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Re: File reference: 1700-100

Dear Mr. Golden:

Grant Thornton LLP appreciates the opportunity to comment on the proposed FASB Statement, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, and we support the Board's effort to improve disclosures about financing receivables. We support the issuance of a Statement to amend the disclosure requirements related to financing receivable, but we believe that certain provisions should be modified.

General comments

Objectives

We believe that the proposed objectives in paragraph 310-10-50-11A and 50-14B should be incorporated with those currently in paragraph 1 of the proposed Statement. In addition, we believe that the disclosure objectives should be included prior to paragraph 310-10-50-2.

Further, we believe that the objective in the proposed Statement could be enhanced by including language similar to the guidance that follows the objectives in paragraph 16A of Statement 166, *Accounting for Transfers of Financial Assets*. Specifically, we believe that the disclosure requirements in Topic 310, *Receivables*, should include the minimum requirements to meet the disclosure objectives set forth in the proposed Statement. For example, we believe that the level of disclosures needed to meet the disclosure objectives will depend on the composition of an entity's loan portfolio and as a result an entity may need to supplement the disclosure requirements to meet the disclosure objectives.

Level of Disaggregation

While we agree with the proposal to require information at a more disaggregated level than is currently required, we believe that the approach to disaggregation could be simplified by eliminating the term "Class of Financing Receivable."

The exposure draft sets forth two levels of disaggregation. First, it defines *portfolio segment* as “the level in which a creditor develops and documents a systematic methodology to determine its allowance for credit losses.” As noted in Appendix B of the proposed Statement, the Board defined the term *portfolio segment* to be consistent with SEC Staff Accounting Bulletin (SAB) 102, *Selected Loan Loss Allowance Methodology and Documentation Issues*, and the FFIEC *Interagency Policy Statement on Allowance for Credit and Lease Losses*. Second, it defines *class of financing receivable* as the “level of information that enables users of financial Statements to understand the nature and extent of exposure to credit risk arising from financing receivables held at the date of the financial statements.” The proposed Statement goes on to state that “classes then must be disaggregated to the level that management utilizes when assessing and monitoring risk and performance of the portfolio.”

We believe that requiring management to further disaggregate its loan portfolio at a level below portfolio segment could indicate that management has not complied with SAB 102 or the Interagency Policy Statement. As noted in SAB 102, loans that are not individually considered impaired should be grouped based on similar risk characteristics for evaluation under FASB Statement 5, *Accounting for Contingencies*. Although SAB 102 does not provide detailed guidance on what should be considered in determining similar risk characteristics, we believe that the example factors included in the proposed definition of class should be considered in management’s determination of portfolio segments and question why management should be required to disclose information on a more disaggregated basis than how it has segmented its loan portfolio to determine its allowance for credit losses.

Diversity in Practice

We believe that there is diversity in practice as to when loans are reported as impaired, and we have observed that some entities include smaller-balance homogenous loans that are collectively being evaluated for impairment in their disclosure of impaired loans even though such loans are excluded from the scope of the impaired loan disclosures. For example, some entities have a policy that if a consumer loan is past due over XX days, it should be placed on nonaccrual. We have observed that some entities consider all nonaccrual loans to meet the definition of an impaired loan. Further, we note that investors would be better served by disclosure of all impaired loans and not just impaired loans that are individually evaluated for impairment.

Responses to the Board’s specific questions in its Notice to Recipients

Question 1: This proposed Statement defines a financing receivable as both loans as defined by FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, and lessors’ investment in leases other than operating leases that have been recorded as assets in accordance with FASB Statement No. 13, *Accounting for Leases*. Do you agree with the definition used to identify a financing receivable subject to the provisions of this proposed Statement? If not, why not?

We disagree with the proposed definition to determine what is subject to the provisions of this proposed Statement. More specifically, we believe that the scope should exclude a lessor’s

investment in leases other than operating leases that have been recorded as assets in accordance with Statement 13. We note that paragraph 310-10-35-13 of the Codification (subsequent measurement of receivables/impairment) specifically excludes leases. However, many of the disclosure required by this proposed Statement would require application of the subsequent measurement guidance in Topic 310. For example, paragraph 310-10-50-15 would require that a creditor disclose information about financing receivables that meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17 even though leases are specifically excluded from the scope of section 310-10-35. Further, we believe that the types of leases that the Board is trying to capture are subject to the impairment guidance in Topic 360, *Property, Plant, and Equipment*, and not Topic 310.

