May 28, 2013

Ms. Susan Cosper  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
Via email: director@fasp.org


Dear Ms. Cosper:

SunTrust Banks, Inc. (“SunTrust” or the “Company”) appreciates the opportunity to comment on the Proposed Accounting Standards Update – Financial Instruments – Credit Losses (the “Update”) issued by the Financial Accounting Standards Board (“FASB”).

SunTrust, headquartered in Atlanta, Georgia, is one of the nation’s largest banking organizations with assets of approximately $172 billion as of March 31, 2013. SunTrust offers a full line of financial services for consumers and businesses through an extensive distribution network, located primarily in the Southeast and Mid-Atlantic states and also services customers in selected markets nationally.

We generally support the concepts in the Update; however, we have included thoughts on the significant changes necessary to make the Update more operational and conceptually sound in our view. The attached Appendix includes our responses to the specific questions posed in the Update.

Recognition Principle

SunTrust is supportive of moving from an incurred loss model to an expected loss model for purposes of determining the Allowance for Credit Losses. Removing probability as a trigger for recognition of credit losses will remove some of the ambiguity and inconsistency that exists today among institutions and will also address, to some extent, the “too little, too late” concern that was raised among constituents in the aftermath of the Financial Crisis.

While we are generally supportive of the expected loss model, we believe there should be more specific guidance that further defines what constitutes “reasonable and supportable” forecasts in estimating all contractual cash flows not expected to be collected. The principle of reasonable and supportable as currently drafted is too broad and will result in inconsistent application among institutions and may result in accounting that is not representationally faithful. Further, without more guidance around this principle, the Allowance for Credit Losses will be difficult to audit.

We are in alignment with the views expressed in a letter to the FASB and the IASB from several large banking institutions, including SunTrust, which recommends that the Board amend the expected loss measurement period to a period that is the greater of 12 months or the period that is reliably estimable and
predictable. We also recommend that recognition of credit losses beyond what is “reasonable and supportable” or what is “reliably estimable and predictable” be precluded.

Additionally, SunTrust considers the Allowance for Credit Losses to represent the principal amount that will not be collected rather than considering it the context of present value. We recommend that FASB remove the requirement to either explicitly or implicitly reflect the time value of money in the estimate of expected credit losses as it tends to largely be a theoretical point that does not assist in the usefulness of the financial information and, if anything, will cause confusion for preparers, auditors, and regulators.

Measurement Principle

The proposed framework begins with historical losses and suggests that those historical losses are specifically adjusted to estimate expected losses; however, the Update should indicate that institutions may use models that utilize historical data, among other variables, and that those models may not mechanically function in the buildup manner described in the framework. For example, our existing internal credit risk models use historical loss data in the calculation of probability of default and loss given default; therefore, we would assume this satisfies the requirement to consider historical losses. We would also utilize historical loss rates as a reference point to support the reasonableness of the estimated reserve.

We agree that the estimate of expected credit losses should factor in current conditions; however, including all potential reasonable and supportable forecasted information over the expected life of the loan introduces too much additional judgment and subjectivity to the process. While we are supportive of expanding the loss estimate time horizon to the remaining life of the loan, we believe the forecasted information should be based on management’s most likely economic outlook over the loan’s remaining life of the loan and should be objectively supportable using third party economic indicators in order for it to be “reasonable and supportable”.

Presentation Principle

We propose that all loan-related expected credit loss elements be presented in a single line item in the balance sheet and income statement, rather than in separate line items. Specifically, we recommend that the credit provision and reserves relating to loan commitments be included in the provision for credit losses line item and the allowance for credit losses line item. This is the presentation most commonly used currently by financial institutions.

Disclosure

We agree that transparent disclosures will assist in understanding management’s judgments and assumptions in estimating expected credit losses. We recommend the required disclosures include a description of the economic assumptions that were used to estimate expected losses. An example of such a narrative is included in the disclosures released by the Banking regulators and financial institutions that participate in the annual Comprehensive Capital Analysis and Review evaluation.
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We appreciate the opportunity to provide comments on the Update. Thank you for considering our views. If you have any questions, please contact Tom Panther at (404) 588-8585 or Bob Worshek at (404) 813-0079.

Respectfully,

[Signature]

Tom Panther  
Director of Corporate Finance and Controller

[Signature]

Bob Worshek  
Chief Accounting Officer
APPENDIX: ANSWERS TO SPECIFIC QUESTIONS POSED IN THE UPDATE

Question for All Respondents

Scope

Question 1: Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

Response: Yes, we agree with the scope of the financial assets included in the proposed Update.

Recognition and Measurement

Questions for Users

Question 2: The proposed amendments would remove the initial recognition threshold that currently exists in U.S. GAAP and, instead, view credit losses as an issue of "measurement" as opposed to an issue of "recognition" because the credit losses relate to cash flows that are already recognized on the balance sheet. Do you believe that removing the initial recognition threshold that currently exists in U.S. GAAP so that credit losses are recognized earlier provides more decision-useful information?

