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August 24, 2009

Via email: director@fasb.org

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

Re: File Reference: No. 1700-100

Dear Mr. Golden,

U.S. Bancorp, the parent company of the sixth largest commercial bank in the United States, with over \$265 billion in total assets, appreciates the opportunity to comment on the Exposure Draft (ED): *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* which is intended to enhance disclosures about the allowance for credit losses and the credit quality of financing receivables.

We generally support the FASB's objective of enhancing disclosures about credit quality and the allowance for credit losses; however, we have some concerns with the proposed disclosures. Our primary issues and/or comments are:

- The proposed effective date does not allow sufficient time for implementation. While some of the information is already available and used by management, manual processes will be required to produce a significant portion of the information. Specifically, the rollforward requirements included in the proposed disclosures and many of the additional requirements to provide disaggregated information is at a level not readily available on existing loan and reporting systems. The effective date should be delayed so companies can implement the necessary changes or enhancements to reporting processes and systems to efficiently generate the information in a SOX compliant control environment. Changing the effective date to no earlier than the first interim or annual reporting period beginning after December 15, 2009 would be more realistic.
- We believe the FASB should consider further whether this is the right time to require companies to implement new processes and procedures to support the proposed disclosures. Given the recent accelerated discussions around potential changes in the accounting for financial instruments (including loans), some of these disclosures may become irrelevant or be superseded within a relatively short period of time. In addition, resources at many institutions are currently focused on the implementation and/or refinement of processes and systems to support the loan accounting requirements under FAS 141R and SOP 03-3.
- We also believe further consideration is warranted to determine whether the proposed additional disclosures sufficiently enhance financial statement users' understanding of the different loan accounting methods required under GAAP and how it impacts the determination of the allowance for credit losses. We believe it

is likely financial statement users do not fully understand all the potential accounting methods that are either required in certain circumstances (fair value, LOCOM, amortized cost, SOP 03-3, FAS 141R) or permitted (fair value option), and the interplay with the determination of the allowance for credit losses. For example, loans acquired through a business combination are initially recorded at fair value (under FAS 141R and SOP 03-3) which inherently considers expected credit losses and therefore there is no initial allowance for credit loss recorded. In subsequent periods, these loans may require an allowance for credit loss if the loans do not perform consistent with the original assumptions. As a result, the carrying value of loans and the level of allowance for credit losses across financial institutions can vary based on the mix of purchased vs originated loans and the accuracy of original estimates of expected credit losses embedded in the determination of fair value of purchased loans. We believe the proposed disclosures may not provide enough transparency to enhance comparability among financial institutions of allowance coverage ratios and other relevant metrics related to the level of allowance for credit losses levels.

- We believe some of the proposed disclosures are not meaningful in the context of providing information relevant to understanding credit quality and the allowance for credit losses. For example, we believe including fair values at a disaggregated level embedded in a table is intended to address information relevant to determining the allowance adequacy may create confusion rather than enhance understanding. Fair values are determined considering not just credit quality but other factors such as liquidity discounts and market interest rates and therefore are not relevant or used by management in the context of evaluating and understanding the allowance for credit losses. We believe the existing FAS 107 disclosures provide adequate information on the fair value of loans.
- We recommend the examples in Appendix A be removed from the proposed standard so companies can determine the most meaningful format for providing the required disclosures. Even though the examples are clearly noted as simplified and not intended to serve as a guide for all disclosures may be necessary, often such examples are inherently viewed as the best practice. The format and presentation of the required disclosures should be left up to the judgment of management so they can be tailored to address the unique characteristics of the company's portfolio. We are particularly concerned about the *Analysis of the Financing Receivable Activity schedule* and the schedule of *Credit Risk Profile by Creditworthiness*. There is a disconnect with the Analysis of the Financing Receivable Activity schedule and the objective of the ED to enhance disclosures about credit quality and the allowance. This schedule is more closely related to a cash flow analysis. Regarding the Credit Risk Profile by Creditworthiness schedule, many financial institutions use their own internally developed credit risk profile and do not have the profile based on the rating agencies. The result will be a lack of comparability between financial institutions financial reports.
- Regarding indicators of credit quality, the proposed disclosures suggest several possible indicators including but not limited to, a rating agency rating or FICO score inferring these would be meaningful information for financial statement users. While we acknowledge this information may be useful to management as one point of reference in determining its own assessment of credit exposure, there can be shortcomings in this data which may diminish the relevance of the data to financial statement users. For example, FICO scores for consumers and credit rating agency ratings for commercial customers may be based on outdated or inaccurate information or biased views of a particular rating agency. The proposal also suggests internal risk ratings maybe a relevant credit quality indicator but this would force regulated entities to disclose what has historically been considered confidential information between entities and their regulators. Perhaps disclosure of management's assessment of probability of default would provide the most useful information to financial statements users as it reflects management's assessment of the credit exposure which is a more relevant factor in determining the required allowance for credit losses. We are concerned some of the credit quality

indicators listed in the proposal may inappropriately be viewed as more credible than management's own assessment of credit quality when they may be inaccurate or misleading.

