2012-260
Comment Letter No. 284

Ent Federal Credit Union
P.O. Box 15819
Colorado Springs, CO 80935-5819
(719) 574-1100 · 800-525-9623
Ent.com

May 31, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06586-5116

Submitted via email: director@fasb.org

RE: File Reference No. 2012-260: Financial Instruments – Credit Losses

Dear Director:

Thank you for the opportunity to commit on Exposure Draft (ED) for Financial Instruments – Credit Losses.

Ent Federal Credit Union is a federally chartered credit union in the State of Colorado with assets of $3.7 billion serving over 200,000 members.

The current incurred loss model used to account for allowance for loan loss is sufficient and does need to be changed. Under the current model, in addition to using historical data, institutions can use qualitative and environmental (Q&E) factors to make adjustments to the historical data. There should be more emphasis placed by preparers and auditors to take full advantage of the Q&E adjustments which will allow a more thorough estimate of loan losses. Utilizing national, regional and local economic indicators paired with internal trends, the Q&E provide an effective tool to adjust for current *and* future conditions. One could argue that Q&E adjustments are not widely used thereby creating a deficiency in the current incurred loss model. By utilizing Q&E adjustments, institutions can more accurately project losses over the next one to two years. Trying to predict losses any longer becomes very difficult and unreliable. In volatile economic conditions, the estimates become something akin to fantasy.

The Exposure Draft (ED) states that "*These proposed amendments also would reduce complexity by replacing the numerous existing impairment models in the current U.S. GAAP with a consistent measurement approach.*" However, we do not believe this is correct. The proposed current expected credit loss (CECL) model increases the complexity in calculating the allowance for loan loss.

The proposed amendments require a forwarding looking approach which will rely heavily on economic forecast. This one requirement will create increased complexity as there are varying economic forecast models available. The internal administration, auditing and examination process will also increase in complexity under this proposed approach.

One of the basic tenants of accounting and financial reporting is to report an institutions financial picture as of the reporting date. As accountants, we do not speculate or forecast in our reporting. We report what has actually taken place. This is another reason why the current incurred loss model is superior to the proposed CECL. We can reasonably estimate which assets on our balance sheet are currently impaired with great certainty. Appropriate use and enforcement of this capability remains the responsibility of financial institutions, auditors and regulators.

Under the proposed CECL, we would be making speculative estimates up to 10 years in the future as to loans that may be impaired. This contradicts the matching principle in accounting. We are to record the expense for impaired loans long before the loan actually is impaired, and earlier than recording income from the loan. Expenses are to be recorded when they are estimable and probable. Under the proposed CECL, this practice will be dismissed.

We understand there is concern during the recent economic recession institutions may have over valued their assets by not recognizing increases to the allowance for loan loss in a timely manner. We argue that no model would have accurately reflected the loan losses that occurred. However, that is why we are encouraged to build our net worth; to help weather abnormally severe economic times. It took almost a year for economist to declare we were in a recession. How then do you expect accountants to more accurately make these predications?

We are also concerned that using the proposed CECL model could mislead the users of financial statements. Along with increased volatility, the user could likely rely on a distorted view of the financial position of the institution.

In reviewing many of the response letters, we agree with several points made and we would like to highlight some:

- *"If we were not able to reasonably estimate loan losses for a one-year timeframe, how can we be expected to reasonably predict lifetime expected losses?"* [1]
- *"…the introduction of a CECL approach will increase income statement volatility, and will introduce a measurement system that cannot be expected to reflect economic reality."* [2]

[1] – Letter from Sacher Consulting dated May 24, 2013
[2] – Letter from Sacher Consulting dated May 24, 2013

The International Accounting Standards Board (IASB) also has an Exposure Draft (ED) on this same topic. Here are some quotes from their ED with which we agree:

- *"…the yield on the instrument includes a return to cover those credit losses expected from when a financial instrument is first recognised. If this amount was not recognized the full yield would be recognized as interest revenue with no adjustment for credit losses that were always expected."*
- *Recognising lifetime expected credit losses from initial recognition disregards the economic link between pricing and the initial expectations of credit losses."*

In summary, we do not feel the proposed amendments would reduce complexity or create clarity for users of financial statements. We support the current incurred loss model utilizing Q&E adjustments. We also feel that nonpublic entities should be exempt from the amendment, should it pass. At the very least, adopt a standard that fully mirrors that of the IASB.

Thank you for the opportunity to share our thoughts.

Respectfully submitted,

MJ Coon
Executive Vice President/ Chief Financial Officer
Ent Federal Credit Union
PO Box 15819
Colorado Springs, CO 80935-5819
(719) 574-1100