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Bret Dooley

Managing Director
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May 31, 2013

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2012-260 – Financial Instruments – Credit Losses (Subtopic 825-15)

Dear Ms. Cospers:

JPMorgan Chase & Co (“JPMorgan Chase” or “the Firm”) appreciates the opportunity to comment on the proposed Accounting Standards Update, *Financial Instruments – Credit Losses (Subtopic 825-15)* (the “proposed ASU”) issued by the Financial Accounting Standards Board (“FASB” or the “Board”).

We support the efforts of the FASB and International Accounting Standards Board (“IASB” or “Board”) to address the criticisms of the performance of the current impairment models in the credit crisis, and acknowledge the extensive efforts of both the FASB and IASB to replace the current models with a single converged impairment model. We continue to believe that an improved and converged impairment model is possible and encourage both Boards to consider the compromise proposed by members of the US banking industry filed on May 10, 2013 as a comment letter response to the FASB’s proposed ASU.

We support key elements of the impairment model in the proposed ASU (“CECL model”), and commend the FASB’s efforts to align the accounting calculation of credit losses with the actual credit risk management practices used to mitigate credit losses, and the significant reduction in complexity achieved by the improvements to the accounting for purchased credit impaired financial assets. However, we believe that several elements of the CECL model would result in credit loss estimates that are less reliable and convey less information content about changes in credit quality during the reporting period than under current US GAAP. Specifically, we recommend that the following concerns be addressed if the FASB proceeds with the CECL model:

- The estimate of credit losses should focus on losses within a reasonably estimable forecast period.
- The time value of money principle should be removed from the CECL model, as it adds complexity and makes it more difficult for users to ascertain credit quality from the relationship between charge-offs, allowance for loan loss and provision for loan loss amounts.
- The existing other-than-temporary impairment (“OTTI”) framework for debt securities should be retained for financial assets that are classified with qualifying changes in fair value recognized in other comprehensive income (“FV-OCI”) as it is well understood in practice and has not raised significant practice issues. Applying the CECL model to FV-OCI would be burdensome and produce results that are not decision-useful for financial statement users.

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- The practical expedient is inadequate to address the significant expansion in the scope of financial assets for which quantitative loss estimates would be required. Many of these financial assets would attract insignificant credit loss estimates, individually and in the aggregate, yet would require significant effort.
- Nonaccrual guidance should be aligned with existing bank practices and should be reconsidered for credit loss estimation techniques that explicitly include discounting, such as discounted cash flow calculations.
- Troubled debt restructuring (“TDR”) guidance should focus on modifications granted to troubled borrowers where there is a reduction in contractual payments required (principal forgiveness or interest rate reductions). This guidance should apply the same loss measurement principles as for other loans and should require qualitative and quantitative disclosures of the payment reductions granted.
- Disclosures for FV-OCI financial assets should be based on current disclosures for AFS securities, and not held for investment loans. Many of the proposed disclosures will not be useful for understanding the potential future cash flows of FV-OCI financial assets.

We believe that the recent criticisms of the existing loan impairment guidance could be addressed in a more straightforward manner by simply removing the probable threshold for recognition of credit losses and enhancing guidance regarding loss emergence periods (including the fact that loss emergence periods could exceed one year in many circumstances). We do not support Exposure Draft ED/2013/3 *Financial Instruments: Expected Credit Losses* as published by the IASB, as we believe that estimated loss emergence periods may, in some cases, be longer than the 12 months used in the IASB proposal, and that the IASB proposal could result in a reduction in loan loss reserves in the United States. We doubt this would be perceived as an improvement to current practice. In addition, we believe that substantive operational and interpretive matters remain unresolved in the IASB’s proposal.

Notwithstanding the significant time and effort spent by the FASB and IASB to date to agree on a converged standard for impairment, the proposals issued by the FASB and IASB would result in differences in loan loss reserves that are potentially very significant, even if based on similar economic forecasts and judgments. To mitigate these differences, we encourage the Boards to jointly consider the compromise proposal put forth by US banks, dated May 10, 2013.

