CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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Russ Golden
Chairman
Financial Accounting Standards Board
301 Merritt 7 / P.O. Box 5116
Norwalk, CT 06856

Re: Proposed Accounting Standards Updates on *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)* and on *Financial Services – Insurance (Topic 944)*

Dear Mr. Golden:

The U. S. Chamber of Commerce (the "Chamber") created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.[1] To achieve these goals, the CCMC has supported the development of robust financial reporting systems and encouraged efforts to improve standards and reduce complexity.

The CCMC appreciates the opportunity to comment on the Financial Accounting Standards Board ("FASB") Exposure Drafts on the Proposed Accounting Standards Updates on *Financial Instruments – Credit Losses (Topic 326)* ("CECL"), *Derivatives and Hedging (Topic 815), and Leases (Topic 842)* and on *Financial Services – Insurance (Topic 944)* ("the Proposals").

The CCMC strongly supports the Proposals to defer the effective dates for certain entities for implementing these Standards Updates on CECL, Derivatives and Hedging, Leases, and Insurance (i.e., long-duration insurance contracts). We applaud

[1] The Chamber is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members
are both users and preparers of financial information.

FASB for its efforts to understand and respond to the challenges encountered by entities when adopting these major Updates. For example, CECL represents a sea-change in the approach to recognizing allowances for expected losses on loans, debt securities, and other receivables including reinsurance recoverables, measured at amortized cost. As a result, financial institutions and others are facing a number of challenges in implementing the standard. These challenges, which include modeling and obtaining relevant data,[2] are especially acute for small institutions and complex products.

Proposed Philosophy

The CCMC supports FASB's proposed philosophy to extend and simplify how effective dates are staggered between larger public companies and all other entities. While staggered implementation is not new to FASB standard-setting, under the proposed philosophy, a major Update would first be effective for entities that are Securities and Exchange Commission ("SEC") filers, excluding entities eligible to be smaller reporting companies ("SRCs") under the SEC definition. For all other entities,[3] FASB will consider requiring an effective date staggered at least two years after the effective date for SEC filers (excluding SRCs).[4] Generally, it is expected that early application would continue to be permitted for all entities.

It is worth noting that staggered implementation (also known as phased or deferred implementation) is not unique to accounting standard-setting. This approach is used by regulators (e.g., the SEC) and other standard-setters (e.g., the Public Company Accounting Oversight Board, the "PCAOB") to provide an opportunity to learn from issues encountered by an initial group of implementors. This approach can reduce the overall costs of and disruption from implementing new regulations and standards, especially for entities in a lesser position to bear the costs.

FASB's two-bucket approach would allow entities (i.e., all other entities in bucket two) additional time to incorporate the knowledge and experience gained from

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[2] FASB discusses various challenges encountered by entities when transitioning to a major FASB Update, which include availability of resources (both internal and external), timing and sources of education, and the development or acquisition of (a) sufficient information technology and expertise in developing new systems or affecting system changes, (b) effective business solutions and internal controls, and (c) better data or estimation processes (*Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842),* page 1).
[3] All other entities include SRCs, all other public business entities, and all nonpublic business entities (private companies, not-for-profit organizations, and employee benefit plans) (*Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842),* page 1).
[4] See the Proposal on *Financial Services – Insurance (Topic 944)*, page 1.

implementation issues encountered by larger public entities (bucket one), recognizing this incorporation process can involve its own set of considerations as well. Thus, a staggered approach will improve the implementation of the Proposals for all other entities and reduce the likelihood of disruptive subsequent events such as restatements.

Proposed Revisions in Effective Dates

To summarize the Proposals, the CCMC supports the following effective dates of the Updates, with revisions as noted:

- Credit Losses (CECL)
    - For public entities that meet the definition of an SEC filer
        - Maintain effective date of fiscal years beginning after December 15, 2019 (including interim periods within those fiscal years), except for SRCs
    - For all other entities
        - All other public entities (including SRCs): Change effective date from fiscal years beginning after December 15, 2020 (including interim periods within those fiscal years) to fiscal years beginning after December 15, 2022 (including interim periods within those fiscal years)
        - Private companies, not-for-profit organizations, and employee benefit plans: Change effective date from fiscal years beginning after December 15, 2021 (including interim periods within those fiscal years) to fiscal years beginning after December 15, 2022 (including interim periods within those fiscal years)

- Derivatives and Hedging (currently effective for all public business entities, including SRCs)
    - For all public business entities, including SRCs
        - Maintain effective date of fiscal years beginning after December 15, 2018 (including interim periods within those fiscal years)
    - For entities other than public business entities
        - Change effective date from fiscal years beginning after December 15, 2019 (and interim periods within fiscal years beginning after December 15, 2020) to fiscal years beginning after December 15, 2020 (and interim period within fiscal years beginning after December 15, 2021)

- Leases (currently effective for some entities)
    - For all entities where currently effective (i.e., public business entities (including SRCs); not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market; and employee benefit plans that file or furnish financial statements with or to the SEC)
        - Maintain effective date of fiscal years beginning after December 15, 2018 (including interim periods within those fiscal years)
    - For all other entities
        - Change effective date from fiscal years beginning after December 15, 2019 (and interim periods within fiscal years beginning after December 15, 2020) to fiscal years beginning after December 15, 2020 (and interim periods within fiscal years beginning after December 15, 2021)

- Insurance
    - For SEC filers, excluding SRCs
        - Change effective from fiscal years (and interim periods within those fiscal years) beginning after December 15, 2020 to fiscal years beginning after December 15, 2021 (and interim periods within those fiscal years)
    - For all other entities
        - Change effective date from fiscal years beginning after December 15, 2021 (and interim periods within fiscal years beginning after December 15, 2022) to fiscal years beginning after December 15, 2023 (and interim periods within fiscal years beginning after December 15, 2024)
        - Include SRCs under all other entities

Additional Recommendations

To further address any issues arising from the implementation of the Updates on CECL, derivatives and hedging, leases, and insurance, the CCMC encourages FASB to continue to work with the SEC and PCAOB. Further, the CCMC recommends:

- Forming an Operational Task to supplement the work of FASB's Transition Resource Group, to focus on operations and control requirements arising in the implementation of CECL. The Operational Task Force should comprise a variety of stakeholders including financial firms and major credit providers;

- Encouraging the use of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") section in SEC filings for disclosing any additional material information that would be useful to help educate investors and facilitate the comparison of CECL information among institutions;

- Ensuring that any guidance for auditors emanating from the PCAOB, including that from subsequent PCAOB inspections of audit engagements that involve accounting under the new Updates, is in sync with guidance from FASB and the SEC; and,

- Holding an SEC-FASB-PCAOB Roundtable within a year of the effective date of public entities implementation of CECL to review any post-implementation issues and take the necessary action to make necessary adjustments. A similar approach could be considered for the Standards Update on Insurance.

The Chamber believes that these steps in conjunction with the Proposals will help all other entities, including private companies and SRCs, adjust to each of these new Standards Updates. Moreover, these initiatives will allow the FASB, SEC, PCAOB, entities, and investors to have several mechanisms in place to address any issues arising from the implementation of these Standards Updates. These mechanisms would allow for the timely identification of any unintended consequences in order to have them addressed quickly. They would also provide for an assessment to ensure that the Standards Updates are achieving their intended result without distorting activities, while providing comparable auditable information.

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Thank you for your consideration of these matters. We stand ready to discuss them with you further and assist in any way that we can.

Sincerely,

Tom Quaadman