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Technical Director -- File Reference No. 2011-150 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

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File Reference: Comments on Supplementary Document, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - Impairment

Ford Motor Company ("Ford"), a global automotive industry leader based in Dearborn, Michigan, manufactures and/or distributes automobiles across six continents. Ford Motor Credit Company LLC ("Ford Credit") has provided dealer and customer financing to support the sale of Ford Motor Company products since 1959. Ford Credit is an indirect, wholly owned subsidiary of Ford. We file consolidated financial statements with the SEC reflecting two business sectors, Automotive and Financial Services. Ford Credit also files financial statements as a separate SEC registrant.

We appreciate the opportunity to comment on the Supplementary Document, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - Impairment."

We strongly support the continued efforts of the FASB and IASB in their work toward establishing a common approach for impairment of financial assets. We believe it is *critical* that the Boards develop a common approach for all aspects of accounting for financial assets.

We generally support the common approach proposed in the Supplementary Document. We believe the common approach will be significantly more practical and cost-effective to implement for open portfolios than the approaches that were originally proposed by either the FASB or the IASB. We have responded to specific questions included in the Supplementary Document and have provided our observations and recommendations in the attachment.

We appreciate the Boards' consideration of our comments.

Sincerely,

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Attachment

#### Ford Motor Company

#### Responses to Specific Questions for Comment

# Question 1: Do you believe the proposed approach for recognition of impairment described in this supplementary document deals with this weakness (i.e., delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

We share the FASB's view that eliminating the probability threshold required for recognizing impairments under ASC 450-20 and instead recognizing losses expected to occur in the foreseeable future will ensure the recognition of a credit allowance balance sufficient to cover losses when they occur. The proposal essentially moves the assessment of probability from *whether* an impairment has been incurred at the date of the financial statements to the *measurement* of the impairment amount. We anticipate that eliminating the probability threshold for recognition will address the Boards' concerns regarding delayed recognition of expected credit losses.

## Question 2: Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why and why not?

Our primary experience with respect to financial instruments carried at amortized cost is with open portfolios of homogenous, low value, fully secured vehicle loans. We find it operationally challenging when we need to apply new guidance that affects either the carrying value of the loans or our assumptions regarding the performance of the specific portfolio because of the fluid nature of the portfolio. We have concluded that the proposed impairment model is operational in the context of an open portfolio; we have assessed whether there are unique issues to be considered when applying the guidance to closed portfolios.

#### Question 3: Do you agree that for financial assets in the 'good book' it is appropriate to recognize the impairment allowance using the proposed approach described above? Why or why not?

We support the dual measurement test for financial assets in the 'good book'. We believe the proposed common approach addresses both Boards' concerns and we expect it to be considerably more operational those proposed previously by the FASB or the IASB.

The measurement for time-proportional expected credit losses addresses the inherent issues of reliability when predicting expected credit losses in the future; the reliability diminishes the further into the future the assumption inputs are. We believe the time-proportional calculation provides an appropriate adjustment to expected lifetime losses through its weighting of average age over the average life and lessens the likelihood that credit losses might be recognized 'too much, too soon'. We also support the measurement of a 'floor' representing credit losses expected to occur within the foreseeable future. The 'floor' will ensure an adequate allowance for expected credit losses before they actually occur.

We urge the Boards, however, to provide entities with a choice to make an irrevocable election to measure credit losses expected to occur using only one approach (e.g., either the time-proportional calculation or the floor calculation) when its portfolios have characteristics and attributes such that it is reasonable to conclude the approach elected results in the higher of the two calculations. For example:

An entity has a large homogenous consumer loan portfolio with an average life of 60 months. Each loan is fully collateralized with the underlying asset financed. Historical experience has shown that the majority of credit losses on this portfolio are likely to occur in the first 18 months of the loan. We expect that for a stable portfolio with these characteristics, the expected credit losses measured under the foreseeable future approach will likely always be greater than the credit losses measured under the time-proportional approach.