We appreciate the opportunity to submit our views. We would be pleased to discuss our comments with you at your convenience. If you have any questions, please contact me at 212-648-0404 or Laurin Smith at 212-648-0909.

Sincerely yours,



Bret Dooley

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QUESTIONS

SCOPE

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?*

Debt instruments at FV-OCI

We do not agree with the scope of the proposed ASU to include FV-OCI financial assets. The current OTTI guidance for debt securities was significantly improved in 2009 as a response to the financial crisis and we are not aware of user concerns or practice issues with the improved guidance.

Debt securities classified in available for sale are held primarily for asset/liability management purposes, which results in some level of selling activity to manage interest rate risk and liquidity in addition to holding investments to deploy excess liquidity and capital. The requirement to recognize expected lifetime credit losses for debt securities held for asset/liability management purposes is often incongruent with the business model under which the securities are used. Consider, for example, non-callable sovereign debt securities with a contractual life of 20 years. As a result of portfolio repositioning due to market factors or changes in the interest rate risk or liquidity profile of a bank, the ultimate investment horizon may be meaningfully less than 20 years. It seems inappropriate to establish an allowance for credit losses based on 20 years of expected losses only to subsequently release the allowance when the investment is sold, particularly when for longer dated assets those estimated credit losses may be less reliable and less relevant to the ultimate holding period.

We anticipate significant cost and operational burden to implement the proposed impairment model for FV-OCI debt securities. Debt securities held for asset/liability management purposes are not typically held through to default; robust internal credit loss experience is not available, and existing credit loss data derived from loans is not transferable to certain debt security asset classes. If third party credit loss data were to be used, preparers would need to perform extensive back-testing to ensure that estimates of credit losses for the various debt security asset classes align with historical defaults. Based on the satisfactory performance of the improved OTTI model for debt securities, we do not believe that the costs of such a revised framework are justified.

We recommend that FV-OCI financial assets be scoped out of the final ASU and that the FASB retain the debt securities OTTI model for those instruments.

Other debt instruments

Under current practice, investments in US Treasury securities, certain obligations guaranteed by the US government, reverse repurchase agreements, margin loans, trade date receivables and fail to deliver receivables do not require a quantitative credit loss estimation. Due to the scope of proposed ASU, the proposal to replace debt security OTTI guidance (including the first step in that OTTI assessment), and the range of outcomes guidance, the number of individual transactions for which a quantitative loss estimate would be required will be greatly expanded. We recommend that certain amortized cost debt instruments of very high credit quality, subject to daily margining requirements or substantial overcollateralization be scoped out of the proposed ASU, or offered operational relief through the application of a practical expedient. Please see our response to Questions 7 and 14 for further discussion of the practical expedient.

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REMOVAL OF PROBABILITY THRESHOLD

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?*

We support the removal of the requirement for financial assets that a loss be deemed “probable” before it can be recognized in the financial statements. Removal of the probability threshold will result in earlier recognition of credit losses. Enhanced guidance regarding when expected losses can be recognized would, by itself, represent the single most important improvement to address criticism of the existing credit loss framework.

TIME VALUE OF MONEY

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?*

We do not agree that the time value of money principle results in more decision- useful information. We believe that financial statement users seek to understand estimates of how much of the carrying balance of the loan will not be recovered. Therefore, the allowance for credit loss should reflect anticipated losses of the carrying balance, without regard for the timing of that loss. This practical focus on the balance sheet amount, rather than a largely conceptual emphasis on loss of future interest, is most decision-useful. The introduction of the time value of money concepts in the credit loss framework will obscure information content about credit quality and changes in credit quality during the reporting period that is currently obtained from the level of allowance and provision for loan losses and charge-offs. This will also create inconsistencies and confusion when combined with other provisions of the proposed ASU.

