collateral values, how current underwriting standards compare with those in the base statistical loss estimate, and recent trends in economic conditions.

Again what happened to responsible underwriting? Even CRA wasn’t based on charity. Those loans were/are had to be underwritten for credit quality and borrower’s ability to service the debt. Additionally the ‘loss estimates’ and this risk adjustment using ‘macro-level factors’ this mentions are to be done on the front end rather than the back end after management already has committed. It would make more sense for the ‘investors’ to push again for exams of the ISDA banks and SIFIs as well as restoration of Dealer Surveillance by the NY Fed of the large broker dealers that it uses for Open Market Operations and sales of US Treasuries and Agency securities. Dealer surveillance
was eviscerated in 1993 after a treasury market incident I suspect was used as the ruse to stop dealer surveillance and monitoring after which NY Fed president Gerald Corrigan when to work for Goldman Sachs.

**Example 3: Estimation of Expected Credit Losses Based on a By-Vintage Basis**

825-15-55-30 Entity B tracks these loans on the basis of the calendar-year of origination. The following pattern of credit loss experience has been developed based on the ratio of the amortized cost basis in each vintage that was written off because of credit loss and the original amortized cost basis, shown as a percentage.

This method has too much ‘movement’ back and forth. And this example appears to look back at and reference the credit bubble. I’m not certain that the future may not be more of the same, however the credit bubble and collapse were produced to obscure the impact of the multilateral and associated ‘free’ trade agreements to de-industrialize the US. Assumptions that borrowers will default is contrary to bank practices of underwriting to borrowers who are credit checked for performance, and to whom were made loans to what were “A” paper borrowers. When a ‘free’ trade agreement was signed however, if these borrowers lived in regions affected by ‘free’ trade and were in industries affected by ‘free’ trade, these often were no longer “A” paper borrowers. These regions are now at more risk.

Meanwhile Basel I punishes commercial and industrial loans with full capital requirements. The foreign banks in their own countries lend to suit their own self interests, however most of the banks in the US were following some risked-based guideline, although Basel II was never adopted for the entire US banking sector. The SIFIs were using it in order to operate in Europe; Basel and Bank for International Settlements and/or the central banks of the G20 countries made it a requisite for internationally active banks. This I mention because our banks often now put commercial and industrial loans into off-balance sheet structures rather than balance sheet these, to minimize capital demands. Loans on the JPMorgan Chase’s loans in 2010 comprised 30%-35% of its balance sheet. More than likely it securitized its lending, again to minimize the capital needs behind C&L loans.

Often lacking experience or insight in analyzing these companies, the financializers’ are heckling FASB, and in looking at that boom/bust and having helped contribute to it, want FASB to produce GAAP to facilitate their turbulence or their ‘betting’ or opportunistic ‘investing’. FASB has bought into and been persuaded by this loud, aggressive, well heeled group, many of which are based in Connecticut not far from FASB’s headquarters in South Norwalk. These hedgies and financializers rather should heckle the FDIC and Fed to restore effective examinations of all financial companies, effective dealer surveillance on agency dealers the Fed uses for Open Market Operations, and to stop their proliferation of writing and trading their derivatives contracts.

**Example 4: Use of a Collective Estimation Method and an Individual Asset Estimation Method**

825-15-55-33 This would make sense as this still is performance driven and small banks still have relationships with their borrowers but again, that is still waiting if there is incurred loss. If the borrower begins defaulting, this clock still is a 90 day clock – same amount of time as a reporting period or 1 quarter.

825-15-55-34 Infrequently, it has limited insight into the likelihood of a credit loss and, instead, considers historical loss experience (updated for current conditions and reasonable and supportable forecasts) that would be applicable to a group of similar financial assets (even if Entity C holds no similar group of financial assets as of the reporting date)

This somewhat contradicts what FASB has said in this ED. FASB has been saying that management has insight and given that, should estimate losses it is assuming and as if management is engaged in commercial banking with little regard to proper credit underwriting. So 34 says nonsensical language because either it always has limited insight about any and all of its businesses which are producing poor quality credits, or that it has insight while engaging in marginal practices and must estimate for suspected, inevitable credit problems. The risk too is that this would enable bank management to confiscate these financial statement roving recaptured estimations.