We expect that most entities have established a disciplined process for measuring their credit losses and that they consider historical data and current economic conditions. We also expect that most entities have the ability to develop reasonable assumptions regarding forecasts of future events and economic conditions for the near future but that they may not have an equally disciplined process to reasonably forecast future events and economic conditions beyond what their normal business plan or business cycle is. Providing entities with an irrevocable election to apply one approach or the other acknowledges inherent differences in the characteristics of loan portfolios, differences across industries as well as differences between entities within the industry. It will eliminate the need for an entity to perform multiple calculations when it is reasonable to conclude, based on the characteristics of the portfolio, which approach will produce a greater level of credit losses. In cases where an entity elects to use only the foreseeable-future approach, the entity can avoid the need to establish a supportable and auditable process to evaluate all estimated credit losses for the remaining life of a portfolio by predicting macroeconomic factors and economic cycles throughout the life of the asset.

### Question 4: Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

We believe the proposed approach for measuring the impairment allowance on a time-proportional basis is operational. However, as we responded in Question 3, we believe that in some cases, it is unnecessary as the 'floor' calculation may always result in the greater of the two measurements.

### Question 5: Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

The proposed approach would not provide any further useful information for making internal decisions. Whether the proposed approach will provide useful information to the external users of our financial statements will depend heavily on the quality and relevance of disclosures provided regarding the inputs, assumptions, and estimation techniques used to develop the allowance. We are concerned about the complexity that may be involved in clearly describing a situation in which an entity uses the time-proportional calculation in one period and the floor calculation in another. We think this could create confusion to some users of the financial statements.

We are also mindful of the possibility in which hindsight suggests that the alternative calculation in paragraph 2(a)(ii) would have produced a more accurate measurement of credit losses or that in hindsight the alternative not used would have provided a greater loss. One view might consider this an error when evaluated after the issuance of the financial statements. We strongly urge the Boards to make it clear that neither the reporting entity itself, nor its auditors, should consider the method used in the application of paragraph 2(a)(ii) for a prior period to be an error.

## Question 6: Is the proposed requirement to differentiate between the two groups (i.e., 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

We believe the requirement to differentiate between a 'good book' and a 'bad book' for purposes of measuring expected credit losses is clearly described. We appreciate that the proposed requirement does not require a 'bright-line' test to differentiate between the two groups. We support the Boards' view that the point at which an entity moves a financial asset from the 'good book' to the 'bad book' differs across entities and should be consistent with the broader corporate risk management and operational practices (paragraph B49). To that extent, we found that paragraph B3 provides sufficient operational guidance. We also appreciate the acknowledgement that the movement between the 'good book' and 'bad book' is not necessarily time-driven, but most likely operationally driven.

We recommend that once a financial instrument is moved from the 'good book' to the 'bad book,' it should remain in the 'bad book' until it matures or is written off. We do not see any value in moving an instrument between the two portfolios once an entity has moved from collection to recovery.

Question 7: Is the proposed requirement to differentiate between the two groups (i.e., 'good book' and 'bad book') for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?

We believe the proposed requirement to differentiate between the two groups is operational. Entities should have a well-documented policy and employ a consistent process for differentiating between the two groups. We believe disclosures about an entity's risk management objective provide valuable information to the users of the financial statements.

Question 8: Do you agree with the proposed requirement to differentiate between the two groups (i.e., 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

We are not convinced that differentiating between the 'good book' and 'bad book' would result in significantly different credit loss calculations for all financial asset portfolios. We believe the value in differentiating the two is dependent on the characteristics and attributes of the portfolio instruments. For example, our consumer loans are secured by the specific vehicle financed. We have a very aggressive collection policy and the lapse of time between when our objective changes from receiving payments on the loan to recovery of the financial asset or even the underlying collateral is very short, sometimes as little as a few weeks. Our calculation of expected credit losses in the foreseeable future, the 'floor', would include losses expected to be incurred during that very short recovery period.

We also understand an entity may find that losses in a 'good book' and 'bad book' do result in significantly different loss patterns. We recommend that the Boards restrain from establishing requirements for predefined portfolios and instead allow entities to use reasonable judgment on how credit losses for their portfolios are best managed and measured. We also recommend further clarification on whether it is the Boards' expectation that the calculation of expected credit losses in the 'bad book' should be measured on an individual loan basis or whether it is appropriate in some cases to continue to measure the expected future loss on a portfolio basis, and whether the calculation of expected losses may consider the fair value of the underlying collateral as a best estimate of the value yet to be received on the delinquent loan.

Question 9: The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this proposed model. Specifically, on the following issues:

- (a) Do you agree with the proposal to require a floor for the impairment allowance related to the 'good book'? Why or why not?
- (b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the 'good book' only in circumstances in which there is evidence of an early loss pattern?
- (c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?

