



May 31, 2013

Ms. Leslie F. Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Mr. Hans Hoogervorst, Chairman
International Accounting Standards Board
30 Cannon Street, First Floor
London, EC4M 6XH
United Kingdom

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

Exposure Draft ED/2-013/3, Financial Instruments: Expected Credit Losses

Dear Ms. Seidman and Mr. Hoogervorst:

Thank you for the opportunity to comment on the FASB's recent proposal regarding credit losses, the differences between the FASB's and the IASB's credit proposals, and other related matters.

SNL is a leading provider of data and tools for Investment Banks, Investment Managers, and Depositories. We have thousands of clients in the Financial Institutions space. Many of these firms rely primarily upon SNL for financial and market data on financial companies.

Given our position in the Financial Institutions space, we take very seriously our mantra to always provide our clients with accurate, timely, comprehensive, and relevant information.

After an in-depth investigation regarding the recent proposals, including a survey of both depositories and investment managers that included open-ended comments from respondents, we believe the FASB and the IASB need to carefully consider several key points. We urge the FASB and the IASB to consider the following issues and points below, especially as it relates to how these proposals would impact the relevancy and comparability of financial information.

1. The lack of convergence between the FASB and IASB will make it more challenging for the users of financial statements.

Comparability for U.S. and International firms is critical to investors since without comparability it's extremely difficult to judge one firm relative to another. One of the most frequent requests we receive from our users is for better alignment or improved comparability for the financial metrics of U.S. and International firms.

Unfortunately, we often can't offer them this alignment or comparability due to differing standards. We are concerned that the significant differences between the FASB's and IASB's credit loss proposals will make comparability among U.S. and international firms even more difficult.

2. This proposal would make it more difficult for U.S. firms to meet Tier 1 capital requirements under BASEL III, and could put U.S. firms at a disadvantage relative to international peers.

One could argue that without convergence "Basel III" will not exist and that instead there will be "Basel III – FASB" and Basel III – IASB". This impact is due to the fact that the reserves required by the FASB rules will be significantly greater than the IASB rules. Higher reserves mean less Tier 1 capital.

Unless there is adjusted made to the Basel III rules in the U.S., then it's almost certain that U.S. firms will have to hold more capital or equity relative to assets than their international counterparts.

Since equity is often the highest cost of funding for a depository, then firms in the U.S. will have to pay more to fund their assets. Some would argue that this higher cost of funding for U.S. firms will be passed along to the U.S. borrower in the former of higher interest rates.

In addition, U.S. Banks could be at a disadvantage relative to international peers in regards to pricing. (We recognize that the U.S. subsidiaries of international holding companies will be subject to the same capital and accounting standards as other U.S. subsidiaries. However, a U.S. subsidiary with an international holding company can afford to operate at lower capital levels with less of the need for a cushion since the international holding company can usually increase the capital of the U.S. subsidiary at any time by issuing "equity" to the subsidiary that is funded via debt from the holding company).

3. Many people in the banking industry view this proposal as something that violates the matching principle or inappropriately separates the credit losses on loans from the interest income on the loans.

Many would argue that when analyzing a bank, one has to look at both the yield on the loans and the expected loss rate. One has to ask, "Is the bank getting enough yield to justify the credit

loss?" These two matters can't be separated. However, that's exactly what the new proposal does.

Banks charge interest for three reasons. One, cover expected credit losses. Two, cover inflation risk. Three, cover operational expenses and generate economic profit for shareholders. Expected credit losses typically have a significant impact on the interest rate charged to the borrower.

The interest rate charged on a loan is designed to more than cover all expected lifetime credit losses on the loan and then some. This interest income on the loan is received by the bank over several years. However, it seems that this proposal would require banks to recognize all expenses related to credit losses immediately without allowing banks to show any of the interest income in future years that covers these losses.

4. Since higher levels of loan growth for a bank result in a greater "one-time" expense associated with the expected lifetime credit losses, one could argue that this proposal will make it more difficult to compare banks relative to their previous performance and relative to their peers.