Response: Yes, we are supportive of removing the probable trigger in the current incurred loss model, whereby losses must be probable of having been incurred before being recognized. Removing the probable incurred loss recognition criteria results in earlier recognition of losses, which is responsive to the concerns raised by investors during the aftermath of the recent economic crisis. Additionally, removing the probable incurred loss trigger eliminates the ambiguity and inconsistency of when to recognize credit losses and is more consistent with how financial institutions measure and manage credit risk.

Question 3: As a result of the proposed amendments, the net amortized cost on the balance sheet (that is, net of the allowance for expected credit losses) would reflect the present value of future cash flows expected to be collected, discounted at the effective interest rate. Do you agree that the net amortized cost (which reflects the present value of cash flows expected to be collected) results in more decision-useful information than currently exists under U.S. GAAP?

Response: We consider the Allowance for Credit Losses to represent the amount of estimated principal that will not be collected. We recognize the Board's conceptual desire to record assets and liabilities at their net present value but discounting future credit losses at the loan's effective interest rate will add unnecessary complexity and not result in decision-useful information. Furthermore, it would result in a misalignment of how the principal balance of the loan is carried versus the estimated credit loss. As the FASB staff noted in the recently released FAQ, implicit in certain of the loss estimation techniques is the measurement of estimated losses in relation to the current carrying value of the loan; therefore, introducing a present value concept to the credit loss component does not seem useful or conceptually sound. For example, if you consider two $100 loans, one originated at 4% and the other at 2%, that at the balance sheet date have the same future expected cash flows of $80 (i.e., a $20 credit loss), the net amortized cost on the balance sheet would be different because the expected cash flows would be discounted at different effective interest rates even though the cash flow expectations are the same. Although the proposed amendments allows use of loss models that do not explicitly include the time
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value of money, we believe incorporating the present value concept does not add value to the application or understanding of the standard and should be removed.

**Question 4:** The Board has twice considered credit loss models that would permit an entity not to recognize certain expected credit losses. In the January 2011 Supplementary Document, the Board considered a model that would permit an entity not to recognize some credit losses expected to occur beyond the foreseeable future. In the recent discussions on the three-bucket impairment model, the Board considered a model that would permit an entity only to recognize lifetime credit losses for loss events expected to occur within a 12-month horizon. Instead, the proposed amendments would require that at each reporting date an entity recognize an allowance for all expected credit losses. Do you believe that recognizing all expected credit losses provides more decision-useful information than recognizing only some of the expected credit losses? If not, how would you determine which expected credit losses should not be recognized (for example, 12 months or similar foreseeable future horizon, initial recognition threshold, and so forth)?

**Response:** We believe that recognizing expected credit losses that is based on historical data, current conditions, and “reasonable and supportable” forward looking information is more decision-useful than recognizing only a specific time frame of the expected credit losses; however “reasonable and supportable” should be clearly defined. Additionally, recognition of estimated losses beyond what is reasonable and supportable should be precluded under the accounting standard. Generally, loss estimation models do not maintain a supportable and reliable estimate beyond a 2-3 year time horizon and recognizing expected losses over a time horizon beyond what is estimable using analytical information would introduce too much subjectivity and potential inconsistency among institutions.

**Question 5:** The proposed amendments would require that an estimate of expected credit losses 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. Do you believe that expected credit losses based on this information provide decision-useful information?

**Response:** Yes; however, the accounting standard should clarify what satisfies the “reasonable and supportable” principle and specify how much judgment and subjectivity is too much to meet the recognition standard. We can estimate credit losses over the expected weighted average life, but it is not reasonable and supportable to factor in assumptions around future economic conditions beyond forward looking information currently available. The proposal as currently written could lead institutions to have to forecast estimated credit losses over multiple economic scenarios, as multiple economic scenarios are conceivably “reasonable” given the varied economic outlooks that exist at any given point in time. We believe this would result in an inappropriate measure of expected losses and likely more closely resemble hypothetical estimated losses or worse, the worst case scenario of expected losses. Expected losses should be measured over the estimated remaining life of the loan using all relevant information available based on an institution’s current economic forecast, not multiple potential forecasts. Transparency into the key assumptions (economic and otherwise) underlying the estimated expected credit losses can be achieved through relevant disclosures.

**Question 6:** For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be amortized into and recognized as interest income over the life of the asset. To achieve this result, upon acquisition the initial estimate of expected credit losses would be recognized as an adjustment that increases the cost basis of the asset. Apart from this requirement, purchased credit-
impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for credit losses would always be based on management’s current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you believe that using the same approach to recognize changes in the credit impairment allowance for purchased credit-impaired assets and non-purchased-credit-impaired assets provides decision-useful information? Do you believe that this is an improvement from the current model used for purchased credit-impaired assets?