Yes, we agree with the proposal to require a floor for the impairment allowance related to the 'good book' as it would ensure that there would be adequate credit loss reserves when losses in the 'good book' occur. Please refer to our responses to earlier questions.

- (d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?
- (e) Do you believe that the foreseeable future period (for purpose of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.
- (f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a 'ceiling' should be established for determining the amount of credit impairment to be recognized under the 'floor' requirement (for example, no more than three years after an entity's reporting date)? If so, please provide data and/or reasons to support your response.

We believe that an entity's definition of the foreseeable future period should remain consistent from period to period. Generally, we believe that at any period of measurement, changes in economic conditions should be considered in the calculation of the loss; it should not re-define the foreseeable future. We observe however that there may be rare situations in which the definition of foreseeable future would change, for example, when an entity moves from operating in a cyclical economic environment to one that is relatively flat.

We support a view that entities should independently define "the foreseeable future" in a manner that is consistent with their operations.

For example, an entity may, as a matter of policy, define the foreseeable future to mean twelve months. The policy would likely be aligned with its budgeting and forecasting period and would be applied consistently with other financial reporting conclusions (e.g., evaluating whether finance receivables that it originates or acquires should be classified as held-for-sale).

If the Boards decide they need to define "foreseeable future," entities may need to reconsider their internal polices and re-evaluate other circumstances and transactions where a specific definition has been used as a guideline for classification and measurement. We recommend the Boards consider such a possibility when it finalizes the transition guidance for this standard.

We believe that establishing a 'ceiling' may assist in increasing comparability between entities. However, a ceiling could also prevent entities from considering expected credit losses that in the entity's view are foreseeable but beyond the defined time horizon. The consequence in this case is a delayed recognition of expected credit losses. We recommend instead that entities evaluate their ability to reliably evaluate future events and independently define the foreseeable future. Furthermore, we recommend that the disclosure requirements include the definition of foreseeable future.

Question 10: Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i) (the time-proportional expected credit losses)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.

We cannot evaluate whether the floor will always be equal to or higher than the amount calculated under the time-proportional guidance. The floor amount (i.e., foreseeable future period) will likely always be higher for portfolios with homogeneous consumer term loans that experience front loaded loss patterns. The foreseeable loss amount may also be higher under volatile and uncertain economic conditions where we would expect our losses to be higher in the near term. However, we believe that whether the floor or the time proportional amount will be higher depends on the age and duration of the portfolio as well as market conditions that most affect the attributes of the financial asset.

Question 11: The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

- (a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the proposed approach described in paragraph B8(a)? Why or why not?
- (b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

We appreciate the Boards' flexibility and desire to make the standard operational for entities with different systems and levels of sophistication in measuring expected future credit losses. Consistent with our earlier comments, we believe that each entity's portfolio of financial instruments will have characteristics and attributes that should be considered when developing an impairment calculation for purposes of measuring expected credit losses. We believe that entities should be provided with the opportunity to make a reasonable decision; that the decision should be applied consistently from period to period; and that the conclusions reached should be disclosed with sufficient detail so that the users of the financial statements can understand what was presented.

Question 12: Would you prefer the IASB's approach for open portfolios of financial assets measured at amortized cost to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the IASB's approach (i.e., to recognize expected credit loses over the life of the assets)? Why or why not?

Although we agree conceptually with the IASB's objective of maintaining a link between the pricing of financial assets and the related expected credit losses, we found their original proposal to be impossible to operationalize. Therefore, we appreciate that the revised proposal by the IASB avoids the operational complexity of the original proposal. We observe, however, that the time-proportional approach could result in an insufficient allowance for portfolios with losses that tend to occur early in the life of the assets. We support the inclusion of a 'floor' measurement to ensure the adequacy of the impairment allowance at any point in time. We also would encourage the IASB to reconsider the proposed requirement that all entities differentiate their portfolios into 'good books' and 'bad books' given that we do not believe it results in a significantly different allowance calculation under all circumstances.

Question 13: Would you prefer the FASB's approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the FASB's approach (i.e., to recognize currently credit losses expected to occur in the foreseeable future)? Why or why not?

We believe that the FASB's alternative approach would be the most operationally efficient. We think that this alternative will be less resource intensive and is likely to be more reflective of the actual credit risk inherent in our loan portfolios.