Under this proposal, if a firm has a higher level of loan originations in one year relative to its peers or its previous loan origination activity (all else equal), the firm will show less net income in the year of the high originations as a result of the "one-time" credit expense associated with the abnormally high originations. This lowers net income and will distort many important financial metrics, such as Efficiency Ratio, Return on Average Assets, and Return on Average Equity.

This performance distortion results in unnecessary lumpiness that makes it harder for users to understand the true performance of a firm.

At SNL, we have already started to look into the various new fields that we would need to create in order to provide to our users with relevant metrics that show how the true performance of a bank has changed over time and how a bank is truly performing relative to its peers, irrespective of the "one-time" charge that is incurred for higher levels of loan growth.

5. Financial statements are designed to show the accounting profit. It is not the purpose of financial statements to show the economic profit or economic value added to shareholders after considering the "cost of equity". However, it seems that the FASB's proposal may require firms to consider economic profit for purposes of their financial statements.

We recognize that under the proposed approach, the net present value of future cash inflows and outflows is 0 since the FASB requires the discount rate on inflows and outflows to be the same.

However, in reality the discount rates are different for the cash inflows and outflows. If the rates were the same, then banks would never generate interest income, banks would not be able to generate enough income from loans to cover operational expenses, banks would offer

no returns to their shareholders, and banks would therefore not be funded by equity investors or exist. By requiring a firm to use the same discount rate on the cash inflows and outflows, it seems that the FASB is forcing a bank to consider both accounting profit and economic profit.

6. Based upon our survey results of almost 250 respondents from depositories and investment managers, we believe that the majority of depositories and investors are not in favor of this proposal and instead favor current practice. In addition, the most popular alternative to current practice is the “Amortization of Expected Lifetime Losses with Full Disclosure”.

In order to better understand the impact of the various proposals on credit losses, SNL conducted two surveys – one for depositories and one for investment managers in depositories. The full details of the results can be found in the Appendix.

Based upon the survey results, Depositories clearly favored current practice.

Investment Managers also favored current practice; however, the “Amortization of Expected Lifetime Losses with Full Disclosure” was a very close second.

Under the “Amortization of Expected Lifetime Losses with Full Disclosure” method, firms would disclose the expected lifetime losses and then expense or amortize this amount over the expected life of the assets.

The disclosure would enable investors to fully understand the expected lifetime losses for assets while maintaining the integrity of the balance sheet and income statement. Based upon our experience, we fully believe users of financial statements will take advantage of the disclosure. As evidence of this, whenever a new disclosure is required, we are inundated with requests for us to provide this new information via our product. We are often surprised by the number of people making the request. These numerous requests for information in the disclosures always remind us how closely financial statement users analyze the disclosures.

In addition, the disclosure could be structured in a way to clearly show the breakdown of the amortization of credit amortization expense due to:

- Amortization of credit expense from assets held in the prior period based upon assumptions in the previous period
- Change in amortization of credit expense due to changes in credit-related assumptions regarding assets held in the previous period
- Change in amortization of credit expense due to changes in asset repayments and maturities for assets held in the prior period
- Amortization of credit expense resulting from new assets purchased or issued during the period

7. This proposal could likely force banks to raise significant amounts of capital in order to maintain their current capital ratios.

Based upon the results of our surveys regarding expected increases in reserves and decreases in capital ratios (see Appendix), we estimate that Depositories would be required to raise a total of approximately \$50 to \$125 billion in order to maintain their current capital ratios after this proposal has been fully implemented. This would obviously be a significant one-time impact.

In closing, we thank the FASB and the IASB for the opportunity to comment on this matter and ask both parties to carefully consider the issues and points raised in this letter.

Sincerely,

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Appendix 1 – Text of Article published by SNL Financial on March 18, 2013

Note: In order to better understand the impact of the FASB's CECL proposal, SNL conducted two surveys that were very similar in January of 2013.

The first survey was sent to depository executives and other senior personal. 185 respondents completed the survey. The respondents were from a wide variety of depository institutions in terms of size, geography, and focus.

