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Technical Director – File Reference No. 2012-260
Financial Accounting Standards Board
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Technical Director:

We appreciate the opportunity to comment on the Financial Accounting Standards Board (FASB) Proposed Accounting Standards Update (ASU), *Financial Instruments – Credit Losses* (Subtopic 825-15). We are a regional CPA firm with revenue of approximately $40 million. We provide audit services to a variety of entities, including approximately 25 financial institutions, five of which are SEC registrants, and a number of colleges, universities and other not-for-profit entities who would be subject to the proposed ASU for their loan portfolios.

Overall, we are in support of the proposed ASU, subject to clarification regarding consideration of reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. We recommend FASB include guidance in the final ASU that this provision is not intended to require institutions to develop detailed forecasts of economic conditions. We are in agreement with FASB's proposal that credit impairment estimates be determined using an expected loss model and that such a model should incorporate future expectations using expected cash flows. We are in agreement with the proposed amendments to accounting for purchased credit-impaired financial assets, as this will enhance the comparability of bank financial statements, and with the proposed treatment of nonaccrual loans and interest income recognition on such loans which we believe is generally consistent with current practice.

We encourage FASB to limit disclosure requirements to those that meet the objective of providing users of the financial statements with information on how management manages the credit risk of an institution. The disclosure requirements in the proposed ASU accomplish this, with the exception of the roll forwards described in proposed Accounting Standards Codification Subtopics 825-15-50-12 and 825-15-50-13, which we believe would add significant implementation cost for little benefit to a user of the financial statements.

In addition to our overall views on the proposed ASU, we have selected specific questions posed in the Exposure Draft to address as follows:

Question 2: The proposed amendments would remove the initial recognition threshold that currently exists in U.S. GAAP and, instead, view credit losses as an issue of "measurement" as opposed to an issue of "recognition" because the credit losses related to cash flows that are already recognized on the *balance sheet. Do you believe that removing the initial recognition threshold that currently exists in U.S. GAAP so that credit losses are recognized earlier provides more decision-useful information?*

We agree that the issue should be that of "measurement" as opposed to "recognition" and that this treatment results in improved reporting of the value of financial instruments. This change reduces the subjectivity in determining when a loss has become probable, and provides users with a more representative estimate of expected losses. The proposed ASU better aligns the recognition of impairment across various asset types (such as loans receivable and available-for-sale debt securities).

Question 5: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. Do you believe that expected credit losses based on this information provide decision-useful information?

The inclusion of "reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows" in the estimate addresses the issue that historical data and current conditions are not necessarily indicative of future performance and credit losses in an underlying loan portfolio. As such, the expected credit loss model improves information provided to users.

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

We support the requirement that the estimate of expected credit losses incorporate future expectations using expected cash flows. We believe that further clarification is needed with regards to what FASB considers to be "reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows." We do not support any method that would require the use of detailed economic modeling. The expectation should be limited to the use of readily available information to develop expectations regarding future cash flows and loan losses. Our concern with the proposal as drafted is that it may imply an expectation that entities would need to develop detailed economic forecasts at a cost that outweighs the benefit derived, due to the inherent imprecision involved in economic forecasting.

Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

In our experience, entities have available historical loss data by asset type and currently update that historical data to reflect current conditions. Many entities, through their management functions and monitoring of economic conditions, have information that would allow them to update their historical loss information and current conditions to arrive at reasonable and supportable estimates of future loan losses at the portfolio segment or class level. As previously mentioned, we believe it is important to clarify that FASB does not expect detailed modeling to be utilized in developing the forecasts.

Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45-BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings continues to be relevant? Why or why not?

We agree that the distinction between troubled debt restructurings and other modifications continues to be relevant for the reasons that the Board has identified above. As stated in BC46, allowing a current credit concession to be deferred and recognized prospectively through a lower yield in the future is inconsistent with the intended changes of the proposed ASU and unnecessarily delays recognition of credit losses.

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

As noted in our response to Question 9, we have concern that the proposal does not give sufficient guidance with regards to what is considered "reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows." If the intention is to require detailed economic forecasting, then this would result in an increased degree of difficulty in auditing the estimate of expected credit losses and would likely require the use of economic specialists. We do not believe the likely significant cost of developing this data would outweigh any resulting benefit to financial statement users. In particular, implementation of such a requirement for smaller, nonpublic companies would be cumbersome and unduly expensive.

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

As previously suggested, clarification as to what is considered "reasonable and supportable forecasts" of remaining contractual cash flows is needed.

We appreciate the opportunity to submit these comments for your consideration, and look forward to FASB's consideration of feedback on the proposed ASU and decisions regarding the next steps.

Sincerely,

BerryDunn

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