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AGING

United States Senate

WASHINGTON, DC 20510

October 24, 2018

The Honorable Jay Clayton
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th and Constitution Avenue, NW
Washington, D.C. 20551

The Honorable Joseph M. Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street SW
Washington D.C. 20219

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

Dear Chairs Clayton, McWilliams, and Powell, Comptroller Otting and Mr. Golden:

I write to express my concern regarding the Accounting Standards Update 2016-13 (also known as the "current expected credit loss" accounting standard for the measurement of credit losses, or "CECL") issued by Financial Accounting Standards Board (FASB) last year. Given I am not aware of any analysis that has been completed by the FASB to assess the impact this change in accounting standard will have on the banking industry or the economy more broadly, I request a delay in implementation until such a study can be completed, which I believe should be completed by an independent third-party. Such a study should not only address the impact at adoption, but also the economic incentives it creates within the banking industry. To address the various concerns, this analysis must first evaluate the standard's effect on the overall stability of the banking sector and on the availability, accessibility, and affordability of credit throughout an economic cycle. Any negative impacts identified in connection with this analysis must be evaluated, and if significant, mitigated through changes to the standard prior to implementation. With CECL's required implementation date quickly approaching, I believe that a delay in full implementation is necessary to provide time to appropriately address the expected negative consequences.

Effective in 2020 for SEC registrants and 2021 for other companies, CECL fundamentally changes how companies will recognize credit losses in their loan and held-to-maturity debt

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security portfolios by requiring upfront recognition of credit losses that are expected over the contractual life of the asset while not providing a similar upfront recognition of associated revenues. This abandonment of the so called “matching principle” creates a strong disincentive for banks to continue lending during an economic downturn – and, as such, is procyclical. Such an approach may, among other things, adversely affect the cost and availability for certain types of credit; in particular mortgages, small business term loans, and loans to non-prime consumers. Additionally, this standard will increase the volatility of earnings estimates (and, by default, regulatory capital), particularly as we move to different phases of an economic cycle, as banks would be required to update the life of loan expected loss each quarter. As these issues and others have both macroeconomic and public policy implications, and in light of the recent U.S. Treasury Department report that “promotes a more robust banking system,” it is, therefore, imperative that these issues be analyzed and practical solutions provided prior to CECL’s effective date.

I am fully committed to the independent manner in which generally accepted accounting principles are formulated. However, as banks have an integral role in the economy, I believe that transparency is needed as to how bankers, regulators, and investors are expected to react to the new paradigm and any effects it may have on the economy more broadly. As such, I urge you to conduct this robust analysis of CECL’s long-term economic impacts. Any negative impacts identified in connection with such an analysis must be evaluated, and if significant, mitigated prior to implementation. With the implementation date quickly approaching, I believe that modifications to the implementation timeline should be given serious consideration. Thank you for your attention to this important matter.

Sincerely,

A handwritten signature in blue ink that reads "Thom Tillis". The signature is fluid and cursive, with the first name "Thom" and last name "Tillis" clearly distinguishable.

Thom Tillis
United States Senate

Cc:
The Honorable Steven T. Mnuchin
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
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