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May 31, 2013

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

Via email: director@fasb.org

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

Dear Technical Director:

BOK Financial Corporation is a \$28 billion regional financial institution that offers full-service commercial banking, consumer banking and wealth management services in Oklahoma, Texas, New Mexico, Arizona, Colorado, Arkansas, Kansas and Missouri. We are both a financial statement preparer and user. We appreciate the opportunity to provide comments on this proposed accounting standards update (“Update”).

We believe that the Update is a significant improvement over current accounting standards and previous impairment models presented by both the Financial Accounting Standards Board and the International Accounting Standards Board. Properly implemented, the Update can result in the appropriate recognition of credit losses that is neither “too little, too late” nor “too much, too soon”.

Because of the potential impact of this Update on regulatory capital standards and the capacity of financial institutions to support economic growth, we cannot overemphasize the importance of a converged credit loss accounting standard. We acknowledge the difficulties in reconciling divergent views on this topic and believe that this Update represents a reasonable basis for compromise.

Credit Loss Model Comments

We support the main objective of the Update, to provide financial statement users with more decision-useful information about the expected credit losses on financial assets and other commitments to extend credit held by a reporting entity at each reporting date. We also support the measurement objective of the Update. Expected credit losses should represent management’s



estimate of the contractual cash flows not expected to be collected. This objective appropriately separates credit loss measurement from interest income measurement. Although interest income represents compensation for assuming credit risk, the timing of when credit risk is incurred and when interest income is earned are independent considerations.

While we are generally supportive of the Update, we have concerns about its implementation that must be clarified before it becomes effective. Specifically, we are concerned that the Update will be interpreted as a life of the loan expected loss model for both impaired loans and loans that otherwise do not show signs of impairment. The Update clearly states that expected losses should represent management's estimate based on relevant information about past events, current conditions and reasonable and supportable forecasts. We do not believe that any estimate can reasonably forecast expected losses over the entire life of a loan or a portfolio of loans that are not currently impaired.

We believe that it is appropriate to link the definition of reasonable and supportable forecasts with a loss emergence period. The loss emergence period is generally understood to cover the time period between the event that may cause the loss and the event that causes the loan to be impaired. Loss emergence periods, which generally range from one to three years depending on the product type, are more objectively defined than arbitrary one-year periods as proposed by some responders.

Credit loss estimates measured by applying past events, current conditions and reasonable and supportable forecasts over the loss emergence period should be supplemented with a credit risk adjustment. The credit risk adjustment considers other relevant factors that may not be fully represented in historical credit metrics and forecasts. For example, the credit risk adjustment allows management to recognize that exposure to credit losses may grow during periods of economic expansion and relatively low losses due to relaxed underwriting standards and competition for loan growth. Conversely, the credit risk adjustment will generally decline as losses emerge and are reflected in loss rates.

We believe that the U.S. Banking Industry Model ("BIM") as proposed by the American Bankers Association in their letter to the FASB dated May 14, 2013 is an example of a credit loss model that meets these principles. The BIM achieves the objective of the Update without evolving into a full life of the loan expected loss model for unimpaired loans. It recognizes an initial estimate of credit losses which is consistent with the concept that some level of credit loss is inherent at the origination date of a loan without implying that the full lifetime credit loss should be recognized. It relies on concepts commonly used to estimate credit losses over a loss emergence period which will make adoption and transition more operational and timely.

Other Comments

We agree with the proposed change in accounting for purchased credit-impaired loans and strongly encourage the FASB to apply this accounting for all purchased loans, including all loans



purchased in business combinations. Applying this proposed change to all purchased loans will provide more decision-useful information by disaggregating recognition of the yield on acquired loans from the credit risk, standardize management of the acquired loans by applying a single credit loss evaluation process to all loans and simplify loan accounting by allowing purchased loans to be integrated with existing servicing systems. It also provides for consistent comparison of credit risk between loans originated and loans purchased.

We recommend that the FASB integrate troubled debt restructurings (“TDR”) into the credit loss framework and eliminate the current separate designation and related disclosures. TDR should fit within established definitions of impaired loans. Impairment should be measured by amount of concession granted, discounted at the loan’s original effective interest rate and the loss should be recognized as a charge-off. The remaining loan should be classified as nonaccruing based on guidance provided in the Update. TDR disclosures should be eliminated and replaced with disclosures that are required for all nonaccruing loans.

We agree that it is appropriate for the Update to provide guidance on when interest income accrual should be discontinued and how payments received on nonaccruing loans should be applied. We also agree with the criteria proposed in 825-15-25-11 for returning a loan to accruing status. We interpret these criteria to mean that collection of substantially all principal and substantially all interest must be probable before a loan is returned to accruing status. While these are more restrictive criteria than current banking practice, we believe they more appropriately represent the increased credit risk of these loans.

We generally agree with the guidance provided in 825-15-35-1 regarding when an entity should reduce the cost basis of a financial asset through a write off against the allowance for credit losses. However, we do not understand whether the phrase “no reasonable expectation of future recovery” is a higher or lower standard than probable. We are concerned that if this requires a higher level of certainty before a write-off is recognized, loss rates may be understated. We recommend that the write-off principles be defined to consider when the loan balance or a portion of the loan balance is no longer supported by the paying capacity of the borrower, when required cash flow is reduced through a loan modification or when required by regulatory guidance.

We do not believe it is appropriate to include debt securities in the scope of this Update. The current accounting for Other Than Temporary Impairment (“OTTI”), which was significantly improved with the 2009 amendments, provides transparency needed for financial statement users to evaluate credit risk. The concepts used to measure credit losses inherent in impaired debt securities already follow the principles proposed in the Update, including the use of management’s estimates based on relevant information about past events, current conditions and reasonable and supportable forecasts. We believe that the OTTI credit loss recognized is analogous to a write-off as described in 825-15-35-1. It should not be reversed based on a perceived improvement in credit quality. A recovery should only be recognized when



consideration is received. Income statement presentation of any OTTI recovery should be consistent with the original impairment charge and should not distort interest income and related metrics.

We do not believe that many of the proposed disclosures are relevant for an Update whose stated objective is to provide decision-useful information about expected credit losses. Specifically, the proposed roll forward of certain debt instruments and the reconciliation between amortized cost and fair value for certain debt instruments are inconsistent with the stated objective. We believe that a roll forward of nonaccrual loans disaggregated by portfolio segment provides decision-useful information about expected credit losses.

We appreciate the opportunity to comment on this Update. Our responses to specific questions in the Update are attached. Please contact me at 918-588-8673 or email me at jmorrow@bokf.com if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "John C. Morrow".

John C. Morrow
Senior Vice President, Chief Accounting Officer