

May 31, 2013

Financial Accounting Standards Board
Technical Director
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standard Update, Subtopic 825-15:
Financial Instruments – Credit Losses, Exposure Draft

File Reference No.: 2012-260

Dear Board Members:

Thank you for the opportunity to provide input on the proposed amendment. We support the FASB proposal to establish a single impairment model that would be applied to all financial assets, as we believe the use of a single impairment model will reduce complexity and provide financial statement users with more understandable and comparable information.

BKD, LLP is a national CPA and advisory firm, with 30 offices in the U.S. We work with more than 1,200 financial institutions, including banks, credit unions and savings and loans, providing audit and tax, regulatory compliance, loan review and risk management services.

Following are our responses to specific questions in the proposal.

Preparers & Auditors

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?

Answer: Yes. The proposal's principles-based nature may increase the implementation challenges for preparers and auditors. Substantial changes to preparer's systems, processes and procedures will be required to transition from an incurred loss model to an expected loss model. While FASB's FAQ document provided some insight into how the model might be implemented, we believe preparers will need additional, specific guidance to clarify what constitutes a

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“reasonable” and “supportable” forecast. Such guidance would drive, for example, the appropriate level of loan portfolio aggregation/disaggregation when implementing this element of the standard.

Auditors will face additional challenges testing loan loss calculations that have substantially greater subjectivity and management judgment than under current standards. Given that significant judgment will be involved in making expected credit loss estimates, periodic backtesting of actual results against forecasts will be an important reasonableness test. Companies would need to develop and enhance systems, processes, controls and data collection points to meet the new requirements. Auditors would need to review and test these new procedures and systems. We expect it may be significantly more difficult to audit life-of-loan expected losses, which may lead to increased complexity and cost associated with financial statement audits.

The use of “reasonable and supportable” forecasts is likely to result in a wider range of expected credit losses that may be less relevant and reliable for financial statement users. Since even the most sophisticated financial statement preparers and users misread the depth and severity of the 2008 financial crisis, the use of forward-looking information in the new model may increase “expectation gap” for investors who rely on financial statements.

Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then 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?

Answer: No. While large financial institutions may be able to use data used in regulatory calculations for Basel or stress testing, smaller financial institutions only have limited historical information that allows them to understand a loan’s annual loss rate. Additional data will need to be gathered to calculate lifetime historical losses. The information currently available is primarily for impaired financial assets; the new model will require institutions to collect and store data for the entire portfolio of financial assets. For example, to calculate a life-of-loan credit loss, historical vintage data would be needed, but this data is not retained by many smaller financial institutions. Many existing loan reserve calculations do not take into account prepayment risk, which would have a considerable effect on estimating future loan proceeds in a life-of-loan calculation. Existing loss factors applied to migration data, delinquency analyses and credit ratings will have to be recalibrated. The expertise and manpower to manage and collect relevant data points will be a challenge for smaller institutions.

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Reliance on industry-wide data sets, even with modifications, may not be appropriate for smaller lending institutions since it may not be representative of the specific risk profile of a company's portfolio.

The proposal's scope includes nonfinancial entities holding debt securities to manage their liquidity. Most nonfinancial institutions likely do not have sufficient data or expertise to calculate expected losses on a portfolio of non-impaired debt securities.

Question 13: For purchased credit-impaired financial assets, the proposed amendment would require 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?

Answer: No. The proposed accounting standard is an improvement in accounting for purchased credit-impaired loans. The proposal eliminates the operationally challenging cash flow projections and confusing treatment of changes in credit performance. Banks currently determine the discount embedded in the purchase price in determining the accretable and non-accretable yield.

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

Answer: Yes. The additional qualitative disclosures are appropriate given the increased level of management judgment and subjectivity required under the new model. The initial and ongoing costs to implement some of the quantitative disclosures proposed, for example, the new disclosure requirement for the roll-forward of debt instruments classified at amortized cost and FV-OCI, will likely exceed the benefits to the users of the financial statements of smaller financial institutions. While some of this information currently is reviewed by management, the information often is derived through manual processes that would require significant revisions for external reporting purposes to comply with SOX requirements, if the information is included in the notes to the financial statements. Most companies, public and private, will need to modify their information systems to capture information in a format suitable for the proposed disclosures. Auditors will need to review and test these new procedures and systems, which may increase costs.

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For nonfinancial institutions, the required disclosures may not be as relevant and costs would outweigh benefits. For nonfinancial and not-for-profit entities, users may find the additional disclosures to be “information overload.”

We appreciate the opportunity to express our views for the Board’s consideration. If you have any questions or would like to discuss these matters further, please contact Doug Bennett at 417.831.7283 or by email at dbennett@bkd.com.

Sincerely,

A handwritten signature in black ink that reads "BKD, LLP". The letters are written in a cursive, slightly slanted style.

BKD, LLP