The second survey was sent to investment managers in the depository space. 43 respondents completed the survey. The respondents were from both small and large buy-side firms. For the respondents in which SNL was able to verify the depository AUM and number of depository investments, the median AUM in depositories was approximately \$1.3 billion and the median number of depository company investments was 60. (SNL was able to verify this information for approximately half of the respondents).

Bankers, investors see capital hits coming from FASB proposal, would opt for other models

By David Hayes and Jessica Bennett and Nathan Stovall

FASB's proposed impairment model is not winning over community bankers or bank investors, according to surveys conducted by SNL.

The FASB proposal, known as the current expected credit loss, or CECL model, will require banks to reserve for current expected credit losses. The proposal, released in late December, stands in contrast to the current impairment framework known as the incurred loss method, which requires banks to set aside reserves when there is a triggering event and losses are probable or already had been incurred. In creating the proposal, the FASB has noted that many have argued that the current model fails to alert investors to expected credit losses in a timely manner.

The results of two SNL surveys show that bankers and bank investors disagree.

SNL surveyed bank executives and investment managers focused on the banking sector, and both groups said they prefer other impairment models, and — if fully implemented — the latest proposal would bring increases in reserves and reductions in capital.

More than 85% of 185 bankers, the bulk of whom were community bankers, who responded to the survey expect some increase in reserves after full implementation of the proposed CECL model. The largest group — 53% of responders — believes reserves would increase by 25% after full implementation of the proposal, while close to 20% of respondents expect reserves to increase by 50%.

Roughly 95% of investors responding to the survey expected some increase in reserves after full implementation of the proposal. Just more than 20% of investors said they expected bank reserves to increase by 25%, 31% believed reserves would increase by 50% and 24% predicted that reserves would double.

Reserve increases on the order of 25% to 50% would require sizable builds on bank balance sheets. Those reserve increases would cause commercial banks' aggregate reserves to increase by \$38.02 billion

and \$76.03 billion, respectively, according to SNL's analysis. Those reserve increases would result in respective Tier 1 capital decreases of 3.3% and 6.6%, according to SNL's analysis. While a number of large banks have said that any capital decrease associated with the new impairment model would be manageable since the proposal likely will not go into effect for a few years, many bankers in the SNL survey said the proposal's complexity would bring great difficulty and add subjectivity to their accounting statements.

Much of the banking industry has remained relatively silent on the proposal, at least publicly thus far. The FASB has only received seven comment letters on the proposal to date, but accounting experts said during an SNL-hosted webinar that they eventually expect plenty of responses since the proposal would impact banks substantially, even beyond their reserve levels.

Most community bankers responding to SNL's survey believe there will be a capital impact as well. SNL asked bankers how much they would expect Tier 1 capital to decrease at a bank similar to theirs after full implementation of the proposal. SNL also instructed bankers to assume no tax benefit associated with the additional reserves due to the limitation on deferred tax assets related to reserving under the proposed Basel III rules. When taking those factors into consideration, roughly 80% of bankers responding to the survey expect some decrease in Tier 1 capital. Almost 70% of those bankers expect capital to decrease somewhere between zero percent and 10% after full implementation of the proposal. More than 85% of investors responding to the survey expected banks' Tier 1 capital to decrease in the range of zero percent to 20% after full implementation of the proposal.

Given the prospect of such a change in their impairment models, it is not surprising that only a few bankers said they would prefer the proposed CECL model over other impairment methods. Just about 24% of bankers responding to SNL's survey said the proposed CECL model would be their first or second preferred method out of the five credit loss accounting methods that have either been used or proposed in recent years.

Other credit loss accounting methods that bankers could choose in the SNL survey included the incurred loss model — the existing impairment framework — or fair value accounting. Bankers overwhelmingly showed their preference for the current incurred loss model, with 87% of responders saying it was a first or second preferred credit loss accounting method. Investors also showed a preference toward the current incurred loss model, with 68% stating it would be their first or second preference.

The two groups held fair value in a very different regard, with just 20% of bankers and 15% of investors responding choosing it as their first or second preference. Bankers and their associations staunchly opposed the implementation of fair value accounting across bank balance sheets a few years ago and eventually the FASB backed off its efforts. The FASB came back to the drawing board after that experience still determined on improving the existing framework for impairments since it believed the current model failed to be forthcoming and recognize problems early enough, according to FASB board member Marc Siegel.