Introduction of volatility into credit risk disclosure relationships

We are concerned that the time value of money principle will impair the ability of lenders to communicate credit risk information to analysts and investors by introducing non-credit volatility into key credit risk disclosures and statistics that are used to identify and understand changes in credit risk. Currently, the amounts of charge-offs, allowance for loan losses and provision for loan losses are focused on recoverability of carrying value, and FAS 5 estimates are not complicated by estimation of precisely when such losses may be realized. Some of that current information content will be lost by the introduction of time value-related volatility in the allowance and provision amounts, especially due to the inclusion of interest-related defaults, whose timing and amount are particularly difficult to estimate. We encourage the FASB to reconsider the cost-benefit of this principle, given that costs will be incurred by not only preparers but users of financial statements.

Incompatibility with charge-off and cost recovery method

Much of the guidance in the proposed ASU seems to be predicated on a presumption that: i) the gross balance of the loan represents the present value of contractual cash flows, ii) the allowance represents the present value of cash flows not expected to be collected, and, therefore, iii) net amortized cost on the balance sheet would reflect the present value of cash flows expected to be collected.

While this may be true in certain cases, this presumption fails when charge-offs have been taken or the cost recovery method has been applied. In these situations, the net amortized cost on the balance sheet

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may continue to reflect the present value of cash flows expected to be collected; however, the gross balance of the loan would no longer represent the present value of contractual cash flows and the allowance would no longer represent the present value of contractual cash flows not expected to be collected.

We think that charge-offs and the use of the cost recovery method should continue to be appropriate and suggest eliminating the language in the proposed ASU suggesting that the allowance represents the present value of cash flows not expected to be collected.

Incompatibility with nonaccrual concept

We support the inclusion of a nonaccrual concept for debt instruments in the amortized cost category. This concept is an important and well-understood part of current practice and should be codified in US GAAP to enhance consistency; please see our response to Questions 8 and 15 for our suggestions to align the proposed ASU's language with current bank regulatory and industry practice. However, if the Board does not agree to eliminate the time value of money principle from the final standard, we suggest that the FASB reconsider how the nonaccrual concept aligns with that principle. Such further consideration is especially important for those credit loss estimation practices that explicitly include discounting, such as the discounted cash flow calculations used for impaired loans and for many debt securities to be classified and measured in FV-OCI.

Incompatibility with loan commitments

The proposed ASU indicates that estimating losses by applying a historical loss rate to the amortized cost of the loan would implicitly reflect the time value of money, as the loss estimate would then reflect the portion of the loan's amortized cost basis that is not expected to be recovered because of the credit loss. However, this time value of money principle doesn't appear to be true for estimated losses on loan commitments. At the reporting date, loan commitments have not yet been drawn, and a loan has not been funded, so there is no amortized cost amount recorded on the balance sheet. Losses on loan commitments are estimated using a variety of methods, but generally involve an assessment of the amount of the loan that will likely be drawn, if any, and then application of a loss factor should that loan default. Unlike funded loans, where the amount of expected losses is recorded as an impairment of the asset and recorded as a contra-asset, for loan commitments the estimated losses is recorded as a liability, as there is no related asset that is impaired. Consequently, the amount of the expected loss on the loan commitment does not represent any portion of amortized cost that is not expected to be recovered, which is how the proposed ASU contends that methods to estimate cash flows other than discounted cash flow would implicitly reflect losses. The inability of applying one of the key principles of the CECL model to an entire category of instruments within its scope further underscores a serious flaw in the time value of money principle itself.

Question 12: *The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?*

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Please see our response to Question 3 regarding our concerns with the objective of the amortized cost framework reflecting the present value of future cash flows expected to be collected, discounted at the effective interest rate.

We do foresee significant operability and auditing concerns with the proposal that credit loss estimates reflect the time value of money. We believe that current credit loss estimation methods only partially (and implicitly) reflect time value of money because they focus on the loss of the carrying balance of the loan as of the charge-off date. However, whether a charge-off is expected to occur in the near or distant future is not reflected in the loss estimate resulting from these methods, and as a result, these methods do not implicitly or explicitly reflect time value of money between the estimation date and the charge-off date. Notwithstanding the application guidance and Frequently Asked Questions related to the proposed ASU issued on March 25, 2013 (the "FAQ") which state that current credit loss estimation methods "implicitly" reflect the time value of money by developing loss statistics based on amortized cost, we are concerned that preparers could be required to quantitatively validate the FASB's assertion that credit loss methodologies deemed acceptable in the proposed ASU reflect the time value of money and are particularly concerned because we believe the assertion to be only partially true. We do not believe that it would be beneficial to try to incorporate some sort of discounting overlay into current credit loss estimation techniques that do not explicitly incorporate discounting.

