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NYSSCPA
certified public accountants

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May 31, 2013

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Proposed Accounting Standards Update – *Financial Instruments—Credit Losses (Subtopic 825-15)*

(File Reference No. 2012-260)

Dear Ms. Cosper:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 29,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact J. Roger Donohue, Chair of the Financial Accounting Standards Committee at (917) 887-7809, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Gail M. Kinsella
President

Attachment

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NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

PROPOSED ACCOUNTING STANDARDS UPDATE – FINANCIAL INSTRUMENTS—CREDIT LOSSES (SUBTOPIC 825-15)

(FILE REFERENCE NO. 2012-260)

May 31, 2013

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New York State Society of Certified Public Accountants

Comments on

Proposed Accounting Standards Update – *Financial Instruments—Credit Losses (Subtopic 825-15)*

General Comments

The New York State Society of Certified Public Accountants (NYSSCPA) has reviewed the Proposed Accounting Standards Update -- *Credit Losses* (Subtopic 825-15) (the proposals). We appreciate the substantial efforts at convergence between the Financial Accounting Standards Board (the Board) and the International Accounting Standards Board (the IASB), and we acknowledge the important similarities between the two boards' proposals. However, we are disappointed that the proposals are inconsistent. Without a common approach to credit losses, the financial statements of financial institutions will be incomparable. Our suggestions are made in the hope that the boards will reach a truly converged standard.

A proposal likely to increase allowances against future losses is appealing in this highly judgmental area. Taken to extremes; however, this could overstate losses in earlier periods greatly and create an earnings mismatch. We would hope that the Board not lose sight of the cost burdens corresponding to new and more complex approaches especially for community banks.

Specific Comments

We have the following responses to selected questions provided in the proposals:

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 relate 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?

Response: While we generally supported the "good book"/"bad book" approach previously proposed, we understand that eliminating a "trigger" based on some level of credit deterioration removes a primary obstacle in obtaining more timely loss recognition. Consequently, we support this change. However, we are troubled by the requirement for "supportable forecasts," that are unlikely to be achieved (*i.e.*, what data will support predictions?). We suggest eliminating the "supportable forecasts" language and instead indicating in broad terms that readily available information about future developments should be used to adjust estimated expected credit losses.

Question 4: The Board has twice considered credit loss models that would permit an entity not to recognize certain expected credit losses. In the January 2011 Supplementary Document, the Board considered a model that would permit an entity not to recognize

some credit losses expected to occur beyond the foreseeable future. In the recent discussions on the three-bucket impairment model, the Board considered a model that would permit an entity only to recognize lifetime credit losses for loss events expected to occur within a 12-month horizon. Instead, the proposed amendments would require that at each reporting date an entity recognize an allowance for *all* expected credit losses. Do you believe that recognizing *all* expected credit losses provides more decision-useful information than recognizing only *some* of the expected credit losses? If not, how would you determine which expected credit losses should not be recognized (for example, 12 months or similar foreseeable future horizon, initial recognition threshold, and so forth)?

Response: We suggest that the proposal be adopted with an established limit (*e.g.*, three years) on how far into the future loss projections can be made. While the Board suggests that such an approach would create an artificial limit on losses, we believe it would provide a more pragmatic approach to recognize that future projections are inherently difficult and likely to result in wide-ranging estimates. We also suggest creating a floor of minimum estimated credit losses that we would define as credit losses expected to occur in the next twelve months. Combining these guidelines should enhance the reliability of balances based on future projections because future speculation becomes less reliable as time progresses. Establishing a specific timeframe should also enhance comparability between institutions because future projections can vary in length and span between being overly optimistic and overly pessimistic with differences increasing as the forecast period increases.

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?

Response: See our answers to Questions 2 and 4.

Question 7: As a practical expedient, the proposed amendments would allow an entity not to recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost amount of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. The proposed amendments would require an entity to disclose the amortized cost basis of assets that apply this practical expedient each period. Do you believe that the practical expedient for some financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income is reasonable? Why or why not?

Response: We support this practical expedient because it should reduce the burden of applying a final standard to debt securities currently classified as available-for-sale. However, we would suggest requiring this approach rather than allow it; thereby enhancing comparability between entities.

Question 8: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this approach provides decision-useful information?

Response: Under the presumption that time limits along the lines of our suggestion to Question 4 are adopted, we prefer that a financial asset be placed on nonaccrual status when: (1) full payment of principal and interest is not expected, or (2) principal or interest has been in default for 90 days or more. This would more closely resemble—though not exactly mirror—the well-established definition of nonaccrual used in regulatory "Call Reports" and currently accepted as GAAP for banks.

Question 22: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

Response: We suggest a one-year deferral for nonpublic entities. While this will impair comparability for the initial year adopted by public entities, it should help nonpublic entities to better manage the cost burdens associated with this new standard.

Additional Comments

We have additional comments not addressed in the relevant questions:

(a) We applaud continuing to measure interest income and credit losses separately to allow a clearer analysis of the elements of debt instruments.

(b) The definition of "collateral-dependent" is very important, and we believe it should be expanded and clarified as a straightforward method of determining an allowance via the fair value of the underlying collateral. We suggest that: (a) "primarily or substantially" be limited to "primarily" to avoid confusion; and (b) ("by the lender") be deleted because operation of the collateral by the borrower is also valid.