NACUBO

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April 1, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2011-150

Dear Technical Director:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Supplementary Document, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - Impairment" (the Supplementary Document). NACUBO's comments on the proposal were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 2,100 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

Overall Observations of the Supplementary Document
We appreciate the Boards redeliberating the important issue of accounting for credit impairments. However, we reiterate the concern raised in our September 30, 2010 letter to the Board – the discussion in the basis for conclusions of the original exposure draft indicates that these standards are intended for banks and credit unions but are applicable to all organizations. We are concerned that, in an effort to move away from industry-specific guidance, the Boards are creating standards that are, in fact, aimed at a specific industry but required to be followed by all entities. This, then, results in undo effort and meaningless disclosures for organizations that are not within the industry that is targeted by the standards. Readers of financial statements are interested in information that is relevant to the preparer's industry and, by requiring reams of disclosure that is irrelevant, it masks the truly important information in the statements.

While we see some improvements to the original proposals on credit impairment, we remain concerned about the application of the new guidance to higher education institutions. For colleges and universities, this guidance applies primarily to student loans and faculty/staff mortgage loans. While these loans are managed as groups for administrative ease, we do not believe that they meet the criteria of pooled financial assets as expressed in the original exposure draft which stated:

> For the purpose of assessing and measuring impairment of pools of financial assets, an entity shall aggregate financial assets on the basis of **similar risk characteristics** (emphasis added). For example, similar risk characteristics include the following:
> a. Internal or external (third-party) credit score or ratings
> b. Risk ratings or classification
> c. Financial asset type
> d. Collateral type
> e. Size
> f. Interest rate
> g. Term
> h. Geographic location
> i. Industry of the borrower.

The substance of loans made by a higher education institution, which is not in the business of lending, is quite different from those held by a financial institution whose business it is to make and service loans. Student, faculty and staff borrowers do not go through a credit screening process and loan terms do not vary based on such a process. Higher education institutions do not group together similarly situated credit worthy borrowers into loan pools. Further, since these types of loans are not sold, basing loss estimates on expectations of future changes in economic and market conditions does not make sense for colleges and universities. The mere fact that an organization manages a group of like assets as a unit should not dictate the accounting and reporting for those assets. Rather, the organization's business strategy should drive these matters. Based on this, we request that the Board specifically exclude from this proposed guidance loans that are managed as a group for administrative ease only.

As we discussed with the Board in our January 2011 liaison meeting, we believe that, in order to provide the greatest value to users of financial statements, standards should have a "threshold" for applicability. For example, if the amounts to which the standard applies are greater than a specified percentage of assets (or liabilities, revenues or expenses, as the case may be) reported in the financial statements, then certain accounting and reporting requirements would apply. This would likely be the case where such transactions are a key component of the organization's business. If, however, the amounts are below that specified percentage, then a second, less onerous set of accounting and reporting information would be required. This model would help to eliminate irrelevant disclosures and highlight relevant information based on the organization's key business activities. Alternatively, the boards could consider addressing the business reason behind the use of a financial instrument. If the business practice is substantially different from the application that certain accounting guidance seeks to qualify or quantify (such as is the case with student loans as discussed above), then an abbreviated form of accounting and reporting guidance would be required.

Despite our conclusion that student, faculty and staff loans would not be subject to the guidance in the Supplementary Document, we have provided responses to the selected questions below in the event that our conclusion is erroneous and the guidance would be applicable. In general, we believe that the expected loss model proposed in the Supplementary Document would, in some cases, result in reserves that exceed the actual amount of incurred losses of the portfolio. We believe that the incurred loss model currently in use should be retained and losses recognized when a triggering event occurs that would indicate that a loss is possible.