Response: Yes, the current model for purchased credit-impaired (PCI) assets is operationally onerous to apply and very confusing for users to understand. The proposed changes to PCI accounting are a welcome improvement. We agree that changes in the credit impairment allowance for PCI and non-PCI loans should be recorded consistently, as bad-debt expense.

Question 7: As a practical expedient, the proposed amendments would allow an entity not to recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost amount of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. The proposed amendments would require an entity to disclose the amortized cost basis of assets that apply this practical expedient each period. Do you believe that the practical expedient for some financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income is reasonable? Why or why not?

Response: We recommend that the expedient be an OR rather than an AND concept. Changes in fair value due to interest rate movements can be significant from period to period. For entities with large portfolios of U.S. federal government, government guaranteed, and government sponsored exposure, there could be a significant amount of time and effort spent on models that would require evaluation for credit exposure when we would consider these to always meet criteria (b) of the practical expedient provision absent a significant event while not always meeting criteria (a). Currently, we assess our available for sale investment portfolio by separating them into interest rate only risk and credit and interest rate risk. With an “OR” test, debt securities would still be incorporated into the scope of the Credit Losses ASU, while allowing entities to focus the “credit” evaluation on the same securities that are focused on in the existing other than temporary impairment model. As currently written, we do not view this as a “practical expedient” as this could result in an increase in the number of evaluations for credit impairment of certain debt instrument (i.e., interest only) and would likely result in an increase in credit impairment given the current proposal’s requirement to measure credit losses under at least two scenarios (one with and one without credit losses).

Question 8: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this approach provides decision-useful information?

Response: Because “nonaccrual” is an important concept in the banking industry and a concept already built into institutions’ operations, controls and systems, we agree that it should be described and included in GAAP. However, industry practice and regulatory definitions are already well established and the specificity around the alternative methods for recognizing interest income related to cash received while in nonaccrual status is not necessary and can vary by loan product. We recommend that the Board work
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with the Banking regulators to align the current regulatory guidance around these principles with US GAAP.

Questions for Preparers and Auditors

**Question 9:** The proposed amendments would require that an estimate of expected credit losses 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. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

**Response:** Yes, based on the current wording in the proposal and the FAQ document, we would expect there to be significant operability and auditing concerns. As noted above in the response to Question 4, recognition of estimated losses beyond what is reasonable and supportable should be precluded under the accounting standard. FAQ #13 seems to support loss estimation through various approaches, including “reverting to unadjusted historical averages for future periods beyond which an entity is able to make or obtain reasonable and supportable forecasts” or “assuming that economic conditions will remain stable for future periods beyond which an entity is able to make or obtain reasonable and supportable forecasts (that is, freezing the furthest reasonable and supportable forecast and utilizing that forecast for the remaining future periods)”; however, we would argue that these two example approaches do not meet the reasonable and supportable principle and should be precluded. The discussion in FAQ 13 around calculating a “so-called terminal value” implies there is an extrapolation or compounding of credit losses, which is an unreasonable approach to estimating credit loss experience in the life cycle of a loan since loss experience is not linear.

**Question 10:** The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

**Response:** The proposed standard puts forth a framework that starts with historical data and then adjusts to reflect current conditions and reasonable and supportable forecasts of the future; however, we would not envision explicitly adjusting historical loss rates to estimate current conditions and supportable forecasts. While we have several years of historical loss data available, the methodology we would expect to use under the proposed framework would be our internal credit risk methodology based on probability of default and loss given default models. These existing loss forecasting models would need to be further adjusted to incorporate forecasted events and conditions over the respective expected lives of the Consumer and Wholesale portfolios, as the existing models tend to estimate losses over a near term view of economic conditions. We are not opposed to the principle of recognizing expected credit losses over the weighted average life of the loan portfolios given current historical and forward looking information available; however, we do not believe it is reasonable or supportable to forecast economic changes over the expected life and this approach would also be difficult to audit.

**Question 11:** The proposed amendments would require 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. This
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Proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

Response: If the proposed amendments for the practical expedient in 825-15-25-2 are retained “as is”, and a debt security has a fair value below carrying value, then the proposed amendments that require 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 do not seem appropriate for certain government or guaranteed securities which have historically not incurred any credit loss. In order to address this, the guidance should indicate that the possibility of loss must be considered, though it may be a near zero probability and therefore not appropriate to recognize.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

Response: As noted in the response to Question 3, we believe the Allowance for Credit Losses should represent the expected credit losses relative to the carrying value on the balance sheet. While paragraph 825-15-55-3 acknowledges that various loss estimation methods implicitly reflect the time value of money, we do not think about our loss estimation models in this manner. We recommend the concept of present value be removed from the standard as it tends to largely be a theoretical point that does not assist in implementation and, if anything will cause confusion for preparers, auditors, and regulators. Specifically, we propose that the following sentence be removed from 825-15-25-4: “An estimate of expected credit losses shall reflect the time value of money either explicitly or implicitly.”