Given the conceptual difficulties with the principle outlined in our response to Question 3 and the operational and audit risk that it introduces for preparers, we recommend that the FASB eliminate the time value of money principle from the final Accounting Standards Update. We believe that the combination of the loan loss allowance (addressing losses of the loan's carrying value on the balance sheet) and nonaccrual concepts are well understood in practice and commingling the time value of money and nonaccrual concepts is not useful to financial statement users.

EXPECTED LOSSES

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)?*

Loss estimation horizon

We do not believe that recognizing all expected credit losses in the allowance for loan losses necessarily provides more decision-useful information to financial statement users. We acknowledge that for certain loan portfolios with relatively short expected lives, there is little difference in the resulting allowance whether it is determined using the full expected life, a reasonably estimable period, or a loss emergence period under an incurred loss framework. However, for longer tenor portfolios, lengthening the period covered by the allowance introduces more uncertainty to the loss estimation process, which decreases the usefulness of the overall estimate.

As we have noted to the FASB previously, we believe the various alternatives considered by the FASB and IASB have differed with respect to several factors:

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- The alignment of the recognition of expected credit losses and the recognition of interest income
- The degree to which all possible future credit losses are incorporated
- The transparency of the resulting allowance for loan losses and how effectively management's estimate of the losses inherent in the portfolio is communicated to financial statement users
- The operational simplicity of the framework, including the sourcing of the necessary data and the reliability of the estimates required.

We believe that all of these factors must be considered in the evaluation of a loss impairment framework, and no one aspect should be the sole focus of the impairment model. For example, while the FASB proposal is focused on the inclusion of all possible future credit losses in the allowance, it does so at the expense of the reliability of the overall estimate and the transparency with which management's assessment of the loan portfolio can be communicated to financial statement users because it requires the inclusion of less reliable, longer term information that is less reflective of the actual credit quality of the current portfolio, and more reflective of management's long-term economic forecasts.

Current accounting standards require that, to be recognized in the allowance for loan loss, a credit loss must be both probable and reasonably estimable. We note that by requiring credit loss estimates to reflect all expected losses, the proposed ASU effectively removes both criteria. As indicated in our response to Question 2, we support the removal of the probability threshold. We continue to believe, however, that any loss recorded (for financial asset impairment and other loss contingencies) should also be reasonably estimable. This would focus financial statement users on those losses that management can estimate with reasonable reliability based on its current assessment of the credit quality of the portfolio. In contrast, economic forecasts beyond two to three years become increasingly uncertain, and loss estimates beyond that period are similarly less precise and less reflective of the loan portfolio as of the balance sheet date. Thus we believe that the proposed ASU results in the accrual of losses that do not economically relate to the current period, which is a critical departure from how all other loss contingencies are estimated and recorded under GAAP. The proposed ASU appropriately limits economic forecasts to ones that are reasonable and supportable, and should apply the same concept to the timeframe over which losses are estimated.

We understand that reasonably estimable loss forecast periods can vary for different products, and that similar to loss estimates themselves, judgments regarding what is a reasonably estimable period may reasonably differ among preparers based on the information available. We believe that transparent disclosure regarding the time periods used, and the basis for management's judgment, would enable financial statement users to understand the judgments made and to make assessments across financial institutions. Our experience is that such transparent disclosure would also promote comparability across financial institutions.

Expected life

BC18 clarifies that prepayments should be taken into consideration when determining credit losses. We support this clarification, but we believe that the actual standard should also be explicit in that regard.

There is also an apparent inconsistency between the guidance on estimating credit losses for drawn loans compared to loan commitments. While BC18 is explicit that expected prepayments should be taken into consideration when determining lifetime credit losses for drawn loans, the guidance in 825-15-55-8 for loan commitments states only that "an entity would estimate credit losses over the full contractual period over which the entity is exposed to credit risk." We believe that the credit loss estimate for loan commitments should consider the expected life of the commitment, similar to the prepayments guidance for funded loans.