**Example 6: Purchased Credit-Impaired Financial Assets**

825-15-55-38 This has appearances of being methodical, however again it is subjective and fouls with comparability and reliability. Y9C and Call reports have banks’ aging reports, called Asset Quality or Schedule of Non Accruals which rely on management taking action when borrower hasn’t kept the terms of the loan agreement.

825-15-55-40… records purchased credit-impaired assets in its existing systems by recognizing the amortized cost of the asset, at acquisition, as equal to the sum of the purchase price and the associated expected credit loss at the date of acquisition. The difference between amortized cost and the par amount of the debt is recognized as a noncredit discount or premium.

This is not realized as well as it’s subjective and adds more management discretion to the financial statements, but if it still wasn’t performing, that’s what probably was a main driver in the purchase price of the impaired credit.

**Transition and Open Effective Date Information: Transition Related to Accounting Standards Update No. 201X-XX, Financial Instruments—Credit Losses (Subtopic 825-15)**

825-15-65-1 … 4. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which the guidance is effective.

**e. An entity that issues interim financial statements shall provide the disclosures in item (d) in each interim financial statement of the year of change and the annual financial statement of the period of the change.**

Disclosure of management’s decision doesn’t eliminate subjectivity, while prospering lack of: comparability, reliability and consistency or transparency in measurability.
Additionally, Retained Earnings is for realized, true earnings that fair value already is polluting. Retained Earnings I suggest is for better quality financial production, ie, or rather what it’s not for: estimates, unrealized losses and other unrealized estimates.

(1) Banks have used charge-offs and recoveries as gains in the Income Statement unless after cash basis, a loan is able to return to performing status. These were on the balance sheet however, in accruing loans but that loan’s difficulties would affect that loan’s revenue and would contribute to reducing yield in the portfolio. These and other metrics that bank analysts observe that ignorant investors and financializers don’t quite respect in the reporting about a bank’s business model, and FASB should not allow a more reckless and capricious disorganized valuation gage in the markets to serve as users’ litmus test to understand loan performance and reporting of banks’ financial condition. However flawed the business and financial reporting of banking to which these have devolved, death by the thousand cuts has to stop.

Other lenders shall also have to rely on the counterparties to perform if the loans were sold; investors failed to do due diligence on underwriting quality then investors have only themselves to blame. We do not need new GAAP to make investors which are these parties buying financial assets, which I have named ‘financializers’ feel better when they failed to do proper due diligence which on a hard assets they would do if they were to purchase that item. Paper of what of credit was underwritten on hard assets and real property are little better. The financializers playing in this assume these loan pieces and other fixed income items trade and/or have markets similar to common stock. The loan is on a hard asset or credit worthy borrower’s and borrower’s ability to service the loan. This is reflected by accrual basis accounting using the incurred credit impairment model when or in the event the loan in the reporting cycle fails to perform to terms with the borrower.

Common stock or bonds the bank issued are the ordinary ways the public may or was able to buy bank ‘assets’ including owning their credit exposure. Bank issues instruments already are subject to market turbulence and because of fair value of items on the balance sheet that also is reflected in the Banks’ shareholders’ equity, it no longer only is reflecting that former concept of Book Value. That is, Shareholders’ Equity divided by number of traded shares is still different than the market price for the stock. Smaller community banks may reflect closer to non Fair valued impact of balance sheet and thus on Shareholders’ Equity, but of the SIFIs and especially the ISDA banks, there isn’t reliable Shareholders’ Equity any more that gives reliable book value not polluted by fair value.

This also compromises the Price/Book value ratio and supports the ridicule Altman and I have that fair value erodes the measure and credible accumulation of capital as characterized by the aforementioned impact on Shareholders’ Equity. Fair valuing of perceptions of credit quality similarly plays into this problem.

So book value had better reflected the quality of a bank’s business and management decisions. Market price and premium or discount of price/book are the investors, speculators and financializers’ metrics for buying financial assets. Again, presumptions of financializers’ shallow and flimsy interest should drive FASB to attempt to place that for new GAAP on accounting for credit losses on financial instruments in scope is potentially interfering with managements’ relationships and arrangements with borrowers. That these can be sold to 3rd parties too is a belief to question.

