



March 8, 2019

Via Electronic Mail

Mr. Russell Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update (“ASU”), Targeted Transition Relief for Topic 326, Financial Instruments—Credit Losses, File Reference No. 2019-100

Ladies and Gentlemen:

The Bank Policy Institute¹ appreciates the opportunity to comment on the above-referenced proposal and supports the efforts of the Financial Accounting Standards Board (“FASB” or the “Board”) to simplify the transition to ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“Topic 326”).

As the Board is aware, the implementation of the Current Expected Credit Loss methodology and the adoption of Topic 326 constitute a significant and ongoing effort. They affect lending and investing balances, as well as the allowance for loan and lease losses account, which for financial institutions are among the largest assets and estimates on the balance sheets. As such, implementation of this standard has broad impact not only on financial reporting, but also on risk management of lending and investing activities, which will require significant enhancements to systems, modelling capabilities, data sourcing and data management. Because the scope and impact of Topic 326 is so significant for financial institutions, we strongly support the proposal but also recommend the Board consider transition relief for held-to-maturity (“HTM”) and available-for-sale (“AFS”) securities.

I. Executive Summary

- We support the proposed use of a one-time irrevocable option to elect the Fair Value Option (“FVO”) for financial instruments measured at amortized cost upon adoption of Topic 326.

¹ The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation’s leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation’s small business loans, and are an engine for financial innovation and economic growth.

- We recommend FASB permit a one-time transfer of securities out of the HTM portfolio into the AFS or Trading portfolios, and out of the AFS portfolio into the Trading portfolio, which would allow for transition relief consistent with the transition relief afforded upon the adoption of other new standards.

II. We support the proposed use of a one-time irrevocable option to elect the FVO for financial instruments measured at amortized cost upon adoption of Topic 326.

Permitting a one-time FVO election for certain existing financial instruments will provide significant cost savings to preparers by limiting the need to build costly CECL processes for financial instruments measured on an amortized cost basis that will be significant upon adoption of CECL but that are expected to “run-off” and quickly become immaterial as the existing financial instruments mature and as new financial instruments are elected under the FVO. Entities may already have existing operational processes in place to support such elections, such that the FVO election would be significantly less operationally burdensome as compared to implementing CECL for certain products or business strategies, especially if those products or strategies are expected to have a limited portfolio life post-adoption of Topic 326.

In addition, a one-time election of the FVO will allow some entities to achieve a single measurement methodology for similar types of financial assets, and will allow entities to reassess certain otherwise irrevocable accounting classifications that were made under existing GAAP that may have been different had the provisions of Topic 326 been effective. Accordingly, we support the proposed use of a one-time option to irrevocably elect the FVO for eligible financial instruments upon adoption of Topic 326, applied on an instrument-by-instrument basis.

III. We recommend FASB permit a one-time transfer of securities out of the HTM portfolio into the AFS or Trading portfolios, and out of the AFS portfolio into the Trading portfolio, which would allow for transition relief consistent with the transition relief afforded upon the adoption of other new standards.

The proposal excludes HTM securities from the scope of the one-time FVO election, primarily because the Board had concerns about the additional complexities that could arise, and the Board believed the proposal as written was responsive to the concerns raised by constituents. In addition, the proposal was silent with respect to AFS securities, which are also under the scope of Topic 326. We believe some form of transition relief should be provided for HTM and AFS securities, for the following reasons.

The requirements for measuring credit losses under CECL differ from the requirements of the model used for securities today. This means entities will need to create new credit loss models for their HTM and AFS portfolios and include these models in their broader CECL framework and governance activities, which will require significant costs and effort.

Entities may have designated securities as HTM or AFS many years ago, at a time when the cost of adopting CECL for these securities would not have been considered. CECL has caused entities to reevaluate impacted portfolios and, where adoption costs and/or the ongoing impact are burdensome, an entity may desire to liquidate its HTM or AFS securities or otherwise change how they manage them. However, with respect to HTM securities, the guidance in ASC 320 does not allow entities to take any action, as it prohibits entities from transferring or selling them, outside of specific circumstances that do not apply here. This inability to take any action is unique to HTM securities; comparable

restrictions do not exist for loans or other types of assets within the scope of CECL (e.g, loans can be sold, regardless of the accounting model being used).

With respect to AFS securities, we acknowledge the improvements to current GAAP provided by Topic 326 that will make the accounting for AFS securities more akin to Trading securities (i.e., the ability to reverse prior credit impairments, etc.). However, entities should be allowed the option to elect an existing accounting model for these securities (i.e., Trading), as opposed to having no option (other than to sell a security) to avoid incurring the costs and related effort to reconfigure product processors and financial reporting systems to accommodate the change in the accounting model for AFS securities to include an allowance account.

We believe transition relief could best be accomplished by allowing a one-time transfer of securities out of HTM or AFS upon adoption of Topic 326. Consistent with the requirements of adopting Topic 326, opening retained earnings would be adjusted for the cumulative effect of the transfer. This type of transition relief would avoid the additional complexities associated with the election of the FVO for HTM securities, while transfers out of AFS to Trading would continue to be reported at fair value, without the need for a valuation account.

We further note the Board has previously allowed for one-time transfers of certain HTM securities as part of adopting other new accounting standards, such as the adoption of ASU 2017-12, *Derivatives And Hedging (Topic 815): Targeted Improvements To Accounting For Hedging Activities*.² Thus, allowing a one-time transfer upon adoption of CECL would be consistent with the adoption of other standards that impact securities in the HTM portfolio.

In summary, we believe transition relief through a one-time election to transfer securities out of HTM and into AFS or Trading, and to transfer securities out of AFS and into Trading, would give entities the flexibility needed to adapt their securities portfolios for CECL.

* * *

The Bank Policy Institute appreciates the opportunity to comment on the proposal. If you have any questions regarding our suggestions or comments, please contact the undersigned by phone at 646-736-3958 or by email at David.Wagner@bpi.com.

Respectfully submitted,



David Wagner
Senior Vice President, Head of Finance, Risk and Audit
Affairs & Deputy General Counsel
Bank Policy Institute

cc: Ms. Susan M. Cospers
Financial Accounting Standards Board

² See ASC 815-20-65-3.e.7.

Mr. Wesley Bricker
Office of the Chief Accountant

Mr. Kyle Moffatt
Division of Corporate Finance