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RELEVANT INFORMATION

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?*

Yes. Estimating expected credit losses involves considerable judgment and must be based on all relevant, supportable and available information, including past events and reasonable and supportable future forecasts. Limits on the use of relevant and supportable information would necessarily reduce the usefulness of credit loss estimates.

Question 9: *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 foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?*

Question 10: *The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?*

For those financial assets for which we currently calculate an allowance for loan losses, we currently have the information necessary to estimate credit losses under the proposed ASU. However, the reliability of such estimates decreases significantly beyond a certain forecast period and such estimates are increasingly driven by long term averages. In addition, information on the specific timing of such losses (necessary to implement a time value of money approach) is largely untested in current practice for pools of performing loans.

As noted in our response to Question 1, the proposed ASU would require a quantitative loss estimate to be calculated for a larger population of transactions than under current GAAP. For the additional asset classes for which loss estimates would have to be calculated, we do not currently have loss estimate data captured or backtested for use in a credit loss estimate, and such data would have to be gathered, assessed for suitability against individual portfolios and backtested. We encourage the FASB to consider limiting the scope or expanding the practical expedient to reduce the expanded operational burden of the proposed ASU compared to current US GAAP for financial assets for which credit losses are expected to be insignificant or remote.

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PURCHASED CREDIT-IMPAIRED LOANS

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?*

Question 13: *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 recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected 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 foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?*

We support the approach in the proposed ASU to eliminate the distinction in the accounting for purchased credit-impaired ("PCI") loans and originated loans. While conceptually pure, the current guidance applicable to PCI loans, ("SOP 03-3") has been extremely difficult for preparers to operationalize, and the consistent feedback that we receive from investors and analysts is that the current accounting for PCI loans reduces the understandability of our financial statements. Applying a single impairment framework for all types of loans without regard to whether the loan was purchased or originated would greatly simplify the accounting and enhance transparency in our financial statements and credit statistics.

Notwithstanding our overall support for the approach, we believe that the proposed ASU should provide more explicit transition guidance for entities with PCI loans at the effective date. It is possible or even likely that such loans will have the one or both of the following elements at the effective date:

- The nonaccretable difference, which represents the loan(s)' contractually required payments receivable in excess of cash flows expected to be collected. It is important to note that the nonaccretable difference is an undiscounted amount, and that it may include both principal and interest cash flows.
- An allowance for loan losses, which is a discounted amount that may also include both principal and interest cash flows.

While any existing allowance for loan losses would not present any unique issues, the transition treatment for the nonaccretable difference is unclear. The first question that arises is whether the nonaccretable difference should continue to be reflected as a basis adjustment at the transition date (i.e., similar to a charge-off), or whether the nonaccretable difference should be eliminated at the transition date by increasing the balance of the loan with an offset to the allowance for loan losses. Absent any specific

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transition guidance, we think that the latter is appropriate since SOP 03-3 accounting would no longer exist after the implementation date.

Assuming that the nonaccretable difference is reclassified to an allowance for loan losses, and assuming that the entity has previously recorded an allowance for loan losses for its PCI portfolio, the entity's allowance for loan losses applicable to PCI loans would be measured in two different ways – the component that was formerly the nonaccretable difference would be measured based on undiscounted cash flows, while the component that was formerly (and continues to be) the allowance for loan losses would be measured based on discounted cash flows. After implementation of the proposed ASU, it would not make sense for individual loans or portfolios of loans to have an overall allowance that is based on two very different sets of measurement assumptions. Therefore, we recommend that the transition provision require entities to conform the measurement of any nonaccretable difference that is recharacterized as an allowance for loan losses based on the final impairment measurement provisions of the proposed ASU.

FV-OCI PRACTICAL EXPEDIENT

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?