Question 1: Do you believe the proposed approach for recognition of impairment described in this supplementary document deals with this weakness (i.e. delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

It appears that the Boards' intention in issuing this guidance is to require entities to increase reserves. While we agree that reserves should be sufficient to cover losses that occur, we do not believe that they should be recognized prior to some triggering event that indicates that they are likely to occur. As noted above, we strongly urge the Boards to retain the incurred loss model currently in use. To address the weakness described in the Supplementary Document, the Boards should consider lowering the threshold for recognition rather than entirely moving away from the incurred loss model.

Question 2: Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?

Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

The concept of a closed portfolio is not one that is often seen in higher education. That said, it does seem that the model would work for both open and closed portfolios. We do not believe, however, that the model will work for individual assets or for assets that are managed as a group for administrative ease, as it appears to require some minimum reserve for credit loss. Unless the guidance is clarified to allow reserves to be zero, then it would not be an appropriate model for individual or grouped assets that are not impaired and for which no credit losses are anticipated.

Question 3: Do you agree that for financial assets in the 'good book' it is appropriate to recognize the impairment allowance using the proposed approach described above? Why or why not?

Spreading expected losses over the expected life of the pool is far preferable to recognizing them on day one. However, we maintain our position that the incurred loss model should be retained. In higher education losses are not incurred at the inception of the loan and to recognize them at that point would understate the assets of the organization. In addition, for portfolios which rarely incur losses, the assets would always be understated. For example, in the case of faculty/staff mortgage loans, the payments are typically deducted from the employee's paycheck and, in the event the employee leaves the school, they must pay the loan off in full – whether through refinancing with another lender or sale of the property.

Question 4: Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

We are concerned that the calculation of the time-proportional expected credit losses could be difficult, especially for less sophisticated institutions. Even for more sophisticated institutions, systems would need to be modified or developed to handle the model. In addition, we find that most colleges and universities have processes in place which allow them to determine an appropriate and reasonable reserve for their receivables. We are not aware of any higher education institution materially misstating their financial statements as a result of an inappropriate allowance being placed on their loan receivables. As a result, we believe that, should this model be required for all loans managed as a group, colleges and universities will go through the machinations required by the model in order to arrive at the same reserve amount that they have today. It will become another audit hurdle to overcome with no apparent value to the organization or the users of the financial statements.

Question 5: Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

As noted above, to recognize losses before there is a triggering event results in an understatement of the value of those assets at the balance sheet date. This representation in the financial statements could alter financial ratios and potentially result in violation(s) of covenants.

Question 9: The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this proposed model. Specifically, on the following issues:

(a) Do you agree with the proposal to require a floor for the impairment allowance related to the 'good book'? Why or why not?

(b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the 'good book' only in circumstances in which there is evidence of an early loss pattern?

(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?

(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

(e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.

(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a 'ceiling' should be established for determining the amount of credit impairment to be recognized under the 'floor'

requirement (for example, no more than three years after an entity's reporting date)? If so, please provide data and/or reasons to support your response.

Because we support an incurred loss model, we do not believe that an allowance should be recorded until there is a triggering event that would indicate that it is necessary.

Question 12: Would you prefer the IASB's approach for open portfolios of financial assets measured at amortized cost to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the IASB's approach (ie to recognize expected credit losses over the life of the assets)? Why or why not?

Question 13: Would you prefer the FASB's approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific approach, do you prefer the general concept of the FASB's approach (ie to recognize currently credit losses expected to occur in the foreseeable future)? Why or why not?

As discussed in earlier comments, because of the types of loans seen in higher education, we do not agree with the FASB's proposed approach to recognize estimated losses in total immediately. Neither do we agree with the IASB's approach of recognizing expected losses over the life of the assets. We reiterate our preference for an incurred loss model, as it provides the best evidence of the value of an entity's financial assets at the balance sheet date and is the most in keeping with the existing guidance in FAS 5 (FASB ASC 450).

In closing, we wish to express our appreciation for the opportunity to comment. We hope that the Board will address our concerns. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to Sue Menditto at 202-861-2542 or sue.menditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy