March 8, 2019

Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Via email: director@fasb.org

RE: File Reference No. 2019-100

Dear Chairman Golden:

The American Bankers Association\(^1\) (ABA) appreciates the opportunity to comment on the Exposure Draft, *Proposed Accounting Standards Update—Targeted Transition Relief for Topic 326, Financial Instruments—Credit Losses*. The ED is intended to provide targeted transition relief for ASU 2016-13 ("CECL") adoption, principally to allow entities to mitigate the need to account for similar assets under two different bases: amortized cost and fair value. Dual measurement would occur at the adoption of CECL because certain entities will choose to account for certain asset classes using fair value via the fair value option ("FVO") rather than subject the assets to CECL, which is required under amortized cost accounting. The ABA supports the proposed one-time irrevocable FVO election at adoption, as it gives entities the opportunity to reduce dual measurements for loans and receivables. ABA believes this will increase comparability and help simplify CECL adoption, which will reduce costs of implementation.

FASB’s decision to exclude held-to-maturity ("HTM") securities from fair value elections allowed under the ED will mean transition relief is not extended to all asset classes in the scope of CECL. We acknowledge allowing FVO election for HTM securities creates additional accounting complexities the FASB would need to address, such as where FVO-elected HTM securities should be carried on the balance sheet, appropriate classification of unrealized gains and losses in the income statement, and whether subsequent sales of these HTM securities should be allowed. Also, for HTM securities where fair value is below amortized cost ("underwater securities"), FVO election provides entities with the ability to permanently capture the unrealized losses on these underwater securities at adoption in retained earnings as part of the cumulative effect adjustment. The Center for Audit Quality provided guidance about this during April 2007, as part of adoption of Statement of Financial Standard No. 159.

We believe the FASB should provide transition relief by allowing a one-time ability to transfer securities out of HTM at adoption of ASU 2016-13. Transition relief for HTM securities is important because entities

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\(^1\) The American Bankers Association is the voice of the nation’s $17 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $13 trillion in deposits and extend more than $10 trillion in loans.
are prohibited from transferring or selling HTM securities under ASC 320-10 (outside of certain specified circumstances that do not apply). Without transition relief, entities will be unable to take action to mitigate the costs and other impacts of CECL.

The CECL credit loss model is different from the credit loss model currently used for HTM and available-for-sale (“AFS”) securities. Accordingly, as part of CECL adoption, entities will need to develop new credit loss models for HTM securities, which will increase the costs and the efforts to implement. Considering securities may have been purchased many years ago, CECL adoption would not have been contemplated when the securities were originally designated as HTM.

Likewise, the dual measurement fact pattern the FASB is providing transition relief for under the ED could also exist within securities portfolios. For example, an entity may have previously classified a certain security type as HTM but because of CECL, would now classify new purchases as AFS. Thus, while transition relief proposed in the ED specifically excludes securities, the conceptual arguments for providing relief are the same.

Allowing a one-time ability to transfer securities out of HTM at adoption of ASU 2016-13 would provide transition relief, as it would reasonably accommodate realignment of securities portfolios for CECL adoption. The Board has provided certain one-time elections to transfer HTM securities as part of adopting other new standards, such as Statement of Financial Accounting Standards No. 133 (addressing derivatives and hedge accounting) and Accounting Standards Update 2017-12 (targeted improvements to accounting for hedging activity). These previous one-time elections to transfer HTM securities were responsive to the fact that new accounting guidance may cause entities to reconsider the strategy/composition of their HTM security portfolios and CECL may cause similar reconsiderations.

Allowing HTM transfers at adoption avoids the concerns described above related to fair value election. Transferring the securities out of HTM prevents the accounting challenges described above and is generally well understood under current guidance. Furthermore, the guidance in ASC 320-10-35-10 requires transfers between classifications to occur at fair value and unlike FVO election, would not provide the opportunity to permanently capture unrealized losses on underwater securities to retained earnings. If an underwater security is transferred from HTM to AFS, the unrealized loss at transfer would be recorded to other comprehensive income (“OCI”), no different than unrealized gains/losses that occur after the transfer date. What this means is the unrealized loss at transfer date would ultimately be reclassified out of OCI and into the income statement, for example, if the security was ultimately sold at a loss.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (jstein@aba.com; 202-663-5318) if you would like to discuss this in more detail.

Sincerely,

Joshua Stein