Siegel said at a conference in early January that the FASB first worked with the International Accounting Standards Board to rectify what they saw as an issue and created a three-bucket model. In that framework, the first bucket would require reserving for lifetime expected losses on which a loss event was expected to occur over the next 12 months. The second and third buckets would require reserving when more than "insignificant deterioration" in credit quality occurred and losses appeared to be at

least reasonably possible. Siegel said FASB "road-tested" the three-bucket model and many people expressed concern about how difficult it would be to assess whether a loss was at least reasonably possible. Bankers participating in the SNL survey held the three-bucket approach in similar regard, with only about 30.5% of responding bankers saying that method would be their first or second preference.

The IASB recently proposed a revised impairment model, though, and has put forth a new proposal that it believes more accurately recognizes losses on a timely basis. The IASB on March 7 proposed a model that would require reserving for full, expected losses across the life of a loan in stages. Similar to the three-bucket model, institutions would reserve for expected losses over the first 12 months. In the second stage, institutions would reserve for full lifetime losses after credit risk increased significantly and the resulting credit quality would be below investment grade. The last stage would occur when credit losses have been incurred. This differs from the FASB proposal, which requires reserving for expected losses on day one.

The IASB proposal had not been unveiled when SNL conducted its survey. However, SNL proposed another credit loss accounting method, the amortization of expected lifetime losses, to participants in the survey that effectively serves as a hybrid of the FASB proposal. That method was previously considered by the IASB, but ultimately the board moved forward with another approach. It would require banks to estimate for the full lifetime of losses much like the proposed CECL model, but instead of reserving for the full expected loss up front, an institution would amortize the losses over the expected life of the loan. It seems slightly more popular than the proposed CECL model, fair value accounting or the three-bucket approach, with 35% of bankers that participated in the survey choosing that method as their first or second preferred credit loss model.

Interestingly, investors seemed quite fond of the model, with 63% saying the amortization of expected lifetime losses model would be their first or second preference.

How banks reserve under the proposed CECL model could differ depending on traditional loss rates for each collateral type and the duration of those assets. SNL asked bankers in the survey their expectation for total lifetime losses across collateral types, giving them the option to choose zero percent, 1%, 2%, 3%, 4%, 5%, 6%, 7%, 8%, 9%, or 10% and higher. SNL also asked bankers in the survey for their expected total life of loans in years across collateral types, giving them the option to choose one, two, three, four, five, six, or seven years or more. Using their responses, SNL calculated a weighted average of the participants' answers for both questions.

