

February 12, 2010

Russell G. Golden, CPA Technical Director FASB 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Re: December 17, 2009 Exposure Draft (ED) of a Proposed Accounting Standards Update, Receivables (Topic 310): Effect of a Loan Modification When the Loan Is Part of a Pool That is Accounted for as a Single Asset [File Reference No. EITF090I]

Dear Mr. Golden:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC supports the proposed accounting changes in the ED but seeks:

- additional disclosure requirements for individual loans that have been modified since acquisition but continue to be accounted for within a pool; and
- additional guidance as to the determination of the carrying amount when an individual loan must be removed from the pool.

Further discussion of these points, as well as TIC's responses to the Board's questions for respondents, is provided below.





SPECIFIC COMMENTS

Scope

Question 1: Do you agree that entities should not evaluate whether modifications of loans accounted for within a pool under Subtopic 310-30 meet the criteria to be accounted for as troubled debt restructuring? If not, why not?

TIC agrees that entities should not evaluate whether modifications of loans accounted for within a pool under FASB *Accounting Standards Codification* (ASC) Subtopic 310-30 meet the criteria to be accounted for as a troubled debt restructuring. Currently, some entities remove troubled loans from a pool and account for them as a troubled debt restructuring. Others retain the troubled loans in the pool. The ED would simplify the accounting and eliminate diversity in practice.

Question 2: The Board has a separate project on its agenda relating to improving disclosures on loan losses. Are there specific disclosures that the Board should consider that would be helpful for users about pools of loans accounted for under Subtopic 310-30 or loans modified within those pools?

TIC believes that in order to increase the transparency as to the risk exposure for loans that are accounted for under ASC Subtopic 310-30, the Board should consider requiring the following disclosure related to an entity's exposure to loans that have been modified since acquisition but continue to be accounted for within single pooled assets:

- 1. The total recorded investment in modified loans included in single pooled assets at the end of each period.
- 2. The average recorded investment in modified loans included in single pooled assets during each period.
- 3. The impact of such modifications on the projection of future cash flows for the pool; for instance, whether the modifications caused an increase in the accretable yields of the pools or whether they triggered further impairment.

TIC believes these disclosures would be necessary to inform financial statement users that loans within the pool have been modified subsequent to their acquisition and the corresponding effect the modification would have on the expected yield of the pool.

Question 3: ASC paragraph 310-30-40-1 requires a loan to be removed from a pool of loans at its carrying value if the investor sells, forecloses, or otherwise receives assets in





satisfaction of the loan, or the loan is written off. The Task Force noted there was diversity in practice regarding the determination of the carrying value amount of the loan removed from a pool. While the amendments in this Update do not directly affect and are not affected by this diversity in practice, do you believe that additional guidance is needed to clarify how the carrying value of a loan should be determined upon removal from a pool? If so, do you have any suggestions on what those clarifications should be?

TIC believes that additional guidance is needed to clarify how the carrying value of a loan should be determined upon removal from a pool of loans when the investor sells, forecloses, or otherwise receives assets in satisfaction of the loans, or the loan is written off. TIC believes the final standard (ASC paragraph 310-30-40-1) should define carrying value as the loan's proportionate percentage of the pool at inception. Any gain or loss resulting from derecognition would be recognized prospectively in the provision for loan losses as the allowance for loan losses continually adjusts over the life of the pool.

This change would therefore eliminate unnecessary diversity in practice and would meet the needs of a significant group of financial statement users.

Question 4: Upon adoption of the amendments in this proposed Update, should entities receive the option to make a one-time election to change the unit of accounting from a pool basis to an individual loan basis? If not, why not? Entities that make this election would then be required to apply the troubled debt restructuring guidance to future modifications on an individual loan basis.

TIC believes that, upon adoption of the amendments in this proposed Update, entities should receive the option to make a one-time election to change the unit of accounting from a pool basis to an individual loan basis. This option would simplify the adoption of the proposed Update for those entities that previously evaluated modified loans against the troubled debt restructuring criteria and removed those modified loans from the pool and accounted for them as a separate asset.

TIC recommends that the Board clarify the application of the one-time election to change the unit of accounting from a pool basis to an individual loan basis. TIC believes it should only apply for entities that have already separated a modified loan from a pool of loans prior to adoption of this Update.

Question 5: Do you agree with the proposed effective date and transition method.

TIC agrees with the proposed effective date and transition method.





TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Philip J. Santarelli, Chair

PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees

