Invested in America

August 27, 2018

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

Re: Transition relief upon adoption of ASU 2016-13 ("CECL")

Dear Mr. Golden:

The Global Financial Institutions Accounting Committee ("GFI" or the "Committee") of the Securities Industry and Financial Markets Association ("SIFMA")[1] understands that the Financial Accounting Standards Board (the "FASB" or the "Board") is contemplating providing certain transition relief for the adoption of ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("CECL"), through the use of a one-time option to elect the Fair Value Option ("FVO") for financial instruments measured at amortized cost upon adoption of CECL.

As you are aware, adoption of CECL is a very significant event for our members and all financial institutions. It affects our lending and investing balances, as well as our respective allowance for loan and lease losses account, which for financial institutions are the largest assets and estimates on our balance sheets. As such, implementation of this standard has broad impact not only on financial reporting, but also risk management of lending and investing activities, requiring significant enhancements to systems, modeling capabilities, data sourcing and data management.

Because the scope and impact of CECL is so significant for financial institutions, our members strongly support the potential transition relief. We believe this transition relief should apply to all financial instruments that could be in the scope of CECL, including securities accounted for under ASC 320. This potential one-time transfer for securities could be permitted as a transfer within ASC 320 (not ASC 825) such that the relevant security disclosures continue to apply for the benefit of our financial statement users.

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[1] *SIFMA is the voice of the U.S. securities industry. We represent the broker-dealers, banks and asset managers whose nearly 1 million employees provide access to the capital markets, raising over $2.5 trillion for businesses and municipalities in the U.S., serving clients with over $20 trillion in assets and managing more than $67 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.*

Additionally, given the significant impact CECL has had on our systems and processes, many of our members would welcome the opportunity to align the accounting for certain products under a single accounting framework build for CECL. Therefore, we ask that the Board also consider providing an option to move financial instruments that were previously elected under the FVO (or classified as trading or available-for-sale under ASC 320) to amortized cost such that these financial instruments would transition to accounting under a CECL methodology.

Transition relief provides the following benefits:

Transfers out of amortized cost accounting

- In an effort to alleviate the operational burden and cost of implementing CECL, some of our members plan on using the FVO for new activity within certain lending portfolios. 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 expected to "run-off" and quickly become immaterial as the existing financial instruments mature and the new financial instruments are elected under the FVO.
- At the time of adoption of CECL, certain financial institutions may no longer plan to pursue certain lending and investing strategies. The ability to elect the FVO would be beneficial as part of the wind down of those strategies and would alleviate the cost of implementing CECL processes for products that are expected to have a limited portfolio life post-adoption of CECL.
- We note that our members generally use the FVO selectively today and have existing operational processes in place to support such elections without incurring significant operational costs. Therefore an FVO election is significantly less operationally burdensome as compared to implementing CECL for certain products/business strategies.

Transfers to amortized cost accounting

- CECL is also causing management of certain financial institutions to reconsider how to manage future lending or investing activities. Given the significant redesigns and enhancements to systems (e.g., credit risk management systems) and processes as part of the implementation of CECL, management may prefer to "reset" for certain existing financial instruments to align the subsequent accounting with the new CECL methodology. It would be operationally beneficial to have the accounting treatment of these existing financial instruments fully aligned with management's revised business strategies and operational capabilities at the time of adoption rather than through a "run-off" process. This "reset" could only occur if the FASB provides management with the ability to transfer financial instruments from fair value to amortized cost (e.g., held-for-investment and held-to-maturity classifications) upon adoption of CECL.

- The combination of system enhancements in connection with the implementation of CECL and the simplifications provided in ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, has improved the ability for many financial institutions to use amortized cost accounting with an effective hedge accounting model for certain products. Some of our members would welcome the opportunity for a one-time election to revert to amortized cost accounting under a CECL framework for legacy financial instruments for which the FVO/fair value accounting was elected as an alternative to hedge accounting, but amortized cost accounting and hedge accounting is now achievable within the processes that are being built as part of the CECL implementation and the improvements to the hedge accounting model. We also note that the one time reclassification in ASU 2017-12 was limited in scope and did not include all the financial instruments in scope of CECL (e.g. loans) and did not provide for the move from fair value to amortized cost accounting.

We believe these one-time options should be available to all preparers. The operational burden of implementing CECL for a specific product can vary significantly across different financial institutions and may depend on their internal organization, the complexity of their specific loan and/or security portfolios, access to data requirements and entity specific resource constraints.

To the extent these options are permitted, we support transition disclosures where investors can understand the reclassifications associated with the adoption of CECL.

Financial institutions are deep into the process of implementing the CECL framework. Given the pervasive effect of CECL on our balance sheet, systems and processes, we believe that these one-time options will provide meaningful transition relief. The Global Financial Institutions Accounting Committee appreciates the opportunity to provide our views and would be pleased to discuss our views with the FASB staff. Please contact me at 212-902-7052 if you have questions or comments concerning our letter.

Regards,

Timothy Bridges
Chair
SIFMA Global Financial Institutions Accounting Committee

cc: Mary Kay Scucci, PhD, CPA, Managing Director, SIFMA
Susan M. Cosper, Technical Director, FASB
Shayne Kuhaneck, Assistant Director, FASB
Jay Shah, Project Manager, FASB
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