

From: Brian Holle [mailto:bholle@HarperPearson.com]
Sent: Tuesday, May 14, 2013 4:16 PM
To: Director - FASB
Subject: Comment: Proposed Accounting Standards Update on Financial Instruments - Credit Losses

To the Director:

Thank you for the opportunity to comment on this proposed change in accounting standards for recognizing credit losses.

The proposed change for recognizing credit losses is breathtakingly disconnected from several basic broad accounting principles as has been pointed out in detail by several previous commenters. The idea of accruing for future expenses based on “reasonable” forecasts is a Pandora’s box to allow completely meaningless loss accruals.

The source of this frenzy to disengage from solid accounting principles for recognizing credit losses is driven by the vacuous trope that accruing probable incurred losses in the period in which they occurred contributed to the financial crisis. Accounting principles do not cause loan losses. Accruing for possible and remotely possible losses will not cause individuals in financial institutions to cease enjoying excessive credit risk. Whatever the accounting formula, financial institution managements will continue to have incentives to understate credit risk, and defer recognition of credit losses, to examiners, auditors, investors, and users of financial statements. If improving these institutions’ timeliness on reporting increasing credit risk and recognizing losses is FASB’s desire, then a better approach would be to address the woeful lack of auditor (and bank examiner) professional skepticism and independence in auditing credit loss estimates. One such approach might be to re-evaluate the current auditing regime in which managements who prepare the books hire their own auditors, thus incentivizing auditors to please management.

I recommend that the current Board and its staff go back to the original FAS 5 publication from 1973 and re-read it in its entirety. That FASB eloquently, logically, and pointedly rebuffed various then-commenters’ arguments to allow the type of accrual the current Board is now proposing.

Thank you again for the opportunity to comment on this proposed change.

These comments reflect the my personal opinion and are not necessarily the opinions of the firm I work for.

Sincerely,

Brian Holle
Advisory Manager
Harper & Pearson Company, P.C.
(713) 579-2321 direct
(713) 622-2310 main
(713) 579-2421 fax

harperpearson.com



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