PEOPLE'S UTAH BANCORP

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Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
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Via email: director@fasb.org

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Proposed Accounting Standards Update, Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842):

Dear Mr. Kuhaneck:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, issued by the Financial Accounting Standards Board (FASB or Board). We support the FASB's position to delay the adoption of these complex accounting standards. However, we believe that the proposed two bucket approach is overly complex and will creat a significant lack of comparability across the financial services sectors. Please find our comments to your questions below.

1. Is the two-bucket approach described and applied in this Update understandable? If not, please explain why.

We understand how you arrived at the two-bucket approach as described. However, we do not believe that the amount of annual revenues earned, or the amount of public float held necessarily correlates to the severity of challenges encountered by such entities as described in the Proposed Accounting Standards Update. As a financial institution that just barely exceeds the total revenues test due to our business model, which generates higher yields on interest earnings assets than our peers, we do not believe our organization is more sophisticated than our peers. We believe that using the proposed two-bucket approach will be overly confusing for investors, analysts, and users of financial information, because banks are typically not divided into these two buckets when evaluating peer information or performance. The proposed two-bucket approach will force investors or consumers of financial information to either perform the calculation to determine if a bank falls within the smaller reporting companies ("SRCs") requirements under the SEC's definition or pull publicly filed documents to determine if a company has adopted Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("Credit Losses"), which we believe would be overly cumbersome for investors or consumers of financial institutions. Most comparative information for financial institutions is prepared based on the asset size of the organization. If an investor or consumer of financial information performed an analysis on all banks with total assets of between $2.0 billion to $3.0 billion in assets, for example, the person would not be able to compare, contrast, or conclude on the performance for these financial institutions without individually knowing which financial institutions adopted Credit Losses and which institutions had not. We recommend that the Financial Accounting Standards Board ("FASB") delay the adoption of Credit Losses for all financial institutions as described in our "Other Comments on the Proposed Update" section of this proposal. If the FASB decides to continue with the two-bucket approach to determine the effective date for adoption, we would recommend simplifying the determination to total assets held by the financial institution. We would recommend financial institutions with total assets of $5.0 billion or below be placed in bucket two. This approach would be consistent with regulatory reporting requirements, as well as, allowing investors or consumers of financial information for financial institutions to more easily know which organizations had adopted this accounting guidance without having to exam secondary sources.

2. Should the population of SEC filers that are afforded a delayed effective date (that is, excluded from bucket one) be entities eligible to be SRCs as defined by the SEC? If not, what definitional threshold, if any, do you suggest and why?

As mentioned in our response to question #1, we believe that investors or consumers of financial information for financial institutions do not generally know whether a financial institution falls within the SRC reporting requirements or not. An investor or consumer of such financial information would need to either perform the calculation used to determine if a financial institution is an SRC or pull publicly financial statements to determine which financial institutions adopted Credit Losses. We believe this needlessly places an undue burden on investors and consumers of financial information to evaluate financial performance of peer banks. We would recommend delaying the adoption of Credit Losses for all financial institutions as described in our "Other Comments on the Proposed Update" section of this proposal. If the FASB believes that they should continue with the adoption of Credit Losses for larger financial institutions, we would recommend financial institutions with total assets of $5.0 billion or below be placed in bucket two. Investors or consumers of financial information for financial institutions would immediately know which organizations had adopted this accounting guidance without significant effort.

3. Should the determination of whether an entity is eligible to be an SRC be based on its most recent determination in accordance with SEC regulations as of the date that a final Update is issued? If not, what determination date should be applied?

This question highlights the complexity that this Exposure Draft has introduced to the adoption of an already extremely complex accounting pronouncement. The FASB has forced financial institutions that are eligible to be an SRC based on its most recent determination but may or may not as of the date a final update, to be placed in the situation of not knowing whether they will be adopting one of the most complex accounting pronouncements issued by the FASB. This is another reason why we believe that the FASB should either delay the adoptions for all financial institutions or use a simpler metric for determination such as asset size and set the threshold level for financial institutions that definitively know they will be adopting Credit losses. We would recommend a threshold such as total assets of $5.0 billion or less.

Please provide any additional comments on the proposed Update:

We disagree with the FASB's decision to adopt Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("Credit Losses"), which radically changes the estimate and measurement of accounting for allowance for loan and lease losses ("ALLL") from an incurred loss model to a current expected credit loss model. The adoption of Credit Losses forces management of financial institutions in the untenable situation to significantly increase their estimate of credit losses over a significantly longer time horizon. We also believe that it increases the subjectivity of financial performance for financial institutions as the overall estimate and determination of credit losses significantly increases. We believe that well run financial institutions have effectively managed credit risks over several decades through setting aside annual expected credit losses inherent in their loan portfolio and holding the appropriate level of capital for unexpected losses.

We recommend that the FASB delay the adoption of Credit Losses for all financial institutions. During the interim, we recommend that the FASB quantify the estimated negative financial impact to earnings and capital the adoption will have on all financial institutions; estimate the negative financial impact to future earnings and capital the adoption of Credit Losses will have on all financial institutions; estimate the significantly higher earnings volatility the adoption will have on all financial institutions; estimate the negative impact the adoption of Credit losses will have on the overall economy as financial institutions reduce lending, after the adoption, as such financial institutions rebuild their capital base; estimate the negative impact that the adoption of Credit Losses will have on the stock price of financial institutions as returns decline and the level of overall capital, including ALLL, increases; estimate the negative impact to borrowers as financial institutions will most likely reduce the duration of loans to mitigate the negative impact the adoption of Credit Losses will have to earnings and capital. We suggest the FASB re-evaluate the benefits associated with the adoption of Credit losses with the costs described above.

In addition, we recommend that the FASB clarify the accounting for all financial instruments purchased at a discount, which includes an expected credit loss component. We recommend that the same gross-up approach proposed for purchased credited deteriorated be used for all such financial instruments to (i) eliminate double counting of expected credit losses, which could be material to earning and capital, (ii) and discontinue artificially inflating yields of such instruments by accreting credit discount amounts through interest income.

All purchased loans, whether they are purchased credit deteriorated or not, will have some imbedded amount of current expected credit losses. We believe that any credit discount on purchased loans should be grossed-up and recorded to the ALLL at the time of acquisition. The definition of Purchased Credit Deteriorated Assets as purchased financial assets with more-than-insignificant amount of credit deterioration since origination is confusing. After the adoption of Credit Losses, the fair value of purchased loans should most likely include the current expected credit losses established by the acquired entity if not a higher amount. Such current expected credit losses included in the fair valuation of purchased loans should be grossed-up and recorded in ALLL with no income effect.

We recommend that the FASB work with bank regulatory agencies to address the issue of capital being trapped and not recognized when financial institutions record ALLL in excess of 1.25% of total average assets before the adoption of Credit Losses. The decision made by bank regulatory agencies to calculate regulatory capital with the adoption of Credit Losses compounds the negative effect of this new accounting approach.

Lastly, we are a proponent of the value and use of vintage loss analysis for small, homogenous loan pools. We do not believe that vintage analysis provides value or is generally in use for commercial loans. We recommend that the FASB re-evaluate the disclosure requirements to report the amortized cost basis of loans by origination year and corresponding credit losses for a five-year period.

We appreciate the FASB for allowing us to comment on the proposed accounting guidance and effective date.

Sincerely,

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