Question 14: As a practical expedient, the proposed amendments would allow an entity to not 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 basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

We agree that there should be a practical expedient for certain financial assets. However, the proposed scope of the practical expedient is too narrow to provide meaningful operational relief, and indeed, may actually add complexity as a result of instruments meeting and failing to meet the price-based criterion in successive reporting periods. In addition, two lots of the same security may individually meet or fail to qualify for the practical expedient purely based upon purchase price.

The need for a broader practical expedient is apparent also as a result of the range of outcomes guidance, which effectively requires that even the highest quality borrowers attract some nominal estimate of credit loss. This principle adds significant operational burden to apply the CECL model to portfolios which under current GAAP generally have not required a loss estimate to be numerically calculated, based on the debt securities OTTI guidance, margining practices or collateralization levels. Examples include US Treasury securities, reverse repurchase agreements, margin loans, and trade date receivables and fail-to-deliver receivables.

We believe that the practical expedient should apply when the expected credit losses on the individual financial assets are insignificant over the period that is reasonably estimable and predictable. This practical expedient should apply to all financial assets subject to the CECL model. In addition, we

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believe that the debt securities OTTI guidance should be retained for financial assets in FV-OCI, as discussed in our response to Question 1.

NONACCRUAL OF INTEREST

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?*

Question 15: *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 proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?*

Placing loans on nonaccrual status has long been a practice followed in the banking industry based on explicit regulatory guidance, but not directly addressed in the Accounting Standards Codification. While we support having nonaccrual status for loans codified in US GAAP, we note that the proposed ASU has guidelines that are different from current practice and established regulatory guidance.

Specifically, cash basis accounting is permitted by bank regulatory guidance (even if the entire principal balance is not deemed collectible), as long as the recorded investment in the loan is collectible. The proposed ASU permits cash basis accounting only if principal is substantially collectible, but interest is not. We think that these circumstances are very limited and may result in a different and likely smaller population of loans that are placed on cash basis than would exist under current practice. We suggest conforming to regulatory guidance language for the avoidance of any doubt and any unintended consequences resulting from language choices.

As indicated previously, we believe that the CECL impairment model should not apply to financial assets in the FV-OCI classification. Consistent with this recommendation, we therefore do not believe that the nonaccrual of interest should apply to financial assets classified in FV-OCI. Those instruments should follow the existing OTTI model for debt securities, which does not require the nonaccrual of interest.

RANGE OF OUTCOMES

Question 11: *The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?*

We do not understand how all of the guidance related to the range of outcomes works together, nor do we think the guidance is consistent with credit loss estimation practices, even those listed in the guidance as being consistent with a range of outcomes approach.

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Paragraph 825-15-25-5 states that an entity is prohibited from estimating expected credit losses based solely on the most likely outcome. However, question 15 in the FAQ states that the prohibition against estimating expected credit losses based solely on the most likely outcome was not intended to prohibit an entity from developing its adjustment to historical loss experience for current and future economic conditions on the basis of the most likely outcome. The FAQ guidance would seem to suggest that the expected loss estimate, calculated as the historical loss based estimate plus the adjustment, could equal the statistical mode. If this implication was not the FASB's intent, it would be useful to clarify the FAQ.

Paragraph 825-15-25-6 states that the estimate of expected credit losses shall reflect how credit enhancements mitigate expected losses on financial assets, including any consideration of the financial condition of the guarantor, and/or whether any subordinated interests are expected to be capable of absorbing credit losses on any underlying financial assets. It is unclear how to relate this guidance to the range of outcomes principle. Are a range of outcomes of expected credit losses supposed to be calculated before or after the consideration of guarantees, collateral or subordinated interests?

The range of outcomes guidance should be clarified as to whether it applies to a lack of performance by the borrower only or also to any credit enhancements considered in the loss estimate.

TROUBLED DEBT RESTRUCTURING

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 nontroubled debt restructurings continues to be relevant? Why or why not?*

In general, we believe that it is important to consider (i) the most appropriate approach for measuring impairment of modified loans and (ii) the most relevant and meaningful disclosures about loan modifications, including situations where the lender grants a concession to a borrower that it would not otherwise consider because the borrower is experiencing financial difficulties. Disclosures about loan modifications were significantly expanded under ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, ("ASU 2010-20"), and we believe that those disclosures are now sufficient.

