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**Comment by the German Banking Industry Committee Regarding
the Proposed Accounting Standards Update: Financial Instruments
– Credit Losses (Subtopic 825-15)**

May 30, 2013

Dear Sir or Madam,

We sincerely regret that the IASB and the FASB were unable to reach a joint position for the new impairment rules and are hence now presenting two separate proposals. While the IASB in its proposal published on March 7, 2013, is essentially keeping to the three-bucket model, the FASB already proposed lifetime loss accounting for all credits in its Current Expected Credit Loss (CECL) model which was published in 2012. The German Banking Industry Committee strictly rejects such an undifferentiated CECL impairment model

We believe that an impairment approach should distinguish between performing and non-performing/impaired loans. This specifically means that the amount of risk provisions to be formed has to depend on credit quality. This kind of distinction is also in line with risk management practice in the banking sector.

An impairment model that differentiates the amount of credit risk provisions to be formed on the basis of credit quality also adequately reflects the "too little too late" criticism that has been expressed regarding the incurred loss model. That's because a certain level of risk provision is already formed for performing loans and would rise further as credit deterioration increases. This means that contrary to the current incurred loss model, risk provisions would be formed at an earlier point in time and to a higher extent.

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The FASB approach would result in a "too much too early" situation due to the general consideration of lifetime losses. At the same time, this would have an adverse effect on long-term credit business (with terms of between 20 and 30 years) which, unlike in the US, is customary in Europe. Although we understand the concerns expressed in the United States with the operational challenges of the IASB model, the operational challenges of the FASB model, particularly with determining life time losses for longer term performing loans, should not be underestimated. Given that the measurement of life time losses is inherently uncertain, there is such a wide range of possible outcomes that the information is unlikely to meet the objectives of financial reporting.

We believe that the FASB approach is also in conflict with the revenue recognition principle in particular where the pricing of financial instruments at initial recognition is already reflective of their prevailing credit quality. The general requirement of forming lifetime losses would mean that large capital buffers would be built up – at least in the case of open portfolios – which could never be used. The purpose of accounting, however, is not to meet with (possible) regulatory requirements, but more importantly, to adequately present the economic situation of a company.

The German Banking Industry Committee still generally welcomes the principle of convergence between IFRS and GAAP. Having said that, only the proposal by the IASB can form the basis for a converged solution.

Yours sincerely,
on behalf of the German Banking Industry Committee
German Savings Banks Association



Dr. Ralf Goebel



Eric Eispert