



COMMITTEE ON CORPORATE REPORTING

April 1, 2011

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Sir David Tweedie, Chairman
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Supplementary Document, *Impairment* (File Reference No. 2011-150)

Dear Sirs:

The Committee on Corporate Reporting (“CCR”) of Financial Executives International (“FEI”) appreciates the opportunity to provide its views on the Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - Impairment* (the Supplement).

FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and not necessarily the views of FEI or its members individually. As a prefatory comment, CCR observes that while this proposal significantly impacts financial institutions, it also is important to other member companies that hold long-term receivables and investments in debt securities. As such, the concerns expressed below and the desire for field testing and other forms of outreach must include non-financial services companies as well, in order to ensure that any final proposal is operational.

The Committee is encouraged that the Boards are making a concerted effort towards issuing a converged standard. However, we do not support the compromise model outlined in the Supplement, as further described below. In addition, we believe the Supplement has been parsed and compartmentalized in an effort to issue a final standard sometime in 2011. As the Boards are aware, accounting for credit losses is central to the earnings and risk management processes of nearly all financial institutions. Any material change in existing accounting for credit losses will be both difficult and expensive to implement. Accordingly, once a viable

proposal is developed, affected parties should be provided with a reasonable opportunity to model and field test a fully articulated set of principles. There will be no opportunity under the Boards' proposed timetable to do so. Such a process is inconsistent with established protocols.

It is CCR's view that financial institutions need an operational and cost-effective model that provides the most relevant and useful information to investors. To accomplish that, we believe the model should use information management collects for risk management activities and, to the maximum extent possible, must not require information to be collected and analyzed solely for purposes of fulfilling a compliance requirement. We also believe the results reported under the model should enhance management's ability to explain its financial results and link credit losses recognized to external events and conditions. Accordingly, it should not employ mechanisms that obscure loss development experience. Further, CCR has significant concerns with the accounting proposed under the compromise proposal. We do not believe that it is possible to effectively synthesize the two competing objectives of the Boards into a single model: (1) ensuring that the allowance for credit losses always equals or exceeds credit losses expected to occur within the reasonably foreseeable future, and (2) reflecting in earnings the relationship between expected credit losses and the pricing of financial assets. The compromise model produces a provision for credit losses and a related allowance that can only be described in terms of the mathematical calculations used to determine them. This will complicate the communications made by financial statement preparers when the results of this mathematical calculation do not synch up with an entity's risk management strategies. We further believe financial statement users will find the variability of the measurement basis (i.e. higher of expected losses in the foreseeable future and the time-proportionate recognition of expected losses) difficult to understand and to model.

We further believe that the time-proportionate component of the model provides little, if any, incremental benefit and will significantly increase operational complexity. For every open pool of loans, a reporting entity will be required to make three measurements: (1) the amount of losses in the good book based on time-proportionate recognition, (2) the amount of expected losses in the good book based on the incurred loss/foreseeable future floor, and (3) the amount attributable to the bad book. It should be understood that none of the above measurements are determined under existing accounting practices. Moreover, adopting this approach complicates and distracts from existing risk management processes by requiring expected loss information to be extracted and parsed in a new way solely to comply with the requirements of the model.

We therefore encourage the Boards to compromise on one internally consistent model that builds on information that management uses to manage their credit risks, rather than to move forward with this hybrid approach, which fails to adhere to the precepts of either of the Boards' preferred models.

With regard to the concepts outlined in the Supplement, we find that the central principles lack sufficient definition to allow preparers to understand what they mean and thereby provide an informed response. For example, given how different and important the accounting is for the good book and bad book, we find the definitions to be more conceptual and aspirational than practical and implementable. We expect that this lack of clarity will likely lead to enormous diversity in practice, particularly across multiple jurisdictions. Similarly, we have concerns about the potential for diversity in assessments of what time frame constitutes the foreseeable future. Some constituents believe that European financial institutions will coalesce around a one year time horizon while regulatory influences will likely move the time horizon in the U.S. to three years and, there will be other approaches taken as well. It must be understood that a range of

time horizons of that magnitude will significantly affect comparability among large global financial institutions.

We believe that, regardless of the model selected, there needs to be sufficient time provided for preparers to fully understand the requirements of the proposed model and be able to model its effects on selected portfolios. To do otherwise puts the Boards' constituents in the position of commenting on a proposal that they do not fully understand or, worse, that they *misunderstand*.

In addition, there are a large number of important matters that the Supplement does not address, including: application of the model to instruments evaluated individually for impairment, investment securities, long term receivables, loans held in closed portfolios, acquired credit-impaired loans, troubled debt restructurings. As an example, the economics surrounding evaluating credit losses for an open portfolio (which this model appears to be specifically designed for) has no relationship to the credit loss economics and evaluations that occur for financial instruments evaluated individually (e.g., debt instruments). Additionally, the concepts of good book and bad book and time proportionate or minimum expected loss recognition criteria do not translate when evaluating impairment for an individually tracked financial instrument. Any attempt to propose an impairment model for financial assets and liabilities beyond the scope of the Supplement should be done through a separately exposed document.

Another matter not addressed in the Supplement is the overall model for income recognition and how to measure expected losses. This is arguably the most important item, as it is the critical element to ensuring a consistent and repeatable process for measuring losses. It also is arguably one of the most difficult aspects of the standard to define in a manner that ensures consistency and comparability across entities and geographies.

Finally, we are concerned that the compromise model introduces conceptual elements which may undermine other guidance. It is unclear to us how we should apply this expected loss in the foreseeable future concept to other assets or liabilities on the balance sheet. Will this approach change the way we should measure impairment of long lived assets or evaluate financial obligations such as legally binding letters of credit or unfunded commitments? Does it have implications for the measurement of contingencies such as litigation or accounting for major maintenance events? Our first reaction is that this new impairment approach is not compatible with the accounting in other areas and will result in challenging decisions about when to analogize for companies and their auditors going forward.

We strongly support having a converged approach to impairment analysis under US GAAP and IFRS. If convergence is not achieved in this critical area of accounting, entities with significant operations in multiple geographies will be required to maintain two different and complex systems and processes in order to comply with both US and international reporting requirements. CCR urges the Boards to follow an orderly and robust process to reconsider a new proposed model that accomplishes the following:

1. Addresses flaws in the compromise proposal;
2. Clarifies key principles and adopts a single conceptual framework to ensure that constituents understand what they are commenting on;
3. Provides for extensive outreach and consultation;
4. Allows sufficient time for modeling and field testing the proposed final standard;
5. Provides reasonable transition and effective date requirements that ensure high quality adoption and ongoing application.

We fear that fulfillment of the above deliverables cannot be achieved by the June 2011 deadline established by the IASB.

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Thank you for the opportunity to share our thoughts with you on the Supplement. We would be pleased to discuss them at any time. If you have questions, please contact Lorraine Malonza at (973) 765-1047 or lmalonza@financialexecutives.org.

Sincerely,

A handwritten signature in black ink that reads "Loretta Cangialosi". The signature is written in a cursive style with a large, looping initial "L".

Loretta V. Cangialosi
Chair, Committee on Corporate Reporting
Financial Executives International