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Technical Director
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Financial Accounting Standards Board
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Submitted via electronic mail to director@fasb.org

Re: Proposed Accounting Standards Update: *Financial Instruments—Credit Losses (Subtopic 825-15, the “Proposed ASU”)*

Thank you for the opportunity to comment on the Proposed Accounting Standards Update, *Financial Instruments—Credit Losses*, which provides new guidance on the measurement and recognition of expected credit losses. General Motors Company (GM) is a global leader in the automotive industry. GM designs, builds and sells cars, trucks and parts and, with its partners, produces vehicles in 30 countries. Through General Motors Financial Company, Inc. (GM Financial), a wholly-owned captive finance subsidiary of GM, GM also originates, purchases and services automobile sales finance contracts. More information on GM and its subsidiaries can be found at <http://www.gm.com>.

On behalf of GM, we support the Board’s Financial Instruments project, including the overall goals to reconsider the recognition and measurement of financial instruments, address issues related to impairment of financial instruments and hedge accounting, and increase convergence in accounting for financial instruments, while also attempting to simplify and resolve practice issues. We generally support most of the goals of the Financial Instruments project; however, we are opposed to the issuance of the Proposed ASU as we have significant concerns with the resulting model, primarily because we do not believe the credit loss model outlined in the Proposed ASU represents an improvement over the current credit loss model. We also believe the proposed model for recording lifetime expected losses cannot be effectively operationalized or audited. Moreover, the significant difference between the Proposed ASU and the proposed IASB standard is problematic. The cost to potentially maintain two significantly different credit loss measurements to meet statutory reporting requirements for numerous international operations required to report under IFRS is untenable and certainly not in the best interest of anyone. We do not believe the IASB proposal to be operationally feasible, so deferring to that proposal is not an option.

We also have other concerns with the proposed guidance, particularly relative to: 1) the application of the expected credit loss model to short-term accounts receivable, 2) the application to debt securities and the practical expedient for certain high credit quality financial assets, 3) the significant cost versus the benefit of applying the Proposed ASU, and 4) other issues as noted. Given the considerable operational burden of the Proposed ASU, the lack of convergence, and multiple new standards that many entities will be required to implement in the coming years (i.e., revenue recognition and leasing), we strongly encourage the Board to reconsider maintaining the current incurred loss model and address any perceived application issues through the issuance of implementation guidance or, if deemed necessary, targeted amendments to the current model.

We believe the current incurred credit loss model as applied by GM and GM Financial projects accurate estimates of losses into the foreseeable future that are recorded on a timely basis. We do not believe the current model is “broken” relative to either what we have currently recognized or have experienced historically. If the Board determines that the current model is lacking, we believe changes more along the lines of an incremental and targeted approach to changes in the current accounting model that addresses the Board’s primary objectives would provide a better path for resolution of perceived issues rather than adopting some variation of an expected loss model. Ideally, the approach ultimately taken will be done in conjunction with the IASB and will come closer to achieving some level of convergence so as not to create a costly and onerous process that requires international entities to implement multiple models.

Recognition of Lifetime Credit Losses on Newly Originated Loans

Recognizing losses on newly originated loans is a concept that is counterintuitive to the business of lending. As a portfolio grows with the addition of loans newly originated using appropriate credit standards, the overall portfolio credit standing improves from an economic standpoint, yet under the Proposed ASU the loans will be immediately provided for on the balance sheet at the level of all similar loans and the related credit losses recognized immediately. We do not believe this model to be an improvement over current GAAP. Also, we believe recognition of lifetime credit losses on newly originated loans will be confusing to financial statement users and generally inhibit lending as companies consider whether they can recognize the upfront losses that arise as loan portfolios grow. In our opinion, the Board can be responsive to concerns expressed during the most recent credit crisis by providing implementation guidance that builds on the current credit loss process, essentially developing an event-oriented recognition model that, when applied, is more sensitive to environmental changes in order to trigger recognition of credit losses on a more accelerated basis.

