

March 23, 2020

The Honorable Mitch McConnell  
Majority Leader  
U.S. Senate  
Washington, DC 20515

The Honorable Charles Schumer  
Minority Leader  
U.S. Senate  
Washington, DC 20515

The Honorable Nancy Pelosi  
Speaker  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Kevin McCarthy  
Minority Leader  
U.S. House of Representatives  
Washington, DC 20515

Dear Leader McConnell, Leader Schumer, Speaker Pelosi and Leader McCarthy:

I write to you as the Chair of the Board of Trustees of the Financial Accounting Foundation (“the FAF”), the independent, private-sector body that oversees the Financial Accounting Standards Board (“the FASB”) and the Governmental Accounting Standards Board (“the GASB”). Thank you for your leadership and your work to help stabilize our economy as America addresses the unprecedented challenges caused by the coronavirus pandemic.

My letter today is to note that among the ideas that are designed to benefit the public interest included in the Senate economic recovery package, there are two that very clearly do not. I respectfully request that you remove both draft provisions from the bill currently under consideration. The draft measures are:

- 1) A provision to delay compliance with the Current Expected Credit Losses (“CECL”) accounting standard, which was finalized by the FASB in 2016. The standard took effect for publicly traded banks on January 1, 2020.
- 2) A provision that suspends compliance with FASB guidance about Troubled Debt Restructurings (“TDRs”).

### *Current Expected Credit Losses*

I raise the following concerns about this proposed legislative language:

- *It is unnecessary and does not solve the underlying concerns.* Those who have raised objections to the implementation of the standard are primarily concerned about the effect it has for some banks on their regulatory capital. This concern can be addressed directly by the regulators themselves without requiring any change to CECL or its effective dates. Further, the banking regulators have signaled that they are actively working to address these concerns.
- *It is harmful to investors and the capital markets.* The CECL standard provides greater clarity to investors about the actual risk profile embedded in a bank's loan portfolio. This is a major improvement from the last financial crisis in 2008, when the "incurred loss" accounting model created a mismatch between a bank's reported financial numbers and its actual underlying financial condition.
- *It has unanticipated and costly consequences.* The nation's biggest banks have already made significant investments in systems and business processes to comply with CECL. Many have already communicated to investors their expectations about the likely impact of CECL on their upcoming financial results. Suddenly unwinding those investments and expectations will add unnecessary costs for the banks and create confusion for investors.

### *Troubled Debt Restructurings*

On Sunday, March 22, the prudential banking regulators announced guidance to provide greater clarity in accounting for TDRs that was worked out through collaboration with FASB staff. In response to this announcement, the FASB announced its support for the new guidance and reaffirmed FASB's readiness to support stakeholders in resolving any questions they may have.

As a result, the draft provision in the bill concerning TDRs is moot.

### *Conclusion*

The inclusion of these two provisions in the bill blurs the important distinction between accounting standards and matters of either public policy or regulation. Moreover, it fundamentally undermines the longstanding and time-tested approach in the U.S. to transparent, rigorous and independent accounting standard-setting, which market participants rely upon and that plays a critical role in supporting our capital markets and broader economy.

It is the very urgency behind Congress's response to the pandemic that also cautions against rashly adopting unprecedented measures that would act to diminish confidence in generally accepted accounting principles (GAAP), financial reporting and our markets during this critical time.

Thank you for considering these views. I am available to answer any questions you may have as you consider this important legislation.

Sincerely,



Kathleen L. Casey  
Chair, Board of Trustees  
Financial Accounting Foundation

Cc: Financial Accounting Foundation Board of Trustees  
Russ Golden, Chairman, Financial Accounting Standards Board