In addition, we are unclear as to why the Board has chosen to use the term *financing receivable* to determine what is subject to the provisions of this proposed Statement. More specifically, the proposed Statement defines a financing receivable in the exact same manner the term *loan* is defined in the Codification and only encompasses certain leases through the addition of examples of what meets the definition of a financing receivable. However, as discussed previously, paragraph 310-10-35-13 specifically excludes leases from the impairment guidance in Topic 310. As a result, the disclosures in Topic 310 would have a different scope than the other subtopics in Topic 310.

We recommend that (1) the term *financing receivable* be omitted in the final Statement and that the Board instead uses the term *loan* in section 310-10-50 and (2) any amendments to the disclosures related to leases should be included in Topic 840, *Leases*, and/or Topic 360.

We believe that the relevant sections in Topic 840 should be amended to point users of the Codification to the applicable disclosures in section 310-10-50 if the Board disagrees with our recommendation to exclude receivables relating to lessors' rights to payments from leases other than operating leases that have been recorded as assets in accordance with the provisions of Topic 840 from section 310-10-50. In addition, we recommend that the scope exceptions included in the definition of financing receivables be included in the scope of section 310-10-50 and not part of the definition.

Question 2: This proposed Statement would apply to all creditors, including all public and nonpublic entities that prepare financial Statements in accordance with generally accepted accounting principles. Do you agree with the scope of this proposed Statement? If not, why not?

We do not agree that the proposed Statement should apply to nonpublic entities in its entirety; however we do believe that certain disclosures required by this proposed Statement should be provided by nonpublic entities. In particular, we note that a nonpublic entity's financial statement users are different than those of a nonpublic entity. A nonpublic entity's financial statement users primarily consist of the entity's board of directors, the entity's regulator (for example, the Federal Deposit Insurance Corporation), and shareholders who typically have ready access to management and the ability to obtain necessary information. In a nonpublic entity setting, we believe that banking regulators have the ability to require disclosures as part of

their regulatory reporting requirements imposed on regulated institutions. In contrast, financial statement users of public entities also consist of analysts and typically a larger shareholder base that do not have ready access to management and may be restricted from obtaining certain information as a result of Regulation FD, *Fair Disclosure*.

As noted above, we do believe that there are certain disclosures that should be required of nonpublic entities as follows:

- At a minimum, nonpublic entities should be required to segregate their disclosures between those loans that were acquired as part of a business combination pursuant to FASB Statement 141(R), *Business Combinations* and those that were not acquired as part of a business combination pursuant to Statement 141(R).
- An analysis of the age of the carrying amount of financing receivables that are past due, but not impaired
- Management's policy for determining which loans the creditor individually assesses for impairment

Please also refer to our response to Question 8.

Question 3: This proposed Statement would require a rollforward schedule of the total allowance for credit losses in both interim and annual reporting periods by portfolio segment and in the aggregate. In addition, it also would require a rollforward schedule of financing receivables in both interim and annual reporting periods by portfolio segment and in the aggregate. Do you believe those disclosures will assist financial Statement users in better understanding the financial information for the total allowance for credit losses as well as the associated financing receivables? If not, why not?

We believe that a rollforward schedule of the of the total allowance for credit losses in both interim and annual reporting periods by portfolio segment and in the aggregate will assist financial statement users. However, we are concerned with the requirement to further segregate the rollforward between loans individually evaluated for impairment and those collectively evaluated for impairment. We believe that segmenting the rollforward between loans individually evaluated for impairment and those collectively evaluated for impairment is unnecessary. For example, we believe that the only change reflected in the collectively evaluated impairment rollforward could be a change in the provision for loan losses (see below) and such a change can be disclosed and discussed without a rollforward.

If the Board concludes that it will require an entity to segregate the rollforward between loans individually evaluated for impairment and those collectively evaluated for impairment, we believe that the Board needs to provide guidance on when a charge-off should be reflected in the rollforward related to the allowance for individually evaluated impaired loans or the allowance for collectively evaluated for impaired loans. When a decision is made to charge-off a

loan, management may be specifically evaluating the loan for impairment for the first time. However, as is the case for many residential real estate loans that are collectively evaluated for impairment, they are not individually evaluated for impairment (charge-off) until foreclosure (for example). As a result, we are concerned that without further guidance, a potential for diversity in practice exists as to whether such charge-off should be reflected in the individually evaluated or collectively evaluated rollforward.