The Proposed ASU results in an income recognition model that ultimately provides an inaccurate picture of earnings performance, as all expected credit losses are recognized immediately, while the interest income that is set or priced based on expected credit losses is recognized prospectively. This model contradicts the FASB’s Conceptual Framework (i.e., the definition of an asset or a liability in the concept statements, accounting for contingencies in ASU 450, recognition of losses based on future expectations while the corresponding interest income follows different guidance, and the historical cost framework in general) and provides yet another model to add to the already complex mixed fair value and historical cost models that comprise current GAAP. The future credit loss or life of loan credit loss model adds to the balance sheet an asset that for the first time is recognized based on future expectations. We

believe the combination of historical cost, fair value and a value based on future expectations results in an overtly complicated mixed attribute accounting model that will be increasingly difficult for preparers to create and worse, considerably more difficult for financial statement users to understand. In our opinion, the construct of recognition models and voluminous disclosures cannot possibly meet any overall objectives related to transparency or the reduction of unnecessary complexity, and hardly result in financial statements that provide decision-useful information.

We note that implementation of the model for recognition of lifetime credit losses would not likely have accomplished much, if anything, to solve the problems encountered during the recent financial credit crisis. The long period of low credit losses before the crisis would have potentially delayed recognition in ways similar to the incurred loss model, as initial losses would have been considered part of the “lifetime credit loss” reserve and historical models would likely have supported smaller losses than those that ultimately resulted once the crisis more fully developed. That is to say, experience would have pointed to loss expectations reverting back to long-term, historical norms, despite environmental concerns and future outlooks. Not many people estimated the depth of the financial crisis before it fully developed. We believe the model set forth in the Proposed ASU would not have resulted in significant early loss recognition during the most recent financial crisis. Thus, the proposed model may meet very few of the objectives set forth by the Board.

Application of the Expected Credit Loss Model to Short-term Accounts Receivable

The application of the expected credit loss model to short-term accounts receivable or trade receivables will not result in a significant difference (credit losses are generally not significant) from current GAAP; thus, there is little if any benefit to outweigh the additional resources required for implementation of the model to this type of financial instrument. We also do not believe that any results derived under the proposed model are useful relative to trade receivables as the underlying credit risk and business models are fundamentally different from other activities, such as financing or investing. Further, the recognition of immediate or “day 1” credit losses appears to contradict the conclusions in the FASB’s proposed revenue recognition guidance noted in paragraph BC 171, which states, in part:

....The Board expects that an entity typically would not recognize a loss on initial recognition because the receivable normally would initially be measured at the original invoice amount if the contract with a customer does not include a financing component that is significant.

We believe that if the Board determines to proceed with the Proposed ASU, it should exclude short-term accounts receivable or trade receivables from the scope of the model or provide an appropriate practical expedient.

Application to Debt Securities and Practical Expedient for Certain High Credit Quality Financial Assets

We do not believe that investments in debt securities should be included in the scope of the Proposed ASU. The current model for measuring other-than-temporary impairment (OTTI) of debt securities has evolved in practice, is operationally practical and functional, and is

conceptually sound and widely accepted. Existing disclosures also provide financial statement users with sufficient information related to debt securities to understand the related business model and risk associated with the investments. We encourage the Board to consider whether there are any potential revisions to the OTTI model that could meet the objectives of the financial instruments project without subjecting entities such as GM with an onerous accounting model that will add cost and complexity to a comparatively straightforward investment portfolio.

If the Board determines to move forward with the Proposed ASU, we believe the practical expedient for individual instruments measured at fair value through other comprehensive income should be modified to remove the requirement that the fair value of an individual financial instrument must exceed its amortized cost in order to apply the practical expedient. This would provide an opportunity to potentially include those financial instruments in the practical expedient that have fair values less than cost for reasons other than credit, such as interest rate changes, so that entities do not have to dedicate time and resources unnecessarily to the evaluation of financial assets that have little or zero projected credit losses even when their fair values are less than amortized cost.