The distinction between TDRs and non-TDRs should be simplified

We agree that a distinction between troubled debt restructurings ("TDRs") and non-TDRs for impairment measurement purposes is appropriate, but would support simplifying the distinction between these two types of restructurings. US GAAP currently provides that, "A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider." However, the focus of the discussion in paragraphs BC45 – BC47 appears to be on modifications where the lender has forgone its right to collect contractual principal and/or interest cash flows in connection with the modification. We suggest modifying the definition of a TDR to be consistent with this principle (i.e., limiting the TDR concept to modifications where the lender forgoes its unconditional right to some portion of the loan's original contractual principal and/or interest as a result of the borrower's financial difficulties). The vast majority of the interpretative issues surrounding TDRs relate to modifications that do not involve a reduction in contractual cash flows (e.g., term extensions). For these types of modifications, we do not

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believe there is any relevant distinction between TDRs and non-TDRs for impairment measurement purposes.

Measuring impairment of TDRs

If the lender has reduced a borrower's contractual interest rate in connection with a TDR, we believe that the lender should be required to measure impairment using either i) the discounted cash flow method, ii) the fair value of collateral as a practical expedient, or iii) the fair value of the loan if available. We generally do not support impairment measurement methods that explicitly require consideration of both interest and principal cash flows, as we believe that this is conceptually inconsistent with both a decoupled approach to reporting credit losses and interest income, including nonaccrual accounting practices – both of which we support. However, we acknowledge the concerns in practice regarding providing interest rate reductions in lieu of principal forgiveness, and that impairment at the date of the modification could be understated if the interest cash flows were not considered in the measurement of the impairment in such a circumstance. We also agree that, if impairment is measured using the discounted cash flow method, the expected future cash flows should be discounted at the financial asset's original effective interest rate.

Guidance on the recognition of charge-offs for TDRs must only apply to modifications involving forgiveness of principal

As a final point, BC47 provides guidance on the recognition of writeoffs (i.e., charge-offs) in connection with TDRs and states, "Consistent with the writeoff principle in the proposed amendments (that is, when there is no reasonable expectation of recovery), the Board decided that when an entity executes a troubled debt restructuring, the cost basis of the asset should be adjusted so that the effective interest rate (post-troubled debt restructuring) is the same as the original effective interest rate, given the new series of contractual cash flows. The basis adjustment would be calculated as the amortized cost basis before modification less the present value of the modified contractual cash flows (discounted at the original effective interest rate). We agree with and support this guidance as it applies to principal forgiveness modifications, but disagree with the proposed accounting for reductions of future interest payments.

As an example, assume that a bank offers to reduce the future interest payments for a borrower who is having trouble making their contractually required payments. As a result of the restructuring, the bank expects to collect all of the modified interest payments and the full contractual principal balance. Under current GAAP (and assuming that the loan was not collateral dependent), the bank would measure impairment based on the present value of the modified loan's future cash flows, discounted at the loan's original contractual interest rate. This measured impairment would represent the interest forgone as a result of the modification. In subsequent periods (assuming that the borrower continues to perform on the loan), the combination of the cash interest payments on the loan and reversal of the allowance from the unwinding of the discounting impact will yield a return on that loan equal to its original contractual interest rate (recognized either as interest income or through a credit to the provision for loan losses).

Under the proposed ASU, the bank would first measure impairment as described above, but then the bank would be required to charge-off this measured impairment by debiting the allowance for loan losses and crediting the recorded investment in the loan. In subsequent periods (again assuming that the borrower continues to perform on the loan), the bank would recognize interest income at the modified rate for the remaining life of the loan. In addition, once the remaining recorded investment in the loan is fully recovered through the receipt of principal payments, the remaining principal payments would be recognized as recoveries upon receipt.

We believe that the current US GAAP accounting is preferable to the approach set forth in the proposed ASU, primarily because it is more consistent with a decoupled approach to recognizing credit losses and interest income. Presently, loan charge-offs and recoveries are purely related to principal credit losses.