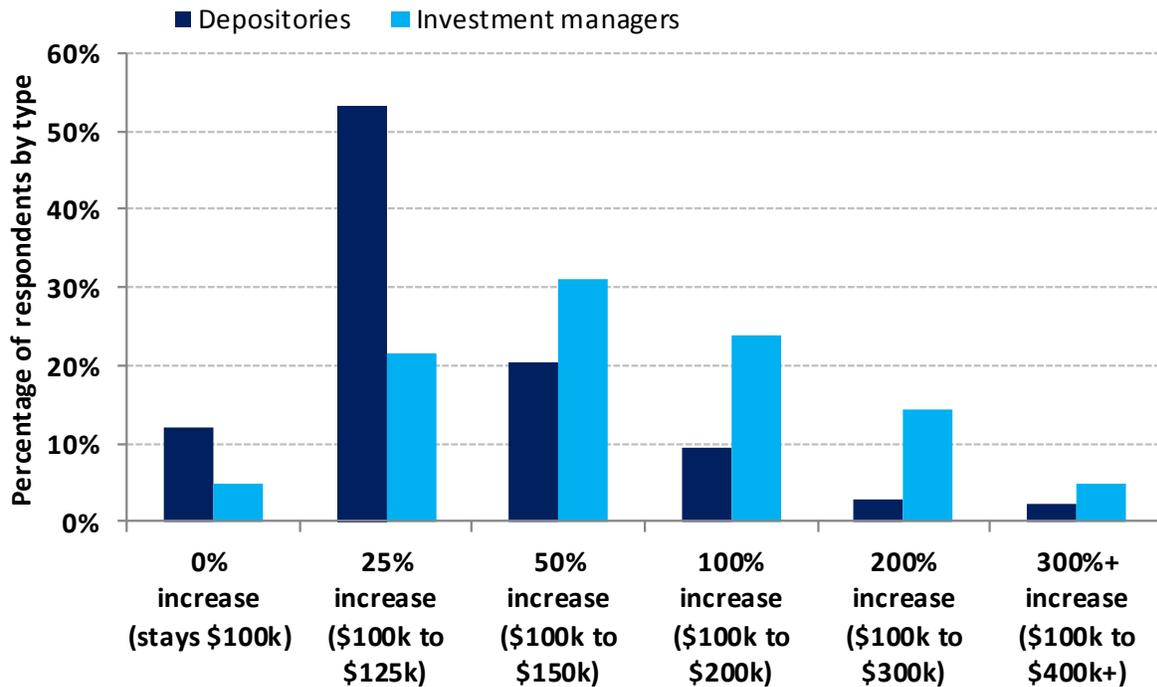
Bankers participating in the survey on average expect total lifetime losses of 2.12% for one- to four-family mortgages with a total expected life of 6.18 years; 4.02% for construction and development loans with a life of 2.86 years; 3.37% for commercial real estate loans with a life of 5.10 years; 3.36% for commercial and industrial loans with a life of 4.14 years; and 3.51% for consumer loans with a life of 3.76 years.

Appendix 2 – Charts from Article published by SNL Financial on March 18, 2013

Note: See Appendix 1 for background on article and surveys

Question 1: Estimated percentage increase in reserves

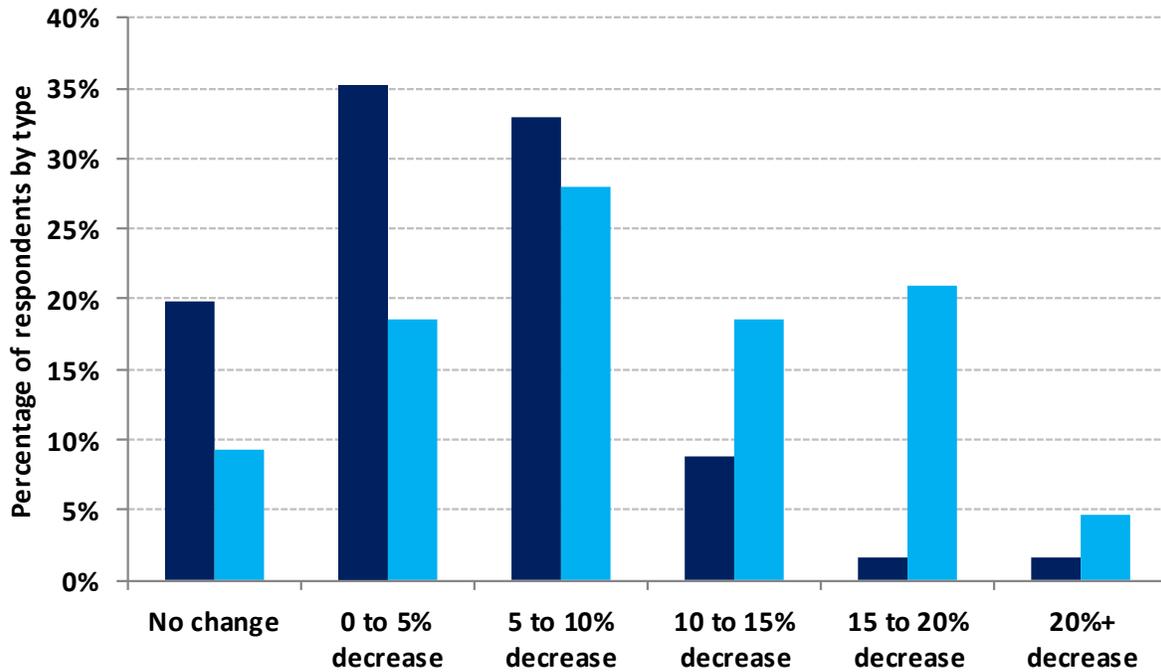
Assume a typical bank had \$100k in reserves today. After full implementation of this proposal, what would you expect the allowance for credit losses, or reserves, to be?



