November 5, 2018

<u>*Via Electronic Mail*</u>

Russell G. Golden
Chairman, FASB
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856

RE: Measurement of Credit Losses on Financial Instruments

Dear Chairman Golden,

As institutions progress in their activities to implement Accounting Standards Update 2016-13 (the "CECL" Accounting Standard), concerns are being identified, both through their preliminary testing and through feedback received from investors and regulators. Specifically, recent letters from the Bank Policy Institute ("BPI") and the American Bankers Association and 51 state banking associations, escalate some of these concerns and requests that the Financial Stability Oversight Council engage with the Financial Accounting Standards Board ("FASB") and banking regulators ("the Agencies") to delay CECL's implementation timeline and conduct a comprehensive quantitative impact study to review the systematic and economic risks posed by CECL[1]. The BPI letter indicates the unintended consequences could potentially be mitigated by excluding a portion of CECL reserves from being charged against income and Common Equity Tier 1 capital.

We are proposing an approach ("the Proposal") that would retain the CECL methodology's intent of establishing an allowance for the lifetime of an asset on the balance sheet, but recognize the provision for credit losses in three parts: (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.

We believe the Proposal would better align CECL with the "matching principle", the definition of an expense per FASB Concepts Statement No. 6, international filers under IFRS 9[2], and economics of lending, while still providing financial statement users with decision-useful information. Additionally, the Proposal retains the flexibility of the CECL standard and is not prescriptive of modeling methodologies. Therefore, consideration of any possible practical expedients in the future that establish an institution's best estimate of lifetime losses would not conflict with, or diminish, the benefits of the Proposal.

[1]An October 24, 2018 letter from Senator Thom Tillis to the chairman of the Agencies and FASB raised similar concerns as the BPI letter, asking for a robust analysis of CECL's long-term economic impacts, as well as a serious consideration given to modifying the current implementation timeline.
[2]International Financial Reporting Standards ("IFRS")

While the Proposal has been designed to make CECL's impact more transparent in financial reporting for the benefit of regulators and investors, it does not address the inherent challenge associated with accurately forecasting changes in macro-economic conditions. Specifically, CECL requires institutions to predict economic conditions (and loan losses) over a "reasonable and supportable" period. Many recent studies have demonstrated the challenges associated with forecasting the timing and magnitude of changes in the economic cycle. As a result, it appears reasonable to conclude that institutions will be required to adjust their estimates of lifetime credit loss very close to the onset of an economic downturn, and these changes will be amplified by CECL's life-of-loan credit loss requirement. These factors will result in CECL's impact on capital being significantly more procyclical than the current accounting model and thus functioning contrary to its intended purpose by exacerbating, rather than limiting, the effect of an economic downturn.

The Proposal could be leveraged by the Agencies to reduce the effect on capital thereby avoiding the unintended consequences of additional capital cost passed on to consumers and small businesses through higher pricing, reduced loan tenors, and less access to credit for already underserved borrowers. Further, a delay in the implementation of CECL to complete a comprehensive quantitative impact study of CECL's impacts on lending and regulatory capital would ensure the Proposal appropriately addresses CECL's flaws and adverse systemic and economic effects.

For advanced approaches institutions, CECL's impact under the current capital regime could be mitigated by excluding loss expectations recorded in AOCI from minimum capital requirements. Losses in the first year would continue to flow through earnings and be immediately reflected in Common Equity Tier 1 capital, while losses beyond the first year and recorded in AOCI would be easily identified in financial statements and regulatory reporting through well governed and controlled processes. The Proposal would address inherent capital redundancy concerns if the Agencies amend the capital rules to include an adjustment for CECL's component of losses included in AOCI.

For non-advanced approaches institutions, the capital effects of the Proposal will be similar for product types with loss emergence periods less than or equal to 12 months; however, the Proposal could be accretive to capital for certain financial assets (with loss emergence periods greater than 12 months) as losses beyond the first year would be recorded in AOCI. The Agencies should ensure CECL remains capital neutral regardless of whether the FASB implements this Proposal, and we would expect the Agencies to consider differences in the capital treatment for advanced and non-advanced approaches institutions in any capital proposal.

Many of these stakeholders are concerned that the long-term assumptions used in CECL forecasts will mask changes in current credit quality and could therefore impact safety and soundness, as well as the prospects for dividends. Investors are also concerned of the potential exacerbating impact that increased procyclicality will have on capital management. As the potential increase to the cost of capital will be reflected in the cost and availability of credit, regulators could use this framework to minimize disruption to consumers as they consider a long-term regulatory capital framework that sufficiently harmonizes the impacts of both Basel 3

requirements and CECL. We welcome the opportunity to discuss the Proposal with you. As we believe this issue is of significant concern, we believe a delay in the current CECL effective dates may be necessary to consider this Proposal, or any others, before implementation.

Sincerely,

Ally Financial Inc.
American Financial Services Association
BB&T Corporation
Capital One Financial Corporation
CIT Group Inc.
Citizens Financial Group, Inc.
Comerica Incorporated
Discover Financial Services, Inc.
Fifth Third Bancorp
First Horizon National Corporation
Huntington Bancshares Incorporated
KeyCorp
M&T Bank Corporation
OneMain Holdings, Inc.
PNC Financial Services Group, Inc.
Regions Financial Corporation
SunTrust Banks, Inc.
Synchrony Financial
Synovus Financial Corporation
U.S. Bancorp
Zions Bancorporation

CC: Office of Chief Accountants, SEC, Federal Reserve, OCC, and FDIC