

April 1, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

**Re: Supplementary Document—Accounting for Financial Instruments and Revisions
to the Accounting for Derivative Instruments and Hedging Activities: Impairment**

(File Reference No. 2011-150)

The New York State Society of Certified Public Accountants, representing more than 28,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned supplementary document.

The NYSSCPA's Financial Accounting Standards Committee deliberated the supplementary document and prepared the attached comments. If you would like additional discussion with us, please contact Mark Mycio, Chair of the Financial Accounting Standards Committee at (212) 838-5100 or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Margaret A. Wood
President

Attachment

**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**SUPPLEMENTARY DOCUMENT—ACCOUNTING FOR FINANCIAL
INSTRUMENTS AND REVISIONS TO THE ACCOUNTING FOR DERIVATIVE
INSTRUMENTS AND HEDGING ACTIVITIES: IMPAIRMENT**

(FILE REFERENCE NO. 2011-150)

April 1, 2011

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New York State Society of Certified Public Accountants
Financial Accounting Standards Committee

Comments on

**Supplementary Document—Accounting for Financial Instruments and Revisions to
the Accounting for Derivative Instruments and Hedging Activities: Impairment**

(File Reference No. 2011-150)

We have reviewed the Financial Accounting Standards Board’s Supplementary Document, and we appreciate the opportunity to provide our overall comments and responses to specific questions.

We encourage the FASB and the IASB (collectively, the boards) to reach a common solution with a common scope. Overall, we agree with the proposal, which we consider a reasonable compromise, though we have made suggestions to simplify the accounting and enhance comparability.

Question 1: Do you believe the proposed approach for recognition of impairment described in this supplementary document deals with this weakness (ie delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

Response:

Yes, we believe that the proposed approach should result in earlier recognition of expected credit losses that would be helpful in addressing this highly judgmental area.

Question 2: Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?

Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

Response:

To ensure quality accounting, it is very important to have a consistent impairment approach for all relevant financial assets. The proposed impairment model, with our suggested revisions detailed in the following responses, would be at least as operational for other financial assets because single assets and closed portfolios are simpler categories than open portfolios.

Question 3: Do you agree that for financial assets in the ‘good book’ it is appropriate to recognize the impairment allowance using the proposed approach described above? Why or why not?

Response:

Yes, we agree with the "good book"/"bad book" approach with the modifications suggested and explained in our following answers. In conjunction with our answer to Question 6, we suggest that the final standard refer to the “performing book” and the “nonperforming book” rather than the “good book” and the “bad book.”

Question 4: Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

Response:

Yes, the time-proportional basis for determining the impairment allowance would be operational. The proposed approach provides a reasonable valuation of the impairment allowance provided that expectations of future conditions when determining the weighted averages of the age and life of the relevant assets are reasonable and supportable.

Question 5: Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

Response:

Yes, the proposed approach would provide information useful for decision-making. Our suggested revisions would enhance its usefulness because comparability between institutions is an important aspect of user needs. Our suggested revisions allow significant judgment to be used by preparers, external auditors, and regulators and at the same time establish a more consistent framework in which to make such judgments.

Question 6: Is the proposed requirement to differentiate between the two groups (i.e. ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

Response:

No, the proposed requirement to differentiate between the two groups (*i.e.*, “good book” and “bad book”) for the purpose of determining the impairment allowance is not clearly described. The differentiation between the "good book" and "bad book" is left to each institution's credit risk management, which may result in manipulation and significant divergences in application. The varying abilities of different institutions' credit risk managements have been observed in recent years. The language of paragraph 3 (*i.e.*, "collectibility . . . becomes so uncertain") might permit overly-optimistic (and possibly troubled) institutions to include few or no financial assets in the "bad book." We suggest the creation of a more objective benchmark for differentiating between the two books, specifically that inclusion in the "bad book" be required for nonperforming financial assets with this term being clearly defined. Alternatively, minimum criteria could be

required for inclusion in the “good book.” Our recommendation should not create “bright lines” but instead set parameters within which to make decisions. One or more illustrative examples would also be helpful.

Question 7: Is the proposed requirement to differentiate between the two groups (ie ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?

Response:

Yes, however, the establishment of a more objective benchmark to differentiate between the "good book" and the "bad book" (as we suggested in our answer to Question 6) would make the impairment allowance more operational and auditable.

Question 8: Do you agree with the proposed requirement to differentiate between the two groups (i.e. ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

Response:

Yes, we agree with the differentiation between the two books. Applying the measurement requirement for the "bad book" to all relevant financial assets likely would lead to an overstatement of losses in earlier periods, thereby creating an earnings mismatch.

Question 9: The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this proposed model. Specifically, on the following issues:

(a) Do you agree with the proposal to require a floor for the impairment allowance related to the ‘good book’? Why or why not?

Response:

Yes, we agree with the establishment of a floor for the "good book." While the absence of a minimum allowance amount is more conceptually appealing, a floor requirement provides a practical and sensible approach to mitigate the unavoidable uncertainties in determining an appropriate allowance.

(b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the ‘good book’ only in circumstances in which there is evidence of an early loss pattern?

Response:

No, we do not believe that an entity should be required to invoke a floor for the impairment allowance related to the “good book” only in circumstances in which there is evidence of an early loss pattern; see our answer to Question 9(a).

(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?

Response:

We recommend that the floor be defined as credit losses expected to occur within the next twelve months. This provides a consistent approach to enhance comparability, and avoids questionable attempts to define "foreseeable future" when experience indicates that the future is rarely foreseeable.

(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

Response:

No the period considered in developing the expected loss estimate would not change on the basis of changes in economic conditions; see our answer to Question 9(c).

(e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.

Response:

Please see our answer to Question 9(c).

(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a 'ceiling' should be established for determining the amount of credit impairment to be recognized under the 'floor' requirement (for example, no more than three years after an entity's reporting date)? If so, please provide data and/or reasons to support your response.

Response:

Please see our answer to Question 9(c). [If a final standard permits a period longer than twelve months, a time limit should be established to improve comparability and recognize that future speculation becomes less reliable as time progresses.]

Question 10: Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.

Response:

We believe that the floor will typically be higher than the amount calculated in paragraph 2 (a)(i) as institutions will tend to over-estimate their future credit losses particularly in instances in which there is a time horizon exceeding twelve months in the midst of a

volatile market. An example would occur with portfolios of automobile loans during the height of a recession.

Question 11: The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the proposed approach described in paragraph B8(a)? Why or why not?

Response:

We disagree with the flexibility allowed in using either a discounted or an undiscounted estimate. In order to enhance comparability, we suggest that the boards choose a single approach. While a discounted approach is more supportable conceptually, we recommend using an undiscounted approach for simplicity and applicability to institutions of all sizes. Along the same lines, we suggest only allowing use of the straight-line approach.

(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

Response:

See our answer to Question 11(a). [If discounting is permitted, we suggest that the standard clearly specify the type of rate to be used. Otherwise, the flexibility to use various rates increases divergence in application and reduces comparability between institutions.]

Question 12: Would you prefer the IASB's approach for open portfolios of financial assets measured at amortized cost to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the IASB's approach (i.e. to recognize expected credit losses over the life of the assets)? Why or why not?

Response:

No, we would not prefer the IASB's approach for open portfolios of financial assets measured at amortized cost to the common proposal in this document. In order to establish a common standard on the key issue of impairment, the boards have reached a reasonable compromise while ensuring that aspects of their primary objectives have been met. As the boards have met this benchmark, they ought to avoid undercutting the proposed approach by revisiting their earlier conclusions. This might lead to diverging standards.

We also suggest that a final common standard continue to "decouple" interest income and credit impairment. We believe the separation of these two areas provides better information.

Question 13: Would you prefer the FASB's approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the FASB's approach (i.e. to recognize currently credit losses expected to occur in the foreseeable future)? Why or why not?

Response:

Please see our answer to Question 12.