A great deal over the last 20 years has been legitimizized and/or expedient but not for the better for society and the users of the financial system as a utility. Some financializers and investors have self interests contrary to that. And meanwhile agency now as owners want markets to suit their comp schemes and enjoy ‘free’ rider advantage with the financial markets. In cases of ISDA cartel, these run their banks so that their comp is increased by the by the volume of balance sheet items that have to be fair valued and these banks’ balance sheet too are inflated by the market’s inflating. Their income statements too are geared with fair value or trading gains from instruments; those gains run thru the Income statement goose earnings. Bad enough management can do this. Bad enough banks get exemption in the Commodity Futures Modernization Act and can write and trade derivatives and plume their Balance Sheets and then game their Income Statements with the fair value gains. All of this is legitimized and none of it is safe and sound banking. Commercial banking practices meanwhile these instruments aren’t like trading blocks of common stock, homogeneous from a company’s one common share to the next. Or a bond issued along with the loans by an issuer in that underwriting with covenants, exchange traded. Or even commodity exchange traded and cleared contracts except for maturity, the contracts are homogeneous.

Derivatives are agency’s ad hoc contracts proliferation of these and in part are their use to circumvent the stock and commodity exchanges as well as engage in their discretionary contracting not subject to regulator or examiner scrutiny. All of this sort of discretionary contract writing is unsafe and unsound, but still even all of this makes no argument for FASB placing financializers and thus attempting to promulgate GAAP that alters reporting for credit impairment of items in scope here. Whether financializers like it or not, a well worn groove exists in banking and it is reflective of the quarterly reporting cycle and of bankers’ business, the reporting cycle and the borrowers who may have a month or 2 of problems. FASB and GAAP don’t need to accelerate that, or require agency to pre-empt the borrowers’ challenges, however, and potentially galvanize other commercial participants to pre-empt borrowers and bank management in their commercial relationships and the paper and promissory notes that serve that.

Pre-emption is key and the financializers’ traction with FASB and thus getting this attempt to alter GAAP and standard banking practice that again would spur re-use of RAP, regulatory accounting principles risks this sort of mismatch. Rather, the financializers should be heckling again for bank examiners in all financial institutions of all sizes including the ISDA cartel, banning the financial ‘engineering’ and use of these contracts to ‘mitigate risk’ when they’re often little more that a contract that’s written to offset a loan at risk for going sour, or on losses because it was poorly underwritten, or it was in a region or to borrower in a region where the economy was going to experience
or began to experience erosion from ‘free’ trade, associated agreements and contraction/ ie, ‘ripple effect’ produced to comply with policy of the federal government and the global corporates and the 1% to suit US as signatory to G20 Agreements.

Thus credit conditions financializers and investors suspect will impact bank credits in scope. And these same financializers want to have FASB to alter reporting to disrupt reliability with forms of pre-emption using fair value, as opposed to waiting for the current reporting model to reflect performance. That financializers either failed to do proper due diligence on the underlying business then they deserve to lose money on that investment.

Loan prices and loan losses are not like common stock. Typically other banks and ‘qualified’ investors ie sophisticated financial participants are not ignorant outsiders with money to buy and however don’t like the playing field. These investments require due diligence. Not taking away that deserved condemnation for all the non-conforming, non performing loan product written, as ‘private label’ may have written but definitely purchased and securitized along with derivatives in those structures. These were and I still consider an abomination to the financial system and bona fide commerce. These products and structures were deliberate for their financial garbage character flaws moreover, however, again for GAAP to fair value (what is in the scope of this ED) for perceived credit impairment, says gets my opposition to what the ED is recommending.