See our responses below to your specific questions:

Issue 1: Do you agree with the definition used to identify a financing receivable subject to the provisions of this proposed Statement? If not, why not?

We agree with the proposed definition of a financing receivable

Issue 2: This proposed Statement would apply to all creditors, including all public and nonpublic entities that prepare financial statements in accordance with generally accepted accounting principles. Do you agree with the scope of this proposed Statement? If not, why not?

We agree all public and nonpublic entities should be included in the scope of the proposed Statement. Our views on this stem from our role as a financial statement user in connection with underwriting of new borrowers and monitoring the financial statements of existing borrowers in the course of our lending activities. For comparability and transparency, we would consider it reasonable to have a level playing field and avoid divergence of accounting standards between public and nonpublic entities.

Issue 3: The proposed Statement would require a rollforward schedule of the total allowance for credit losses in both interim and annual reporting periods by portfolio segment and in the aggregate. In addition, it also would require a rollforward schedule of financing receivables in both interim and annual reporting periods by portfolio segment and in the aggregate. Do you believe those disclosures will assist financial statement users in better understanding the financial information for the total allowance for credit losses as well as the associated financing receivables? If not, why not?

We believe rollforward schedules can assist financial statement users in understanding the changes in the total allowance for credit losses and the associated financing receivables. However, we do not agree with the formats provided in the examples in Appendix A. We believe the disclosure of fair values do not belong in the body of the financing receivables rollforward table as this is not directly relevant to management's determination of the allowance for credit losses. The information on fair value should continue to be provided in a separate note to the financial statements in response to FAS 107 requirements. In addition, we believe alternate formats, line items and overall presentation of the rollforward tables may be more meaningful and transparent. As a result, we believe Appendix A should be deleted. For example, it is not clear how the activity related to loans subject to SOP 03-3 accounting should be displayed in the example rollforward tables.

Issue 4: This proposed Statement would require interim and annual credit quality disclosures about a portfolio by class of financing receivable, including quantitative and qualitative information about the credit quality of financing receivables. Do you believe those disclosures will assist financial statement users to better understand the credit quality for the associated financing receivables? If not, why not?

We believe the disclosures about a portfolio by class of financing receivable would assist financial statement users to better understand the credit quality for the associated financing receivable. However, we are concerned about what metric would be used to identify credit quality. The examples use standard rating agency metrics while most financial institutions will not have this information on all their portfolios. For originated loans, banks generally use their own internally generated credit rating. Comparability among financial institutions will be a problem.

Issue 5: This proposed Statement would require an analysis of the age of financing receivables that are past due, but not impaired, at the end of the reporting period separately for each class of financial instruments. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

We believe separate disclosures of the age of financing receivables that are past due, but not impaired, by class is useful information. However, we do not agree with the formats provided in the examples in Appendix A. For example, the categories of past due are different than those required to be reported for bank regulatory reporting (30-59, 60-89 and 90+). In addition, in the same table, the Allowance for Collectively Impaired Loans is disclosed along with Total Financing Receivables. We are not clear whether those disclosures are responsive to Paragraph 13g which appears to be requesting a comparison of the allowance for collectively evaluated balances to total financing receivables (excluding those which are both past due and impaired). The table presentation is confusing and the requested disclosure in Paragraph 13g is poorly worded — "allowance for credit losses for collectively impaired financing receivables" sounds like the FAS 114 allowance for impaired consumer loans yet the intended comparison is likely the allowance for collectively evaluated non-impaired loans. Paragraph 13g should be clarified and Appendix A should be deleted.

Issue 6: This proposed Statement would require the fair value of loans at the end of the reporting period by portfolio segment. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

We believe disclosure of the fair value of the loans is not relevant in understanding the credit quality as fair value encompasses more factors than just credit quality. Liquidity discounts and impacts of changes in market interest rates can result in declines in fair values are not representative of declines in credit quality. We believe fair value disclosures should be disclosed in the existing FAS 107 note disclosure and not in connection with credit quality disclosures to avoid misleading financial statement users. We believe further disaggregating fair values by portfolio segment is not a necessary enhancement to the existing FAS 107 disclosure requirements.

Issue 7: Do you believe it is operational for entities to disclose all of the proposed requirements for interim and annual reporting periods? Why or why not?

We believe most entities will be able to produce the proposed disclosures for interim and annual reporting periods but it will require significant changes to existing processes and systems to do so in a timely and efficient manner. While some of the information is already available and used by management, manual processes are required to produce a significant portion of the information and many of the additional requirements to provide disaggregated information is at a level not readily available on existing loan and reporting systems. The effective date should be delayed so companies can implement the necessary changes or enhancements to reporting processes and systems to efficiently generate the information in a SOX compliant control environment. Changing the effective date to

no earlier than the first interim or annual reporting period beginning after December 15, 2009 would be more realistic. Additional resources will be required in order to manage the processes and disclose the additional information.

We appreciate the opportunity to submit our views and would be pleased to discuss our comments with you at your convenience. Please contact me at (612) 303-4352 with questions or if you need additional information.

Sincerely,

Craig E. Gifford

Chief Accounting Officer