April 8, 2011

Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt Norwalk, Connecticut 06856-5116

Re: File Reference No. 2011-150

Dear Ms. Cosper:

The Independent Community Bankers of America¹ (ICBA) welcomes the opportunity to comment on the Supplementary Document issued by the Financial Accounting Standards Board for public comment as part of its project, Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities. ICBA supports the FASB's efforts to improve the recognition and reporting of impairments to enable institutions to better anticipate losses.

The FASB has requested comments on the impairment model described in the Supplementary Document to assist them in developing a common approach that addresses the objectives of the FASB and the International Accounting Standards Board. The Supplementary Document primarily addresses the timing of the recognition of expected credit losses; other aspects of the impairment model are still under discussion by the FASB and the IASB.

Simpler Approach Needed for Community Banks

We urge the FASB not to go forward with the impairment model contained in the Supplementary Document due to its complexity and questionable results. Small institutions such as community banks need a simpler approach as they do not have the staff and systems to prepare the complex calculations contained in the model.

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold \$1 trillion in assets, \$800 billion in deposits, and \$700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

The Nation's Voice for Community Banks.®

Comment Letter No. 197 SALVATORE MARRANCA

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2011-150

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¹ The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever changing marketplace.

Community banks view the current impairment and allowance guidance as much more workable than that proposed model.

ICBA has communicated to the FASB previously that financial institutions need more flexibility in preparing for economic downturns and that accounting standards should not force institutions to decrease their allowances at a time when they know more problems may be on the horizon. Thus, we appreciate the FASB's efforts to improve the recognition and reporting of impairments. Unfortunately, we do not see that this latest proposal will be helpful. ICBA is very concerned about the complexity of the proposed impairment model and the ability of community banks to apply it. Community banks have told ICBA that they do not see the proposed model as providing better information about impairments or improve loss recognition. Rather, it would require complex calculations which they do not think would significantly change the result of the existing methodology. The information systems of most community banks would need significant changes in order to generate the information needed to implement the proposed impairment model and the costs of these changes would greatly outweigh their benefits in improved impairment analysis.

Good Book, Bad Book

The document proposes that financial assets managed in an open portfolio be placed into two groups, based on their credit characteristics, for the purpose of determining the impairment allowance. For one group, the "bad book," the entire amount of expected credit losses would be recognized in the impairment allowance. For the other group or "good book," expected credit losses would be recognized on a portfolio basis over a time period at the higher of the time-proportional expected credit losses (depending on the age of the portfolio) and the credit losses expected to occur within the foreseeable future period. The foreseeable future period would be a minimum of twelve months. According to this proposed treatment, community banks would be required to make complex calculations yet they believe that they will arrive at the same place as using current methodology. For community banks, separating assets into two books as proposed is overly complex and would not generate a level of improved information to justify it, particularly the requirement to determine the time-proportional expected credit losses.

There are a number of operational issues created by the proposed model. To determine the time-proportional expected credit losses, the age and the total expected life of the portfolio, weighted averages are used and updated at each reporting date. The age of a portfolio is based on the time that the financial assets within the portfolio have been outstanding since they were initially recognized by the entity. The total expected life of a portfolio is based on the time that the financial assets within the portfolio are expected to be outstanding from inception to maturity (for example considering prepayment, call, extension and similar options and defaults). Community bank information systems are not currently capable of providing all the information called for by the proposal. The systems typically cannot provide weighted average information or do not contain sufficient data to track average lives of assets, for example. Smaller banks typically do

not use present value cash flow projections and instead use collateral market values, thus the calculations would be difficult for them to provide. Community banks are very concerned that the cost of system changes will be high without any real improvement in identifying and recognizing impairments.

Community banks are concerned about the proposed model's dependence on long term forecasts. Generally, community banks look at historical loss experience data and current economic conditions, and consider likely events or scenarios. They typically do not make extensive formal forecasts of future economic conditions and events. Community bankers have expressed concern that elaborate, formal projections will become a new requirement. Large institutions will have the systems and resources to make these economic projections the proposal expects and smaller institutions will be pressured by regulators and accountants to spend significant sums of money on similar forecasts. Community bankers question whether such forecasts will truly improve loss recognition. They point to recent experience where forecasts were unable to predict the depth and extent of our recent economic downturn. One community banker noted to ICBA that a well regarded analyst is projecting significant defaults among municipalities while other equally regarded analysts are not projecting anywhere near such defaults. They are concerned that because of significant differences in forecasts, comparability of financial information between and among institutions will worsen.

Bankers are concerned that when transferring an asset from the "good book" to the "bad book" the result could be that a lower allowance is needed based on the model's calculations, which should not be the case. Also, assets can move from the "bad book" to the "good book" if conditions warrant, but it is unclear how a transfer would be treated and the impact on the allowance. Finally, current loan classifications used by bankers may not translate well to "good book" verses "bad book." Bankers studying the proposal question whether the "bad book" really fits their current impaired loans. Additional guidance would be needed to help determine the treatment of assets in the proposed model.

Also, it would be helpful for community banks to have a floor amount for the "good book." This should be based on peer analysis. However, the subjectivity of assumptions in the proposed model is likely to make it more difficult to conduct useable peer analysis.

Other Comments

ICBA is concerned about the impact of the model on the timing of loss recognition. Losses will likely be reflected in the allowance before they occur and bankers may reverse portions of the allowance too soon. We also are concerned that the methodology will result in increased volatility of allowances, simply due to projections that may not come to fruition or that may occur at a different time than forecasted.

The FASB asks whether the foreseeable future period is typically greater than 12 months. While community banks have told ICBA that it would be helpful to have additional guidance on the term "foreseeable future" used in the proposed model, community banks

tell ICBA that they would typically look out 12 to 24 months when considering conditions and performance factors.

The proposal contained in the document would only apply to an "open portfolio" as the FASB and the IASB have not deliberated on credit impairment requirements for other financial assets such as those evaluated individually, other problem loans, purchased loans, short-term receivables and any issues specific to investment in debt securities. Both groups have further work to do on methods for measuring credit losses, disclosures, interest revenue recognition, the definition of "write-off" and a variety of related issues. While we recognize that this is a large and complex project, community banks have found it quite challenging to analyze and consider the impairment treatment contained in the Supplementary Document without seeing how all the pieces will fit together. It is difficult to determine the workability of an impairment model and provide comments when only some of its parts are available for analysis. In this regard, the concepts contained in the proposal and the treatment of other impairment issues should be reissued for comment before going forward with any final guidance due to the number of areas that need to be further developed, clarified and potentially changed before workable guidance is achieved.

Delayed Implementation for Smaller Institutions

We urge FASB to provide for delayed implementation of any new model for smaller institutions as they will need additional time to make system changes and determine how to implement the requirements based on their portfolios. Also, smaller financial statement preparers are able to learn from larger institutions who implement changes earlier. We would recommend a two year delay.

Field Testing Needed

ICBA greatly appreciates the FASB's increased outreach efforts, including those to community banks. However, we are very concerned that the FASB has not field tested the proposal and urges that it conduct field testing before it goes forward. ICBA would be willing to work with the FASB to set up community bank field testing.

Again, ICBA urges the FASB not to go forward with the accounting treatment contained in the Supplementary Document. We appreciate the opportunity to comment on the proposal. If you have any questions about our views, please do not hesitate to contact me at 202-659-8111 or ann.grochala@icba.org.

Sincerely,

/s/

Ann M. Grochala Vice President, Lending and Accounting Policy