Via Email: directory@fasb.org
File Reference No. 2012-260

Re: Proposed Accounting Standards Update
Financial Instruments – Credit Losses (Subtopic 825-15)

Thank you for the opportunity to comment on Subtopic 825-15. Credit loss accounting is a very important topic to financial institutions. It is important to account for losses in a manner that allows those reading financial statements to understand the assets net of expected losses and the periodic financial results as reported through the income statement.

I believe that this proposed standard should be evaluated with the proper consideration of the principles of matching, objectivity and historical cost.

The matching principle requires we match expenses with related revenues in order to report a company’s profitability during a specified time interval. Ideally, the matching is based on a cause and effect relationship like sales requiring inventory to be used creating cost of goods sold. In the situation of credit loss expense, the revenue, interest income is correctly recorded for the time value of money, origination costs and the appropriate amount of credit cost inherent within that particular loan. When there are lower origination and credit costs there is an appropriate reduction in interest income as factored into the loan yield. This is a very practical cause and effect relationship. The perspective of matching the future losses based on someone’s forecast scenario is ludicrous.

Not only would this accounting proposal mismatch revenue and expense, it also would improperly value our assets based on guesswork violating the principle of objectivity. Projecting losses of long lived assets, requires a significant amount of subjectivity and is impossible to do with any degree of accuracy. This subjectivity could give rise to accounting results that would be a constant debate between auditor’s and CPA’s. We need accounting rules that when applied by two independent CPAs would naturally produce the same results. This proposal would make this impossible.

Under the historical cost basis of accounting, our assets should be carried at their recorded cost unless it is readily marketable or the entity is not considered a going concern. The loan portfolio of a financial institution typically represents 65-70% of the assets and will completely distort the equity position if it is valued under the proposed guidelines.
I strongly encourage you to reconsider the affects that it would have on the matching, objectivity and historical cost principles before making it effective.

Financial institutions of all sizes would be greatly impacted by this change. The unintended consequences could be huge. This would have a definite impact on the capital ratios of community banks and credit unions and would immediately impact their ability to grow assets and particularly loans. For example, this would reduce our equity an estimated $5.7 million representing $33.6 million in loans for our community. This slowdown in loan growth would impact small business and ultimately the economy.

I have also attached answers to the questions within the proposal for all responders and users.

Sincerely,

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Executive Vice President and CFO
Texas Trust Credit Union

CC:
Credit Union National Association
National Credit Union Administration
Texas Credit Union League
Questions for Respondents

Question for All Respondents

**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?

**Answer 1:** No, I believe that the scope of financial assets is too broad for the loss recognition method proposed in this standard. I do not believe that non-impaired loans, receivables and debt instruments should be subjected to analysis of future credit losses. I believe this is a direct violation of the accounting principles of matching, objectivity and historical cost.

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?

**Answer 2:** This change from recognition to measurement would diminish the usefulness of the financial information because of the extreme subjectivity that would be applied to future unknown events. The proposed standard forces the entire present value of credit risk cost to be recognized at the time the loan is booked. Additionally, the contractual interest rate for the loan will create earnings into the future to offset credit costs that were taken in that first year, overstating net earnings in future years.

**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?

**Answer 3:** No, I do not agree that the net amortized cost results in more decision-useful information than currently exists, mainly because of the subjectivity of the information and the misrepresentation of the matching of costs against related revenue.

**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)?

**Answer 4:** I do not believe that it provides any decision-useful information by recognizing all expected future credit losses on the date of the balance sheet. I believe that 12 months of expected losses based on actual historical losses of similar assets and the current economic conditions plus individual loan impairments provide a much more useful and objective credit loss recognition methodology.

**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 collectibility of the financial assets' remaining contractual cash flows. Do you believe that expected credit losses based on this information provide decision-useful information?

**Answer 5:** Given the difficulty of forecasting the future, there are no 2 accountants that would independently arrive at the same outcome. The process described above is too subjective. As history has proven through the recent “Great Financial Crisis” of 2008, some accountants would have based their analysis on a positive forecast and others would have used a negative forecast. The vast majority of forecasters did not expect such a negative downturn in the economy including all the major rating agencies. So decisions would have been made on bad forecasts, not a situation that adds any value to the financial information.

**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?

**Answer 6:** I do believe that the same accounting treatment should be given to both purchased and non-purchased credit-impaired assets. However, I do not believe that this is an improvement from the current model for purchased credit-impaired assets for the same reasons stated above for non-purchased credit impaired assets.

**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?

**Answer 7:** Certainly, I believe this would be a reasonable and conservative approach because it brings in materiality and would not be misleading a reader of the financial statements.

**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?

**Answer 8:** This is a reasonable requirement and is similar to what is used now by most financial institutions. It is supported by the accounting doctrine of conservatism and also the accounting principle of matching. I do believe it provides decision-useful information.

**Omitted Questions 9 - 15**

**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 non-troubled debt restructurings continues to be relevant? Why or why not?

**Answer 16:** Yes, I do believe this remains relevant. The borrower in a troubled debt restructuring cannot obtain financing from another source, may not be capable of paying a fair rate of interest and also has a higher likelihood of default. The non-troubled debt restructure can obtain refinancing from other sources and will perform like any other good loan. These are two very different assets and will have very different credit performance in the future.

**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?

**Answer 17:** Yes, I do believe the proposed disclosures provide decision-useful information.

**Question 18 omitted**

**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?

**Answer 19:** I'm sure some additional guidance will be necessary in the future. It probably is too early to understand and absorb all the changes and how it will impact data gathering and reporting.

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

**Answer 20:** I agree with the transition provision as outlined in the proposal. Making the cumulative effect of the change on retained earnings or equity at the beginning of the period effective is the only means to begin this type of reporting. However, I want to reiterate that this will be devastating to capital ratios of many community banks and credit unions throughout the United States, if this is adopted.

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

**Answer 21:** Yes, I do agree that early adoption should not be permitted.