Today for sophisticated investing, this requires investors, even financializers to do their due diligence if there was ever more reason about what’s on banks balance sheets, and lenders about what they are doing in their income statements and balance sheets. Investors and financializers’ interests for ‘relevant’ information, are not going to get that and rather than relying on performance and requiring better accountability from management underwriting. Perceptions on these matters, again similar to other abuses like high frequency trading and dark pools all reflect this manic ‘rage over the lost penny’ and an obsession to pirate the time value of money in any possible way using any turn of any sort of paper. The credit bubble too was policy makers’ playing into the weaknesses of the system. Market participants and their knowing the institutional problems in the system and the nature of many of the people left to work in the system that would in effect self-immolate, or ‘blow up’ or get blown up. Or what could not have been reality if the economy was in bad condition in spite of what policy makers and economists were misrepresenting about the true status of the economy, with clumsy use of ‘smoke ‘n mirrors’.

These misrepresentations of prosperity that the credit bubble was producing, this credit bubble and its illusion were to obscure the impact of the contraction happening because the US was complying with multilateral agreements, including G20 agreements, which include having gone into NAFTA and other ‘free’ trade agreements in order to de-industrialize the US economy to meet the G20 constraints such as the US can have no-net-new-job growth and ‘manage’ or more accurately, constrain our economic growth to meet that of the EU’s ‘managed competition’. In effect this in the EU is the growth that the national champions there are attempting to obtain while Germany has been and is attempting to devour Europe. That commercial strategy is a form of war however with the scorched earth hiding behind ‘austerity’.

Will the business activity and associated products and items they balance-sheet reflect this? Naturally however the hedgies among the financializers want US GAAP for themselves and it’s painted like it’s good for everyone. Their existence and market presence and with some influence on the markets shouldn’t get them reporting to suit their self interests, even if they think and have FASB posturing this as relevant. For example, there was the Concept 5 definition for Revenue Recognition and the Concept 6 definition of revenue recognition. The Europeans and IFRS reflect the fair value characteristic in Concept 6 definition of Revenue Recognition, whereas the US economy had used Concept 5 definition of revenue recognition where revenue is generated by activities and their means that passed from buyer to seller that is to realize to cash in the reporting cycle, and it had to be in effected assured that it was earned under the definition of a true sale, with a few exceptions such as contracts considered percentage of completion.

I discuss this because perception drives whether revenue should be from a true sale and the buyer has to pay that which will realize to cash in the reporting cycle, or whether revenue can be generated from fair valuing an asset and that change of one reporting over the other which I had discussed when I ‘t consider the ‘retail’ or perspective of the individual about this.

Benston, George J, Larry Wall, “How Should Banks Account for Loan Losses?”, Economic Review/Federal Reserve Bank of Atlanta,4Q05* Professor Benston, addresses this long time matter in US financial reporting. Although he doesn’t condemn the increasing degree of management discretion and its associated risk of agency self dealing and abuse (although in another article he does oppose global reporting harmonization and the problems fair value in the US financial reporting model http://knowledge.emory.edu/article.cfm?articleid=983&specialid=20), he thoughtfully reviews and analyzes the problems financializers would encounter attempting to estimate potential or perceived credit losses, before actual failure to perform according to the loan terms or actually incurred. As he was a professor in accounting and economics until 2008 when he passed away, he more than likely makes his observations from the institutional perspective and doesn’t consider the ‘retail’ or perspective of the individual about this which I had discussed when I condemned the financialization of investing, the US economy and thus factored into why and how FASB has this project to re-promulgate US GAAP to address if it should fair value or estimate potential losses rather than wait for incurred losses. Institutional investors would have the ability to buy bank loans whereas only now are there retail investment funds that which may exist to enable retail investors access...
to own or buy shares in investment vehicles that own loans and indirectly face this issue of accounting for credit impairment. Notwithstanding, I include parts more relevant to my opposition of the purpose of this ED (AMP).

Pg 20, “This article seeks to answer the question of how the value of loans on a bank’s balance sheet should be adjusted for expected credit losses. Underlying the analysis is the assumption that the value most useful to bankers, investors, and bank supervisors is the economic value of loans as of the balance-sheet date. Present accounting principles are largely based on a system that values assets and liabilities at their historic cost rather than at their current market value… Although historic-cost GAAP can provide useful information, economic value clearly would be superior if measurement of the numbers were reliable and cost effective. The problem is that the economic values of loans are not readily observable unless the loans are traded in sufficiently liquid markets. Many loans, though, are not traded because of information asymmetry between the bank and potential buyers. A bank’s knowledge of its customers includes strengths and weaknesses that may not be apparent from documents that describe the lending situation. This basic attribute of loans results in banks often placing a greater value on a loan than buyers are willing to pay or in buyers discounting loans because they fear the seller may be holding back important negative information (adverse selection). Consequently, loan values and the related losses must be estimated. Both accountants and bank supervisors are concerned about the results of this estimation, but each group has a different perspective on the question.