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We are not aware of any other situation where a loan charge-off is related to uncollectible future interest cash flows. Further, charge-offs are a key data element for financial statement users, and they are also an important loss forecasting metric. For these reasons, we disagree with concept of recognizing forgone interest as a loan charge-off and would urge the Board to address this point as a matter of priority, irrespective of whether any change is made to the definition of a TDR as set out above.

DISCLOSURES

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?*

Question 18: *Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?*

We anticipate significant costs to implement the proposed disclosure requirements for financial instruments classified as FV-OCI and question whether the information would be useful to investors compared to the disclosure requirements for AFS debt securities in place today. We believe the primary information investors want for such debt securities is the estimated fair value and the length of time fair value is less than cost. The addition of these loan-type disclosures for financial instruments classified as FV-OCI would result in the addition of much operational burden for preparers without the benefit of filling an information gap that exists in current disclosures. Consistent with our view that financial instruments measured at FV-OCI should not be in the scope of the proposed ASU, we propose the FASB based the FV-OCI disclosure requirements on the existing disclosures for debt securities classified as available for sale.

Additionally, we are concerned about the addition of the requirement to disclose a rollforward of financing receivables. We understood that this was previously proposed but then not required by ASU 2010-20 based on feedback on operability. We do not believe that the cost-benefit assessment has changed, and recommend that this proposed disclosure be eliminated. Our comments submitted to the FASB for ASU 2010-20 were as follows:

Disclosures - Rollforward of financing receivables

Disclosures should be properly balanced between quantitative and qualitative information. To that end, we believe that disclosures should incorporate clear and informative discussions about an entity's risk factors along with relevant quantitative information that enhances the qualitative discussions, while not providing excessive detail, which may diminish the clarity and usefulness of the overall disclosure. Specifically, we are concerned with the level of quantitative data required to do a rollforward of the financing receivables balances for each portfolio segment.

At large financial institutions the volume of and reasons for changes in financing receivables can be quite large and diverse. Tracking these changes would be time consuming and costly for the preparers, and would not necessarily provide insight into the underlying credit quality of the portfolio. The example provided within Appendix A depicts activities within financing receivables such as originations and sales/repayments. While this disclosure would provide summary level information about the change in the overall balance, this type of information would not meaningfully inform users about the overall change in the credit profile of the portfolio. As such, we believe that financial statement users would better benefit from a qualitative discussion related to the drivers of significant changes in financing receivables and their credit quality, rather than an expanded quantitative disclosure regarding repayments versus new originations.

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IMPLEMENTATION GUIDANCE

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?

The implementation guidance and illustrative examples in the proposed ASU are not sufficient for FV-OCI instruments. As discussed in scope section of this letter, we do not conceptually agree that FV-OCI instruments should be within the scope of this proposed ASU. If the FASB decides to keep FV-OCI instruments within the scope of the final proposed standard, we request additional guidance and examples in how to apply the “loan” impairment model to debt securities that are frequently bought and sold and what would actually qualify for the FV-OCI practical expedient. Additionally, an example that shows the life cycle of a lending relationship from loan commitment to funded loan and the application of the CECL model at different points during the life cycle would be useful.

TRANSITION

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

Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

We think that if the FASB provides a practical expedient for high credit quality loans, removes from the proposed ASU's scope instruments that are categorized as FV-OCI, and provides more explicit transition provisions for PCI loans, the transition provisions in the proposed ASU would generally be operable. We think that it is critical that the transition provisions and the timing of the effective date be coordinated with bank regulators and capital guidelines.

EARLY ADOPTION

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

If a reporting entity is able to early adopt and views the proposed ASU and its provisions as an improvement to financial reporting, we think that early adoption should be permitted. Entities who early adopt should provide clear rationale for early adoption and follow all of the transition and disclosure requirements.

TIME TO IMPLEMENT

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

Without substantive changes to the proposed ASU, including a scope exception for FV-OCI and a practical expedient for high credit quality loans, we are concerned that the implementation of the final standard would be time consuming and require significant effort, as both issues would require judgments and processes that do not currently exist. Refer to Question 1 for a discussion on the difficulties for applying the CECL model to FV-OCI debt securities.