Note: Using a weighted average, the estimated increase in reserves was 45% for depository respondents vs. 88% for investment manager respondents. In order to calculate a weighted average, all answers for "300%+" were regarded as 300%.

Question 2: Estimated decrease in Tier 1 capital

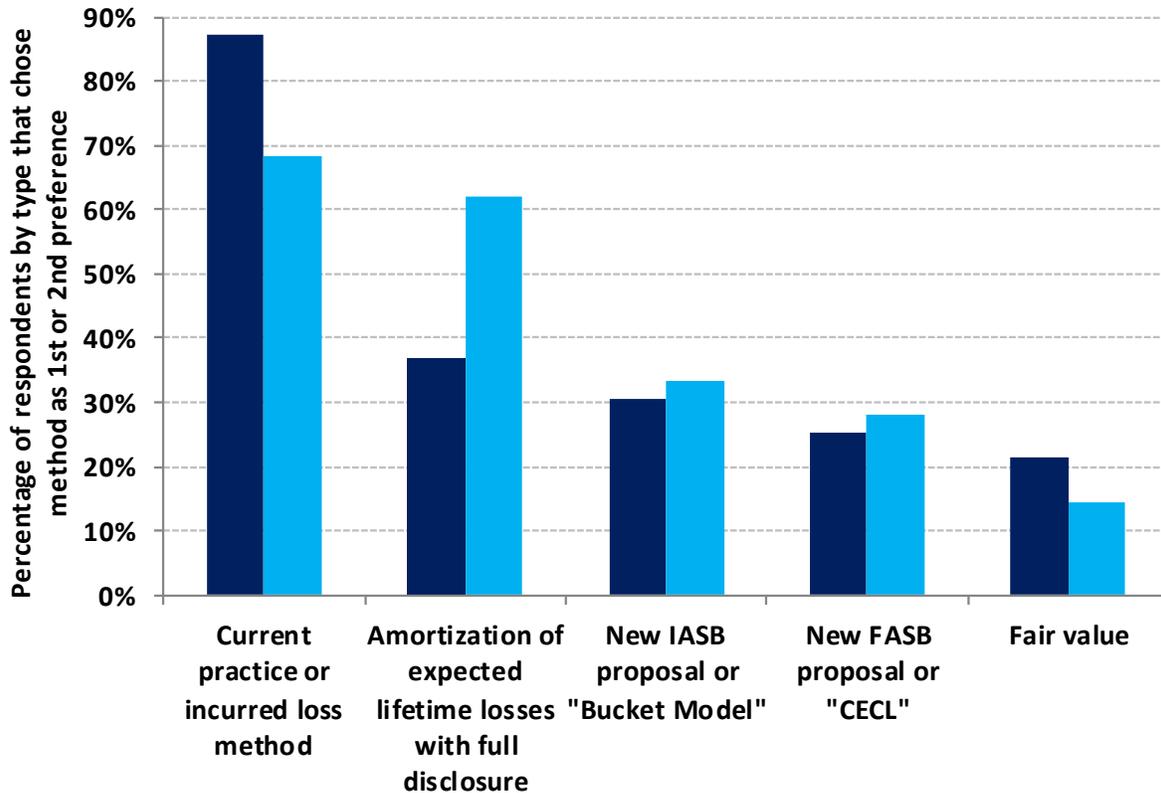
By how much would you expect current Tier 1 capital for a typical bank to decrease after full implementation of this proposal? (Respondents were further instructed to assume no tax benefit associated with the additional reserves due to the limitation on deferred tax assets related to reserves under the proposed Basel III rules.)