P21 The authorities recognize that managers, who prepare the financial statements, sometimes have incentives to use loan-loss accounting to manipulate the numbers reported. In some situations managers have an incentive to underestimate expected losses in order to boost reported net income and capital in the current period. In other situations managers have an incentive to overstate losses in the current report when earnings are high so that they can understate losses in a later period when other earnings are low, thereby smoothing the reported net income. In contrast, bank supervisors are concerned about banks being inadequately capitalized and possibly failing. Banks should maintain loan-loss allowances sufficient to cover expected losses and maintain sufficient equity capital to absorb unexpected losses. Bank supervisors argue that reasonable approaches to estimating loan losses are likely to yield a range of estimates. Given supervisors’ focus on safety, they want banks to report a loan-loss allowance that is on the high end of those estimates.

This article considers these somewhat different approaches to banks’ loan-loss accounting by reviewing existing GAAP for loan-loss accounting in the following section. The next section compares the economic value of a loan with its reported value under current GAAP. The article then reviews the GAAP “reliability” and “relevance” criteria and analyzes existing GAAP and proposals to value loans and other financial assets and liabilities at their “fair values,” particularly with respect to the criteria. We then analyze bank supervisors’ concerns about loan-loss accounting. The last section summarizes the results of prior discussion and presents conclusions that are relevant for policy.

Both FAS 5, Accounting for Contingencies, and FAS 114, Accounting by Creditors for Impairment of a Loan, must be met in order to recognize a loss contingency in a firm’s financial statement: a. Information available prior to issuance of the financial statements indicates that it is probable (if a borrower hasn’t paid according to term as, at least 90 days, it is probable that a loss has been incurred) that an asset has been impaired . . . at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss. b. The amount of the loss can be reasonably estimated.

P22 The treatment of loans in FAS 5 and FAS 114 does not apply in two special cases. First, if loans have been securitized and are traded in financial markets, they must be accounted for according to FAS 115, Accounting for Certain Investments in Debt and Equity Securities. FAS 115 requires classification of debt securities into one of three categories: held to maturity, available for sale, or trading securities. Securities classified as held to maturity are accounted for using historic cost; securities that are available for sale and trading securities are carried at their fair values. Contemporaneous changes in fair value of trading securities are included in current earnings. For securities held for sale, these changes are reported in a supplementary statement of comprehensive income and are included in the income statement only when the changes are realized (for example, the securities are sold). The second exception to FAS 5 and FAS 114 is loans hedged by a derivative contract. FAS 133, Accounting for Derivative Instruments and Hedging Activities, requires that when a derivative is designated as a hedge for a specified asset or liability, the fair-value gain or loss on both the derivative and the hedged item should be recognized. Thus, if a derivative instrument hedges the fair value of a loan, the loan will be reported at its fair value.

Pg 27 Analysis of Present and Proposed Accounting Rules … The FASB’s move toward use of fair-value accounting, particularly for financial instruments, reflects its belief that fair values could and would be measured sufficiently reliably by managers and be audited effectively by independent public accountants and, consequently, would provide more relevant information to decision makers. This section begins by discussing the concepts of “relevance” and “reliability” as expressed by the FASB and then shows how present GAAP has systematically selected options that have greater reliability at the cost of decreased relevance.

