



December 13, 2010

Technical Director
Financial Accounting Standards Board
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File Reference No. 1880–100, Proposed Accounting Standards Update, Receivables (Topic 310), *Clarifications to Accounting for Troubled Debt Restructurings by Creditors*

Submitted via email to Director@FASB.org

SVB Financial Group (SVB) appreciates the opportunity to comment on the proposed Accounting Standards Update (ASU), *Clarifications to Accounting for Troubled Debt Restructures by Creditors* (hereafter, the “proposed ASU”).

Overview of SVB

SVB is a diversified financial services company headquartered in Santa Clara, California (Silicon Valley) with total assets of \$15.6 billion and offers a variety of banking and financial products and services. We offer commercial banking products and services through our principal subsidiary, Silicon Valley Bank. We operate through 26 offices in the United States, as well as offices in China, India, Israel, and the United Kingdom.

SVB works exclusively with clients focused on the “innovation markets” in a select group of industries worldwide: technology (including clean tech), life sciences, venture capital & private equity, and, finally, premium wine. Our clients range from venture-backed start-ups to established private and public companies. Our focus has led us, over the years, to create complementary products and business lines designed to strengthen our relationships by helping our clients succeed, while generating fee-based income for us. Our ongoing relationships with the serial entrepreneurs and career venture capitalists that constitute the bulk of our clients are critical to our business success. One key aspect of supporting these relationships is our practice of working with borrowers to help them through periods of tight liquidity and/or off-plan operating performance, albeit in ways that most often do not result in the loan modification becoming a Troubled Debt Restructure (hereafter, “TDR”).

Executive Summary

We believe that the proposed guidance clarifying whether a modification of a loan meets the criteria to be considered a troubled debt restructuring (“TDR”) will not provide better transparency related to credit quality for users of financial statements, will create confusion when reviewed concurrently with the current and expected enhanced credit quality disclosure requirements, and is operationally challenging as it will result in increased levels of modifications being categorized as TDRs, as well as the inclusion of almost all classified loans as TDRs. Users of financial statements are fundamentally concerned with the credit quality of an institutions loan portfolio and whether losses from all loans (modified or otherwise) are timely and appropriately included in the institution’s allowance for credit losses. In practice, almost all loans that are identified as TDRs are typically already classified as impaired (on nonaccrual and subject to specific reserves under ASC 310 Receivables (formerly, as FAS 114) and therefore the impact of the proposed changes on the allowance for credit losses should be immaterial.

We also note that there is no parallel concept present in IFRS. To the extent that convergence between US GAAP and IFRS is believed to be important, modification of the guidelines and/or perpetuation of the concept does not appear to be worthwhile. To the contrary, it is likely detrimental to both financial institutions and the users of financial statements produced by those institutions, given the volatility and confusion that introduction of an expanded definition, followed by elimination of the concept upon convergence, would create. Furthermore, we believe that the FASB’s Accounting Standards Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (“ASU No. 2010-20”), which requires the addition of new disclosures and enhances existing disclosure requirements already included in the guidance for credit quality and the allowance for credit losses provides the additional information that users of financial statements are looking for in terms of disaggregation of credit quality information between performing and non-performing loans.

A summary of our specific comments on elements of the proposed ASU guidance follows.

As proposed, the new guidelines will almost surely result in an increase in the number of loan modifications considered to be TDRs, and thereby obscure transparency of the loans that are truly problem loans.

Based on the broad definition of “restructure”, there could be an interpretation to mean any and all modifications of a loan, however immaterial, are considered to be TDRs. Even if restructured was limited solely to modifications of payment schedules, it still may be overly broad if routine “ordinary course of business” modifications, such as extending the maturity date of a revolving line of credit in connection with its periodic renewal or terming out a balloon payment, are deemed to be “restructures”. Recognizing that long-established impairment guidelines capture the majority of “true” TDRs, at which point the additional label of TDR becomes largely meaningless (particularly in measuring impairment for purposes of financial statement recognition). The real value of TDR classification is that it enables identification of the subset of performing loans that, by virtue of having been restructured, are probably closest to the line separating performing loans from non-performing loans. To the extent that all

modifications become TDRs under the proposed definition due to a lack of market transparency of comparable terms (among other things discussed in this letter), this value is lost and will not provide any transparency or insight for investors or financial statement users into the credit risks of our bank's lending portfolio.

Modification of Terms

The proposed guidance indicates a restructuring that results in an insignificant delay in contractual cash flows may still be considered a TDR. At present, an "insignificant delay" would generally not meet the established definition of a "concession" and thus would generally not result in TDR classification. This makes sense, as an insignificant modification generally won't change the creditors prospects for repayment much, if at all. Unfortunately, as this stricter guidance would have the effect of disallowing the application of reasonable judgment, it seems likely that the TDR population, in addition to increasing, would also be increasingly populated by loans that are in far better shape than the "true" TDRs.