Note: Using a weighted average, the average estimated decrease in current Tier 1 Capital was 5.1% for depository respondents vs. 9.5% for investment manager respondents. In order to calculate a weighted average, the midpoints of the various ranges were used where applicable and all answers for "20%+" were regarded as 20%.

Question 3: Preferred accounting method for recognizing credit losses

There have been many proposals regarding accounting for credit losses over the last few years. Which of the proposed credit loss accounting methods do you prefer?

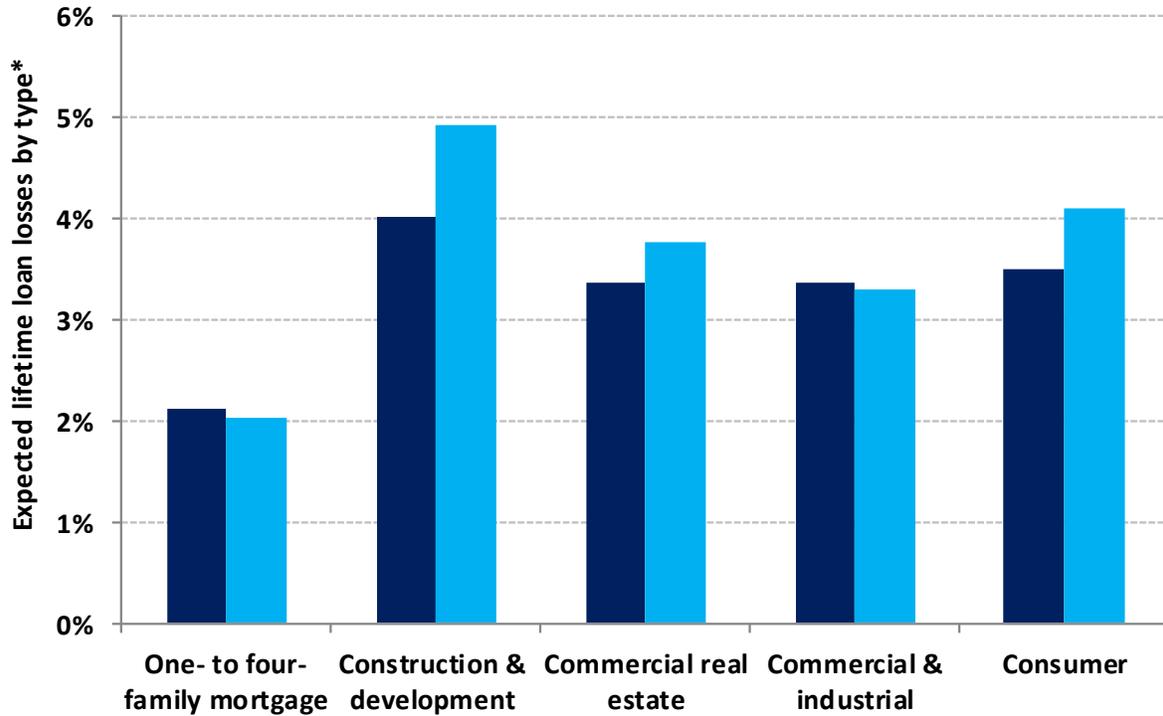


Note: In the survey, the description for each method was as follows:

- Current practice or incurred loss method - Recognition of losses typically at some point of impairment
- Amortization of expected lifetime losses - Disclose expected lifetime losses. Amortize or recognize this amount over the expected life of the loans.
- New IASB proposal or "Bucket Model" - Recognize expected losses over next 12 months. Loans move through different levels, or "buckets", as they are impaired.
- New FASB proposal (CECL) - Immediately recognize and expense all expected lifetime credit losses at issuance
- Fair value - Mark loans on the balance sheet at fair value

Question 4: Average expected lifetime loss by loan category

For a bank similar to yours operating in a normal economic environment, what would you expect the total lifetime loss to be for the following types of loans?



** This is the weighted average of the participants' answers for each type of loan. Participants were asked to estimate total lifetime losses and were given the option of choosing 0%, 1%, 2%...9%, or 10%+. In order to calculate a weighted average, all answers for "10%+" were regarded as 10%.*