Center for Capital Markets Competitiveness

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Mr. Wes Bricker
SEC Chief Accountant
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

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

Dear Mr. Bricker and Mr. Golden:

The U.S. Chamber wishes to convey concerns expressed by our membership regarding the current expected credit loss (CECL) accounting standard, which is set to take effect for certain institutions beginning in January 2020. Given the significant influence that CECL could have on bank lending and economic growth – described in more detail below - we believe that a full examination of the standard's impact is warranted prior to full implementation. We are encouraged by the recent announcement from the Financial Accounting Standards Board (FASB) to hold a public roundtable on CECL in January 2019, which will give FASB and others the opportunity to hear from a broad group of stakeholders about the real-world consequences of CECL in its current form. To that end, the U.S. Chamber would be more than happy to participate in this roundtable should you all feel our perspective would be helpful.

As financial institutions are already taking steps to implement the new CECL accounting standard, the Chamber has heard from our members that the standard will, amongst other things, have a negative impact on long-term lending, be "procyclical" and disincentivize lending particularly during economic downturns, and will exacerbate many of the hurdles to extending credit that institutions are already facing in the wake of increased capital requirements under the Basel accords and the Federal Reserve's stress test regime for certain institutions. Put simply, while CECL is a well-intended effort to provide investors with better information, we are concerned that it could actually produce negative economic consequences by hindering the flow of credit to consumers and businesses.

A recent analysis done by the Bank Policy Institute found that had CECL been in effect during the financial crisis, bank capital ratios would actually have been more than one and a half percentage point *lower*, and that aggregate bank lending to the economy would have been reduced by an additional nine percentage point.[1] In other words, a back testing of CECL demonstrates that it could have actually worsened the previous recession and increased overall risk in the financial system.

We believe that as the Securities and Exchange Commission (SEC) and FASB consider this issue, alternatives to the current standard should be explored. For example, FASB has received – and announced it will discuss at the January roundtable – a recommendation regarding an alternative proposal that would recognize provisions for credit losses in three parts under CECL: 1) for non-impaired financial assets, loss expectations within the first year would be recorded to provision for losses in the income statement with (2) loss expectations beyond the first year recorded to Accumulated Other Comprehensive Income ("AOCI") and (3) for impaired financial assets, lifetime expected credit losses would be recognized entirely in earnings.[2] We believe an approach along these lines would still maintain CECL's goal of provisioning losses for the lifetime of a loan on a bank's balance sheet, while mitigating some of the more harmful capital and other aspects of the current standard. Additionally, we believe that a reexamination of CECL – and any alternative approaches that may ultimately be adopted – must take into account that the standard impacts financial institutions of all sizes.

The Chamber has heard concerns from a broad spectrum of institutions on this issue, and would find it problematic if an updated standard sought to allay concerns only for a narrow set of institutions. CECL's impact is likely not to discriminate based on an institution's size, a fact that we believe the SEC and FASB should keep in mind as the CECL dialogue unfolds.

Robust field testing of the CECL standard should also be conducted prior to implementation, robust field testing between FASB and financial institutions should be conducted. The Chamber has long supported such field testing of new accounting standards, which helps FASB better understand a standard's impact, and also helps those who must abide by a new standard with compliance. Given the heightened attention surrounding CECL, we think field testing is particularly important in this case.

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[1] BPI Staff Working Paper 2018-1 Francisco Covas and William Nelson, July 2018.
[2] *See* Comment Letter No. 21 RE: Measurement of Credit Losses on Financial Instruments, FASB, Nov. 5, 2018.

Depending on the outcome of the January roundtable, consideration of alternative approaches, and field testing prior to full implementation, FASB may also consider postponing the current implementation schedule to ensure that the concerns of all stakeholders are addressed prior to the start of the compliance period.

To be clear, the Chamber has always and continues to support the independence of standard setters such as FASB, and we strongly oppose any efforts to bring inappropriate political or other influence to accounting standards. Congress has long recognized the independence of FASB, and designated the SEC as the primary agency with oversight of FASB. We believe this system has served our capital markets extremely well, and that the SEC and FASB are the appropriate bodies to spearhead the ongoing public discussion regarding CECL. An open dialogue with a broad group of stakeholders is a positive first step that will facilitate better understanding of this important issue.

Thank you for your attention to this matter. We stand ready to assist in any way that we can.

Sincerely,

Tom Quaadman

cc: The Honorable Jay Clayton, SEC Chairman
The Honorable Steven Mnuchin, Secretary of the Treasury
The Honorable Jerome Powell, Chairman of the Board of Governors, Federal Reserve
The Honorable Jelena McWilliams, Chairman of the Federal Deposit Insurance Corporation
The Honorable Joseph Otting, Comptroller of the Currency
The Honorable Hester Peirce, SEC Commissioner
The Honorable Robert Jackson, SEC Commissioner
The Honorable Elad Roisman, SEC Commissioner