FIRCA Financial Instruments Reporting and Convergence Alliance

May 31, 2013

Ms. Leslie Seidman
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

The Honorable Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: FASB Financial Instruments Credit Losses (Subtopic 825-15); IASB ED/2013/3 Financial Instruments Expected Credit Losses.

Dear Chairmen Seidman and Hoogervorst:

The Financial Instruments Reporting and Convergence Alliance ("FIRCA") is a coalition of business, financial, insurance, and real estate trade organizations representing all sectors of the economy and areas of the financial services arena. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally.

We are writing today to reiterate our support for the convergence projects and to express our core thinking regarding *FASB Financial Instruments Credit Losses (Subtopic 825-15)* and *IASB ED/2013/3 Financial Instruments Expected Credit Losses* (the "Proposals"). In this letter we have outlined our thoughts, concepts, and objectives that the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") can use in developing an accounting standard to recognize credit losses.

I. Mission of FIRCA

The mission of FIRCA is:

- To support the use of high quality, robust international accounting standards developed and adopted jointly by the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB"). These standards should be decision-useful, reliable, and relevant. Additionally, these standards should present financial information in a manner that reflects the business operations of the reporting entity. Appropriately crafted standards should transparently provide information and not drive economic activity.

- To assist standard setters in providing a wide range of input to ensure the proper consideration of business operations and potential unintended consequences in the development and implementation of accounting standards.

- Recognizing the ongoing impacts of the 2008 financial crisis and continued currency pressures in the Euro Zone are global in scope and magnitude, we will continue to work with standard setters and decision makers to ensure that these projects are conducted jointly to ensure a comprehensive response to financial reporting policies.

II. Applicable Principles

a. Overarching Premise

FIRCA supports the overarching premise that accounting and reporting for financial instruments should reflect both a reporting entity's business strategy and the characteristics of the financial instruments. The FASB and IASB models have differing strengths and weaknesses that currently make it difficult for one standard to rise above the other. Accordingly we believe:

- Financial statements should help explain the business and its operations; and

- In order to do so, the classification, measurement, and disclosures for financial instruments need to reflect the entity's purpose for holding these assets and liabilities and its strategy for managing them.

Financial instruments include debt instruments, derivatives, hybrid financial instruments and equity securities. A debt instrument is defined as having contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (P&I).

b. Impairments

FIRCA supports the general principle that recognition of an impairment loss in the income statement for financial assets not accounted for at fair value with changes in fair value recognized in net income each reporting period should be based on an expectation of a future loss in cash flows attributable to either a credit loss or the decision to sell the asset for a loss.

FIRCA also supports the following considerations related to impairments:

- The income statement should reflect a reduction in expected future cash flows from cash flows anticipated at the acquisition date or latest impairment adjustment, if applicable.

- Impairment changes should not be recorded at origination (no Day 1 losses should occur).

- Impairment recognition can be triggered by either an expected sale of an impaired financial instrument or a credit loss resulting from a reduction in expected future cash flows.

- Equity securities do not have an expected cash flow stream. Impairment for equities occurs when it is expected the cost basis will not be recovered in a reasonable time period.

- Recoveries of previous credit losses will be allowed, not to exceed cumulative previous credit losses identified.

- Entities that hold securities for the purpose of trading should record all changes in fair value through the income statement alleviating the need for impairment guidance.

- Expected cash flows are projected based on all relevant and reliable information available, including historical trends adjusted for current conditions and projected future economic conditions and variables. Use of static assumptions based only upon existing economic and market conditions would be extremely pro-cyclical and not representative of the cash flows the reporting entity expects to receive.

- A financial instrument can be evaluated on either an individual basis for impairment or by using a pooled method. The objective of both methods continues to be to identify a decline in expected cash flows that has occurred since purchase of the instrument(s).

- If a financial instrument is evaluated individually for impairment, a pooled method is not required as a second step of the impairment evaluation.

III. Criteria for Developing a Converged Accounting Standard on Credit Losses

In evaluating both the FASB and IASB proposals, FIRCA has found it difficult to support one credit impairment model over the other, particularly in light of the principles we have listed above. We believe that the following criteria should be used by FASB and IASB:

a. **FASB and IASB Must Develop a Converged Standard.**
FIRCA believes that we need one accounting model worldwide on credit impairment. Absent ultimate convergence on this issue, comparability cannot be achieved and users would not have decision useful information.

b. **Accounting Principles Should Drive the Standard.**
Accounting standards should not be developed in a manner to achieve a result desired by the G-20 or financial regulators. The standard should be based upon sound accounting principles and provide users with decision useful information.

c. **The Accounting Standard Should Be Operational.**
The accounting standard should be written in a manner that it would not require the development of a new or radically different regime to support it. The benefits should outweigh the costs and such an analysis must include a study of the costs on all preparers. Any standard should also reduce financial reporting complexity. It must be simple enough so that no reporting entity is "too small to comply".

d. **Comparability.**
The standard should be such that it promotes comparability among reporting entities to facilitate user review and analysis.

e. **Reliability of Estimates.**
The accounting standard should require a regime that will produce reasonably reliable estimates.

IV. Treatment of Debt Instruments

FIRCA recommends that investments in debt instruments recorded at fair value with changes in fair value reflected in other comprehensive income ("FV-OCI") should be scoped out of the Proposals and, should continue to use the current other-than-temporary impairment (OTTI) guidance related to these FV-OCI debt

instruments. FIRCA respectfully suggests that this guidance continue to be used as it is not broken and should not be fixed.

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Thank you for your consideration of these comments as you deliberate the proposals and would be happy to discuss these issues with you further. Accordingly, we also recommend that roundtables be held to explore these issues and concerns. FIRCA looks forward to continuing our efforts to work with the FASB and IASB to achieve our goals of robust accounting standards that reflect the economic activity of business operations in the furtherance of efficient and fair global capital markets.

Sincerely,

American Council of Life Insurers
Barnert Global Ltd.
CRE Finance Council
Mortgage Bankers Association
National Association of Real Estate Investment Trusts
Property Casualty Insurers Association of America
Structured Finance Industry Group
The Financial Services Roundtable
The Real Estate Roundtable
The U.S. Chamber of Commerce