"Concession" continues to be an undefined term, and there continues to be inadequate guidance as to when concessions by the debtor should be deemed to have sufficiently offset the concessions by the creditor, such that no concession, and thus no TDR, exists. By way of example, SVB routinely permits deferral of principal payments for short periods of time, generally based on the debtor's temporary cash flow and/or liquidity challenges. In exchange, these modest deferrals are almost always accompanied by the infusion of additional capital from investors (generally a multiple of the amount of principal being deferred), the pledge of additional collateral in the form of a lien on the debtor's intellectual property assets, and increased pricing. Generally speaking, we don't believe these are TDRs, as it is our view that the "concession" necessary to result in TDR classification is not present in such situations.

Market Rate

Determining a market rate is difficult, if not impossible, in any cost-beneficial manner. Even if there are creditors willing to originate new loans to debtors experiencing financial difficulties, would those creditors publicly disclose sufficiently detailed information, such as the interest rate charged and/or the financial profile of the debtor, that would be required to enable comparison? In many segments of lending, this is not the industry practice; to the contrary, lending proposals are often intended to be confidential. Again, the absence of identifiable market comparables, even if they exist, will result in a larger population of TDRs.

Market rate information is not the primary factor in structuring loan modification and should not be the only consideration in determining whether a modification is deemed to be a TDR. All aspects of the modification should be taken in account, including obtaining additional collateral and guarantees.

Generally speaking, most creditors try to avoid originating new loans to debtors that are experiencing financial difficulties. As such, it is very likely that debtors in this predicament will be unable to "access funds at a market rate of interest for debt with similar risk characteristics",

and thus, in the absence of market comparables, most or all of a given financial institution's Classified loans (Classified being a proxy for "experiencing financial difficulties") would be deemed to be TDRs if/when "restructured".

Determination of Financial Difficulty

As drafted, the prescribed method for determining whether a debtor is experiencing financial difficulties continues to be overly broad or, in certain instances, too narrow, particularly for credit arrangements involving emerging companies in the innovation markets we participate in. Specifically, the proposed guidance provides the following indicators that may evidence financial difficulty:

- "The debtor is currently in default on any of its debt". While "default" is perhaps intended to mean payment default only, the absence of a definition leaves this open to a broader interpretation that could include less material events of default. "Any of its debt" could also be construed to mean any obligation owing to any party.
- "There is significant doubt as to whether the debtor will continue to be a going concern". This statement could apply to all debtors that are unprofitable and/or burning cash, irrespective of their balance sheet strength and/or access to investor capital from which to fund that cash burn.
- "Based on estimates and projections that only encompass the current business capabilities, the creditor forecasts that the debtor's entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity". Again, this approach does not take into account balance sheet strength and/or access to investor capital.
- "Currently, the debtor has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange". While sometimes indicative of financial difficulties, this is frequently not the case and/or does not alter the creditor's prospects for repayment.

As drafted, and even if the debtor is not currently experiencing financial difficulties, the guidelines would still apply in instances where payment default is considered "probable in the foreseeable future". This is problematic for SVB, inasmuch as a segment of our loan portfolio includes pre-profit companies that are dependent on the continued support of the venture capital investors that have elected to back them. This could lead to an environment in which every company that has not yet received its next infusion of capital could be characterized as likely to default. More broadly, this is likely problematic for most loan structures that envision a balloon payment, to the extent that payment of the balloon is dependent on refinancing this amount, as is often the case.

Given the degree of inconsistency in how financial institutions have interpreted existing TDR guidance, and further given the issues discussed above and the coming convergence of

US GAAP with IFRS, we question the value associated with perpetuating the concept of TDRs.

We note that there is no parallel concept of TDRs present in IFRS. To the extent that convergence between US GAAP and IFRS is believed to be important, modification of the guidelines and/or perpetuation of the concept does not appear to be worthwhile. To the contrary, it is likely detrimental to both financial institutions and the users of financial statements produced by those institutions, given the volatility and confusion that introduction of an expanded definition, followed by elimination of the concept upon convergence, would create.

We believe there are significant operational ramifications related to the proposed ASU, especially if its application is retroactive. The proposed ASU will require a cross-functional redesign of systems, processes, controls, and various policies, including risk management, credit, and accounting. This will be a burden that we believe far exceeds the benefits derived from the additional information that would result from the effort. This will become even more burdensome to the extent that application is retroactive, as the limitations of financial reporting systems, data capture, and data availability, particularly with regard to retrospectively determining the “market rate of interest for debt with similar risk characteristics” at various points in time. This would likely result in a manual, labor-intensive exercise, and perhaps an exercise that cannot be completed under any circumstances to the extent that historical data necessary for completion does not exist and/or cannot be accessed. As such, it is our view that the proposed transition and effective dates are not operational.

We appreciate the opportunity to comment on select issues in the FASB’s proposed ASU that particularly resonate with SVB Financial Group. If you have questions regarding this information, please contact me at (408) 654-5010.

Sincerely,



Denise West

Director of External Reporting

SVB Financial Group

cc:

Kamran Husain, Chief Accounting Officer

Dave Jones, Chief Credit Officer