



May 31, 2013

Via Email to Director@FASB.org

Technical Director
Financial Accounting Standards Board
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Eide Bailly LLP appreciates the opportunity to comment on the proposed Accounting Standards Update, *Financial Instruments – Credit Losses*.

We appreciate the Board's effort to improve accounting for financial instruments. We support the Board's objective of providing financial statement users with more timely and relevant information about an entity's financial instruments, and the Board's desire to reduce complexity in the accounting and related disclosures for financial instruments. However, we do not believe that the proposed ASU accomplishes these objectives, particularly for a significant segment of entities that will be subject to the requirements; those being non-public financial institutions of all sizes, and especially small and medium sized non-public financial institutions. Accordingly, we do not support the issuance of the proposed ASU as a final standard.

The remainder of our letter addresses: (1) Credit Losses Based on Reasonable and Supportable Forecasts, (2) Utilization of time value of money in the estimate of expected credit losses, (3) Impairment of Debt Securities and (4) Additional implementation guidance and illustrative examples.

Credit Losses Based on Reasonable and Supportable Forecasts

Included in the proposed ASU is the concept of estimating expected credit losses based on reasonable and supportable forecasts. Very few financial institutions evaluate their allowance for loan and lease losses based on a life of loan basis. In order to adopt the provisions of evaluating expected credit losses based on reasonable and supportable forecasts, financial institutions will have to make significant changes to their processes and data in order to apply the life of loan estimate. Some potential issues in applying the life of loan estimate include significant inputs like the timing of losses and origination dates for renewable loans. In order to provide these reasonable and supportable forecasts, financial institutions will have to either update their historical information or they will have to acquire market data from third party providers in order to support their forecasts. There is also the potential that these forecasts will not be able to hold up under audit and/or regulatory review. As the projections extend further into the future they run the risk of becoming less reasonable and supportable. We believe that Board should consider establishing specific guidelines on what constitutes reasonable and supportable forecasts and provide examples of how to address situations where the forecasts do not extend past the life of the loan. In addition, we recommend that the Board provide additional examples of forward looking indicators in addition to interest rates.

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Utilization of Time Value of Money in the Estimate of Expected Credit Losses

As noted above in the estimate of reasonable and supportable forecasts, there are significant operational challenges with utilizing data which has not been developed to provide an estimate for expected credit losses. This is true with the concept introduced in the proposed ASU regarding the time value of money. Currently this is explicitly monitored by financial institutions for their impaired loans but is not monitored on a loan by loan basis for the remainder of their loan portfolio. The proposed ASU described in paragraph 825-15-25-4 notes that an estimate of expected credit losses shall reflect the time value of money either explicitly or implicitly. 825-15-55-3 gives some high level examples of expected credit losses reflected the time value of money either explicitly or implicitly. Utilizing historical loss rates is considered to implicitly reflect the time value of money. Interest may be included in some financial institutions historical losses and this raises an issue of whether the historical loss statistics would need to be updated for this information. We recommend that the Board consider whether interest included in historical loss amounts should be in the historical loss calculation and that the final ASU provide specific examples related explicitly and implicitly use of the time value of money.

Impairment of Debt Securities

Under the proposed ASU, an entity will have the choice to evaluate debt securities for impairment on a security by security basis or on a pool basis. Entities will have to determine how to group debt securities into pools which will significantly increase the amount of judgment in evaluating groups of debt securities. Most entities do not track loss history on debt securities as they do for loans. This could lead to entities having to go to third-party agencies or other resources to get information in order to estimate losses on pools of debt securities. Most financial institutions do not view debt securities on a life of loan loss estimate. For community banks, they will invest in their local municipal securities which will take additional effort and time for community banks to evaluate this life of loan loss estimate. We believe that additional time and effort required by the proposed standard will result in a negative impact on community banks, in that the potential benefits provided do not outweigh the costs to these institutions.

Additional Implementation Guidance and Illustrative Examples

With any new accounting standard comes the potential for increased time and effort in auditing the required disclosures. Under the proposed ASU, entities will be required to include roll forwards of loan balances. This roll forward of loan balances could be significant work for some financial institutions. As noted above, there will need to be significant disclosures related to the reasonable and supportable forecast assumptions utilized for the estimate of credit losses.

The proposed ASU does not include illustrative examples related to debt securities and reasonable and supportable assumptions. We believe having these additional examples will assist entities in the implementation of this proposed ASU.

Conclusion

While we appreciate the Board's objective in providing more timely and relevant information to users with respect to an entity's financial instruments, we do not believe that the proposal provides benefits that are commensurate with the costs to provide that information for an overwhelming number of the entities that would be subject to its requirements. Accordingly, we believe that this project needs additional consideration and should not be adopted as proposed.

Sincerely,



Eide Bailly LLP