Significant Cost versus the Benefit of Applying the Proposed ASU

We believe the Proposed ASU would require a wholesale change to the credit loss procedures of GM and GM Financial. We believe development of systems to comply with the Proposed ASU will require enormous and costly operational changes that include new systems that can produce multiple credit paths, assimilate appropriate historical and forward looking estimates, use both internal and outside data, and ultimately produce results that are sustainable and auditable. Some believe that such a task may not only be costly, but may be practically impossible. We believe market data required to input into the lifetime credit loss model may have to be obtained through expensive third-party providers in order to offer support for internal control and audit purposes. While the entire credit loss estimation process currently requires a significant amount of judgment, the model set forth in the Proposed ASU requires a massive leap in the area of the judgment required to sift through future expectations, the results of which are likely to produce a wide-ranging array of possible outcomes that will be difficult to understand, assimilate or disclose. Ultimately, this enormous undertaking may not meet the objectives the Board has set out to achieve.

We do not believe this kind of wholesale and costly change is warranted particularly when the impact of the new model during the previous financial crisis may not have been significant. We believe enhancements to the existing credit loss model framework can be implemented with a much lower cost and resource burden and produce results that are auditable, less complex and transparent for financial statement users, while at the same time meeting many of the objectives of the Board.

Other Issues

Troubled Debt Restructuring (TDR)—We believe the troubled debt restructuring designation should be discontinued in favor of more informative disclosures. We do not believe the designation of a loan as a TDR provides useful information to financial statement users, particularly as it is applied relative to subprime loans that at inception expect payment deferrals,

which are viewed as an important part of the collection strategy. The servicing of the subprime auto financing originated by GM Financial provides the borrower meeting certain criteria with the ability to defer payments for a fee when they are having trouble making payments during the loan term. While most borrowers requesting a deferral are in some level of delinquency status, thus experiencing some level of financial difficulty, greater than forty percent of the loans originated by GM Financial make use of at least one deferral, which equates to two payments or a sixty-day deferral. Accordingly, in the process of analyzing deferrals, we concluded under current GAAP that a loan being deferred two times (or four payments) would not be an insignificant delay and therefore would meet the definition of a concession and constitute a TDR. If similar modifications were made to a prime loan with no expectation of a deferral at origination, such a deferral would more closely constitute a TDR. Loans originated by GM Financial with the idea that borrowers experiencing difficulty in making payments in a particular month would be able to defer principal payments, when also considering the large number of borrowers who elect deferrals, hardly constitutes what we believe financial statement users would consider to be TDRs.

Given the nature of activities that currently may meet the definition of a TDR and confusion that exists with what is or should be a TDR, we believe disclosures should simply provide information regarding loan modifications or other changes in loan payments or loan terms, or information about payments deferred based on existing contractual provisions, rather than disclosing an arbitrary group that meets the definition of a TDR based on an arbitrary definition for accounting purposes.

Prohibition on the Use of the Most Likely Outcome—The Proposed ASU contains a prohibition on the use of the most likely outcome. We encourage the Board to consider that most enterprises like GM are likely to manage their businesses based on their expectation of the most likely outcome as it relates to credit losses. That is not to say that the risk of other outcomes is not a consideration in determining the appropriate risk profile when providing financing for vehicle purchases or when determining the appropriate investment portfolio balance. However, we do often invest in government securities because the most likely outcome is zero credit loss as we manage the investment portfolio against our desire to maintain a strong balance sheet. We also price vehicle financing in a way to more than adequately compensate for the most likely outcome as it relates to estimated credit losses. A prohibition on the use of the most likely outcome is not consistent with the underlying economics of the transactions or the way the business is managed. We believe any proposed model should at a minimum consider the value of the information and the cost effectiveness of using that information in preparing an estimate of expected credit losses, whether or not the lifetime loss estimates are ultimately used for accounting purposes.

Operational Aspects of Writing-Off Balances When There is No Reasonable Expectation of Recovery—If the Board determines to proceed with the Proposed ASU, we believe further guidance is necessary as to how to adopt an operational way of writing off balances when there is no reasonable expectation of recovery. We do not believe any current systems or processes could be altered to operationalize this vague requirement and have not been able to conceive an approach one might take to develop a new systemic and controlled approach to meet this requirement. We believe careful consideration by the Board as to the operational aspects of any guidance, together with appropriate examples, is extremely important in the development of a final standard.

Again, I appreciate the opportunity to provide the Board with comments and recommendations for consideration. I am available to discuss this letter at your earliest convenience. Should you have any questions or need to discuss this letter, please contact me at (313) 667-3434.

Sincerely,

/s/ Thomas S. Timko

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