In addition, we do not believe that a rollforward schedule of financing receivables will assist financial statement users by itself. Without a qualitative discussion, a rollforward may not provide meaningful information about how changes in the financing receivable portfolio (unrelated to credit quality) affect management's allowance for credit losses calculation. As a result, we believe that the proposed Statement should require a qualitative discussion of how changes in financing receivables are evaluated and reflected in management's allowance for credit losses that management may wish to supplement with a rollforward of the financing receivables. We believe that management may be able to achieve the objective stated in paragraph 310-10-50-11A(c) of the proposed Statement qualitatively or by including a rollforward supplemented by a qualitative discussion.

Question 4: This proposed Statement would require interim and annual credit quality disclosures about a portfolio by class of financing receivable, including quantitative and qualitative information about the credit quality of financing receivables. Do you believe those disclosures will assist financial Statement users to better understand the credit quality for the associated financing receivables? If not, why not?

We believe that credit quality disclosures would assist financial statement users to better understand the credit quality of associated financing receivables, however we believe that it may not be cost beneficial for preparers to provide this information. We would expect that the extent of quantitative credit quality information disclosed by entities to vary greatly depending on entity specific factors such as an entity's size, composition of its loan portfolio, and information systems. Further, we believe that in some cases quantitative information may be limited or nonexistent, especially for smaller entities who monitor their loan portfolio credit quality in a less formal manner that does not necessarily consider quantitative credit quality indicators and depend on trends in past due loans (which does not appear to meet the definition of a credit quality indicator). Additionally, some entities do not necessarily track credit quality indicators on information systems. Rather, much of this data is only included in individual loan files and entities will need time to gather this information in their information systems and develop appropriate internal controls. For example, an entity may document the loan-to-value ratio on origination of a loan, however that information may not be included in its information systems.

We also note that the definition of credit quality information would require the "use of the most current information available." While agree that this is necessary for it to be meaningful to financial statement users, we note that updating this information on a regular basis may not be cost beneficial and note that if an entity is simply updating its credit quality indicators for purposes of disclosures, we would question whether such indicator is a representative credit

quality indicator. For example, an entity may obtain the loan-to-value ratio on origination of a loan, however it may not update the loan-to-value ratio on a regular basis because the loan is paying as agreed and management may be considering other credit quality indicators that cannot be quantified. As a result, we believe that the proposed Statement should require a qualitative discussion about the credit quality of financing receivables and how management monitors the credit quality, supplemented by quantitative information.

In addition, we believe that the requirement to disclose credit quality information should not differ depending on the measurement attribute. As proposed, the Statement would require qualitative and quantitative information for financing receivables carried at amortized cost while it would only require quantitative information if the financing receivable is carried at a measurement other than amortized cost.

Please also refer to our General Comments – Level of Disaggregation for more details.

Question 5: This proposed Statement would require an analysis of the age of financing receivables that are past due, but not impaired, at the end of the reporting period separately for each class of financial instruments. Do you believe those disclosures will assist financial Statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

We agree that disclosure of the age of financing receivables that are past due, but not impaired, at the end of the reporting period will assist financial statement users to better understand the credit quality of the associated financing receivables. Please refer to our General Comments – Level of Disaggregation for more details.

Question 6: This proposed Statement would require the fair value of loans at the end of the reporting period by portfolio segment. Do you believe those disclosures will assist financial Statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

No, in general we do not believe that disclosing the fair value of loans at the end of the reporting period by portfolio segment would assist financial statement users because credit risk is only one of the many inputs that go into the determination of fair value. However, such disclosure would be meaningful for loans that are held for sale.

We note that this requirement is redundant with the existing requirement in FASB FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments,” that requires an entity to disclose the fair value of financial instruments on a quarterly basis. In addition, we note that the Board has recently decided to issue a proposal on *Improving Disclosures about Fair Value Measurements* that would provide guidance on disaggregating disclosures beyond the line item in the Statement of financial position. As a result, we do not believe that this requirement should be included in Topic 310, rather it should be included as an amendment to Topic 820 as part of the Board’s separate project on *Improving Disclosures about Fair Value Measurements*.

Question 7: Do you believe it is operational for entities to disclose all of the proposed requirements for interim and annual reporting periods? Why or why not?