Question 13: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management’s current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

Response: No, we do not foresee any issues in determining the discount embedded in the purchase price that is attributable to credit.
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**Question 14:** As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

**Response:** While we can develop a process to apply the guidance, we question whether it would actually function as a practical expedient. As currently written, we believe an estimate of expected credit losses will have to be performed weeks in advance of closing in order to make a decision during the closing process as to whether the practical expedient is applicable. See suggested changes to the practical expedient in the response to Question 7.

**Question 15:** The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

**Response:** We currently utilize the cost-recovery method for commercial loans and the cash-basis method for residential and consumer loans. In order to comply with the proposed amendments, we would have to change our current practices and implement system changes. Even then, the current wording in the proposal involves judgment in application which would make it difficult to apply operationally and systematically. For institutions that have large volumes of smaller-balance homogeneous loans, a standardized policy would have to be created to determine when it is probable that principal will not be collected as opposed to when it is only probable that interest will not be collected. Additionally, from a system perspective, it will be difficult to create two different processes for applying payments to nonaccrual assets. We do not think it is necessary for GAAP to prescribe a specific method for applying cash payments to nonaccrual assets. As noted in our response to Question 8, financial institutions have been applying the nonaccrual and interest income recognition guidance issued by the Banking regulators for a very long time. This guidance has been applied for both regulatory and US GAAP reporting purposes and it has served the users of the financial statements well over this period. We recommend that US GAAP simply promulgate that existing guidance so that it can be applied by institutions that are not regulated by the Banking regulators.

Questions for All Respondents

**Question 16:** Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45–BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor’s effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?
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Response: No, we do not believe the distinction between troubled debt restructurings (TDRs) and nontroubled debt restructurings is relevant. TDRs are accounted for and disclosed as impaired loans for the life of the loan if the modification included a below market interest rate at the time of the modification. Almost all residential and consumer loans will include a concession in the form of a below market rate of interest at the time of modification due to the characteristics of the loan, even if the modification did not include a decrease in the interest rate. If the concept of TDRs is retained in GAAP, then at a minimum, we recommend an amendment that provides a means for performing TDRs to be removed from TDR classification once the modified rate is at market given the loan’s characteristics, such that loans that are modified and become TDRs do not have to be reported as TDRs in perpetuity as is generally the case today.

Disclosures

Questions for Users

Question 17: Do you believe the disclosure proposals in this proposed Update would provide decision-useful information? If not, what disclosures do you believe should (or should not) be required and why?

Response: Yes, most of the disclosures will be useful to investors for evaluating credit quality; however, we are not clear on the additional benefit that will be provided by disclosing the rollforward of debt instruments, by segment. This is not a metric monitored internally as is it not relevant to managing credit risk; therefore, we do not see the benefit in preparing this disclosure specifically for external purposes. Considering the recent marketplace discussion regarding disclosure overload, we do not believe the benefits outweigh the cost and effort involved with providing this additional level of detail.

Questions for Preparers and Auditors

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

Response: As noted in the response to Question 17, we would need to build a process to appropriately capture the information required for the rollforward of debt instruments since this is not something that is already monitored internally.

Implementation Guidance and Illustrations

Questions for All Respondents

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

Response: There are several references in the implementation guidance about updating existing historical loss rates for current conditions and reasonable and supportable forecasts. We believe that more guidance or examples are needed to understand how loss rates are adjusted for reasonable and supportable forecasts. Under the current proposal, the words “reasonable and supportable” are too broadly described and we believe there will be too much divergence among institutions in determining what is reasonable and supportable. Additional implementation guidance around this principle could clarify what the Board
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is attempting to convey and significantly narrow the application of this principle, which we believe is a necessary improvement to the current draft proposal.

Transition and Effective Date

Questions for All Respondents

**Question 20**: Do you agree with the transition provision in this proposed Update? If not, why?

**Response**: Yes, we believe that a cumulative effect adjustment is the most reasonable approach to transition.

**Question 21**: Do you agree that early adoption should not be permitted? If not, why?

**Response**: Yes, we agree that early adoption should not be permitted.

**Question 22**: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

**Response**: Yes.

Questions for Preparers and Auditors

**Question 23**: Do you believe that the transition provision in this proposed Update is operable? If not, why?

**Response**: Yes, the transition provision is operable.

**Question 24**: How much time would be needed to implement the proposed guidance? What type of system and process?

**Response**: We believe it would take approximately 18-24 months to implement the proposed guidance, given changes in processes, controls, and models, along with user education.