P28 Concepts of reliability and relevance.
Financial Accounting Standards, FAC 2 Paragraph 15 explains that “the qualities that distinguish ‘better’ (more useful) information from ‘inferior’ (less useful) information are primarily the qualities of relevance and reliability”… harmful if it were believed to be reliable but
actually was unreliable (fair value based on management’s subjective estimates). The problem is that financial statements are the responsibility of a firm’s management, who provide the estimates of market values. Although managers sometimes have an incentive to underestimate economic values, more typically they may be expected to overestimate these values because their performance evaluations and compensation often are heavily influenced by reported values. If loans were not recorded at historic cost, a bank could increase its reported net income merely by making additional loans near the close of the accounting period and recognizing its management’s expectations of the discounted profits from the new loans as additional loan value and current-period income. Not only might such profits never be realized, but also such an accounting procedure would create an incentive for some managers to book new loans solely to record estimated and overoptimistic profits. This situation is more likely to occur when managerial bonuses depend on recorded profits or when managers want to offset losses that must be recognized. 20 (20. This situation occurred when Enron adopted fair-value accounting for a substantial portion of its activities, as shown in Benston (2005). Overvaluation to obtain bonuses is also given by the FDIC (2000) as an example of the accounting abuses at Pacific Thrift and Loan Company.) As described earlier, loan-loss accounting requires recognition of estimated losses in certain circumstances, particularly when a loss is probable (FAS 5). This requirement should discourage (but probably does not prevent) banks and other lenders from adjusting their estimates of expected losses as a tool for smoothing net income. Absent this rule, given a sufficiently large portfolio of loans, a bank could materially reduce and later increase reported net income by making changes in expected probabilities of default or loss-given-default of a magnitude that would be difficult, if not impossible, for any outside party to disprove or even verify. Although the requirement that a loss be probable still requires the use of an estimate, it limits the application to those loans that are or soon will clearly be in distress. Moreover, the common practice of banks working with distressed borrowers further reduces the opportunity for a banker to assert incorrectly that a loss is probable on a loan with elevated risk. As a part of the loan workout, the bank often will relax terms that the borrower may have difficulty meeting. For example, the bank may lower interest payments but require additional collateral. These changes reduce the expected loss to the bank and thus tend to reduce the probability of default to less than probable, thereby obviating the loan’s being written off or down.

Another FAS 5 requirement increases the reliability of reported losses. FAS 5 maintains that the probability of a loss must be based on information that is known or knowable as of the financial statement date. Although reliability is not the primary reason for these requirements, they increase reliability by requiring that losses be based solely on past events and not in anticipation of future events. 22 (22 The primary reason for this requirement in FAS 5 is that GAAP is concerned with the measurement of periodic net income. The intent is that current income should reflect only those events that occurred during or before the reporting period and that expenses incurred to earn the income should be reported (matched) in the same period.)

Benston makes a point in his Footnote 22, that US GAAP is concerned with quality and credibility of measure of periodic net income. The estimation of potential credit impairment and recapture spanning different periods would corrupt or without a question alter reliability of quarterly net income, although the reliability of quarterly net income or loss has been a problem for a while especially with harmonization, fair value and fouling with US GAAP in order to make an argument that GAAP is crap and to adopt IFRS.

P30. Application of fair values to loan-loss accounting. If loans could be reported reliably at fair value, where fair value is value in use, there would be no need for a loan-loss provision or allowance. The fair value of the loan portfolio would be reported as an asset, and the change in the fair value of the portfolio, positive or negative, would be recognized on the income statement. The problem with applying fair value is that no market exists for many loans because banks obtain information about borrowers’ credit quality that cannot be credibly conveyed to potential buyers of the loan. (My concern is that Fair Value doesn’t or isn’t going to reflect performance. That’s the metric that more respects the banker-borrower relationship rather than the financializers’ appetite and lust to buy, ah, well let’s consider bank loans.) Investors fearing information asymmetry would attempt to use other similar metrics such as securitized loans, however he says that these in the values used in the securitization under value the true price of the loan because investors fear the information asymmetry and would serve as an inferior shadow against which to price loans. Estimates for expected credit losses would encounter the same problem. AMP)

P37 Unlike current GAAP, this rule does not require a reduction in loan portfolios’ value when their value is already understated by historic cost. Loan-loss accounting, therefore, should return to its original function (providing useful information to investors) and not be unnecessarily distorted to accomplish other goals. (financializers want ‘relevant’ as pari-pasu for useful, whereas for useful, I support what’s reliable under current US GAAP for impairment, which is the more stable incurred credit event model. AMP)

*www.frbatlanta.org/filelegacydocs/erq405_benston-wall.pdf*