We believe that it is operational for entities to disclose the proposed disclosure requirements in interim and annual reporting periods. However, we are concerned with the recent trend that every new disclosure requirement be required for interim and annual reporting periods. We note that SEC Regulation S-X.T. Rule 10-01 indicates:

The interim financial information shall include disclosure either on the face of the financial statements or in accompanying footnotes sufficient so as to make the interim information presented not misleading. Registrants may presume that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnote disclosure which would substantially duplicate the disclosure contained in the most recent annual report to security holders or latest policies and practices, details of accounts which have not changed significantly in amount or composition since the end of the most recently completed fiscal year, and detailed disclosures prescribed by Rule 4-08 of this Regulation, may be omitted.

Consistent with the above, we note that during normal economic cycles, the information that would be required by this proposed Statement may not change significantly between periods and thus question the cost benefit of requiring institutions to repeat disclosures in every quarter. As a result, we recommend that the Board require the information to be disclosed in each quarter unless it substantially duplicates the disclosures contained in the most recent annual report to security holders or latest policies and practices. We believe this principle should be applied to all disclosures in Topic 270. In addition, we recommend that the Board consider this as part of its project on the disclosure framework.

Question 8: The final Statement is expected to be issued in the third quarter of 2009. The Board concluded that this proposed Statement would be effective for financial Statements beginning with the first interim or annual reporting period ending after December 15, 2009. Do you agree with the Board's decision on the effective date? If not, what would be a reasonable period of time to implement the provisions of this proposed Statement? If you do not agree, please provide a description of the process changes necessary to implement this proposed Statement that would require additional time.

As discussed in question 2, we do not believe this proposed Statement should be applicable to nonpublic entities in its entirety.

If the Board believes that this proposed Statement should apply to nonpublic entities, we believe that nonpublic entities should be required to disclose the non credit quality information and *encouraged, rather than required*, to disclose credit quality information (see separate discussion below related to the effective date of credit quality information) required by this proposed Statement as of the first interim or annual reporting period ending after December 15, 2010,

unless such information is already required to be disclosed as part of regulatory filings. We note that certain disclosures are not currently provided by nonpublic entities. In contrast, public entities have been providing qualitative discussions as part of their management discussion and analysis of their reports on Form 10-K and Form 10-Q. As a result, public entities have a “head start” on nonpublic entities. Further, we believe that this different effective date is necessary due to the different environments public and nonpublic entities operate in and the expected timing of a final Statement.

However, we believe that nonpublic entities should be required to disaggregate its disclosures between financing receivables acquired in a business combination that are being accounted for pursuant to Statement 141(R) and other financing receivables. We believe that such disaggregation would be especially important for financial statement users in understanding how the accounting for loans acquired in a business combination affects an entity’s allowance for credit losses.

As noted in our response to question 4, we do not agree that the final Statement should require quantitative credit quality indicators. However, if the Board decides to require quantitative credit quality indicators, we believe that the effective date for the credit quality information should be *encouraged* beginning with the first interim or annual reporting period ending after December 15, 2009, and required one year later for public entities and encouraged, not required, for nonpublic entities.

In addition, we believe that the disclosures and disaggregation required by the proposed Statement are especially important in assisting financial statement users’ analysis of entities that have acquired loans in a business combination pursuant to Statement 141(R) or will be consolidating formerly qualifying special purpose entities on adoption of FASB Statement 167, *Amendments to FASB Interpretation No. 46(R)*. As such we recommend that the Board note this in the basis for conclusions and we believe that this should be incorporated into the guidance on disaggregation as minimum disaggregation thresholds.

Other Drafting Suggestions

Definition of Carrying Amount

The proposed Statement defines the term *carrying amount* differently in paragraph 4 of the proposed Statement and Appendix C of the proposed Statement. For example, paragraph 4 of the Statement defines *carrying amount* to include any fair value hedge accounting adjustments while the definition included in appendix C excludes any fair value hedge accounting adjustments. We believe that the final definition should exclude any fair value hedge accounting adjustments.

The proposed Statement would replace the term *recorded investment* with *carrying amount* in section 310-10-50. However, we note that the term *recorded investment* is also used in other sections in Topic 310 (for example in paragraph 310-10-35-24) and elsewhere in the codification (for example in Topic 860, *Transfers and Servicing*). As a result, we believe that the Board should

consider whether the term *recorded investment* should be changed to *carrying amount* in other places or whether the term should be clarified rather than replaced.

If the Board does decide to change the term *recorded investment* to *carrying amount* in section 310-10-50, the Board should replace the term *recorded investment* with *carrying amount* in the table on the bottom of page 30 of the proposed Statement.

Credit Quality

The proposed Statement would exclude impaired loans from the credit quality information that management discloses. We believe that when management discloses its internal risk ratings, impaired loans should be included in the disclosure of internal risk weightings in order to provide financial statement users with a complete picture of the loan portfolio's credit quality and to allow financial statement users to understand how the internal risk weightings are reflected in management's allowance for credit loss calculation.

Paragraph 310-10-50-14B could be read to require disclosure of only one credit quality indicator. We do not believe that this was the Board intention and recommend the first use of the term *credit quality indicator* in paragraph 310-10-50-14B be changed to *credit quality indicator(s)*.

Terminology

The proposed Statement would require an entity to segregate between financing receivables that were individually evaluated for impairment, and financing receivables that were collectively evaluated for impairment. As more fully discussed in section 4.C of SAB 102, an entity may have a policy in which large loans must be evaluated individually for impairment. As a result of that analysis, an entity may determine that the loan is not impaired and may include that loan in groups of loans with similar characteristics that are evaluated collectively for impairment. To avoid any confusion, we recommend that the Board change the terminology of *individually evaluated for impairment* to *individually identified impaired financing receivables*.

Paragraph 310-10-50-14B(b) refers to lower of cost or *market*. We believe that it should refer to lower of cost or *fair value* consistent with the amendment FASB Statement 157, *Fair Value Measurements*, made to FASB Statement 65, *Accounting for Certain Mortgage Banking Activities*.

Loan Modifications

Paragraph 310-10-50-7 would require information about loans that have been modified in the current year subsequent to being past due. We believe that the Board should clarify whether this is limited to trouble debt restructurings or not. In addition, we believe that these disclosures should also apply to loans that management has modified prior to an event of default when default is reasonably foreseeable and such modification meets the definition of a troubled-debt restructuring.

Reconciliations

Paragraph 310-10-50-14B(c) would require a reconciliation of financing receivables carried at amortized cost, and those carried at a measurement attribute other than amortized cost, to the collectively evaluated impaired financing receivable allowance portion of the allowance for

credit losses. We believe that this disclosure requirement should only be applicable to loans carried at amortized cost as loans not carried at amortized cost (loans carried at fair value, lower of cost or fair value, and present value of amounts to be received) would not have an associated allowance for credit losses.

Other

- The summary headings listed in paragraph 310-10-50-1 are not listed in the order in which they are laid out in paragraphs 310-10-50-2 through 50-20.
- Certain headings listed in paragraph 310-10-50-1 are worded differently than those included in paragraphs 310-10-50-2 through 50-20.
- The headings listed in paragraph 310-10-50-1 include “Loss contingencies” and “Risks and uncertainties,” however the corresponding guidance was not included in Appendix C. In addition, paragraph 310-10-50-14B includes guidance on credit quality information, however a corresponding heading was not added to paragraph 310-10-50-1.
- The disclosure in paragraph 310-10-50-11B(c) appears to be duplicative with the disclosure required by 310-10-50-12.
- We believe that the addition to paragraph 310-10-50-15(b) should be a separate paragraph.
- We believe that the disclosure in paragraph 310-10-50-15(d) should be included under the heading “Accounting Policies for Doubtful Accounts.”
- Certain disclosures in section 310-10-50 apply to financing and trade receivables; however the disaggregation guidance of portfolio segment and class only apply to financing receivables. We believe that consideration should be given as to whether trade receivables should also be further disaggregated (for example, should the by disaggregated by industry).
- We recommend that the disclosure in paragraph 310-10-50-4 be changed from a disclosure by major category of loans to a disclosure by portfolio segment.
- The proposed Statement would delete the requirement in paragraph 310-10-50-6(d) and move it to paragraph 310-10-50-11B (b). In making this change, the requirement to disclose the policy for charging off uncollectible trade receivables has been omitted. We believe that this disclosure is necessary and recommend that the charge off policy remain as paragraph 310-10-50-6(d).

We appreciate the opportunity to comment on the proposed Statement and would be pleased to discuss our comments with the FASB staff. If you have any questions, please contact Mark K. Scoles, Partner, Accounting Principles Consulting Group, at 312.602.8780 or

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Very truly yours,

/s/ Grant Thornton LLP