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Ms. Leslie F. Seidman, Acting Chairman
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1880-100 – Proposed Accounting Standards Update—Receivables (Topic 310):
Clarifications to Accounting for Troubled Debt Restructurings by Creditors

Dear Chairman Seidman:

The American Council of Life Insurers (ACLI)¹ appreciates the opportunity to comment on the Exposure Draft entitled *Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors* (ED). Our member companies have considerable investments in receivables some of which have been restructured or may be restructured in the future. Recognizing the increased restructuring activity and the diversity in practice related to the accounting for restructured receivables, we understand the FASB's desire to provide further clarification and guidance for creditors on identifying when the restructuring of a receivable constitutes a Troubled Debt Restructuring (TDR). However, we do not believe the proposed accounting standards update will fully achieve the FASB's objective and instead will result in further subjectivity that will not ultimately lead to more consistent and meaningful application. The following comments highlight our key concerns and are followed by our responses to the Questions for Respondents included in the proposed accounting standards update.

Convergence

The ACLI has commented to both the FASB and the IASB regarding the importance of converging accounting standards in accordance with the goals of the Memorandum of Understanding and expectations of G20 leaders. Recently, similar comments were reiterated in many of the comment letters submitted to the FASB regarding the Financial Instruments Exposure Draft. Concerns around the lack of convergence include a lack of comparability and, similarly, a level playing field with regard to competition and capital markets; the burden of dissimilar standards on people, systems and other resources; and most importantly confusion on the part of investors and shareholders as the standards evolve dis-synchronously. Therefore, we note the IASB has not issued similar guidance related to TDRs and recommend the FASB reconcile any differences with the IASB in regards to the accounting and disclosure for TDRs during the convergence efforts related to the accounting for impairment of financial instruments. Although first and foremost we support convergence, if the FASB proceeds with this

¹ The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90% of the assets and premiums of the U.S. life insurance and annuity industry.

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proposed accounting standards update, we would like to provide the following comments for consideration.

Symmetry

In general, we support the use of consistent criteria by both creditors and debtors in the identification of TDRs. We therefore believe the proposed changes to the creditor guidance that were incorporated from the debtors guidance within paragraphs 470-60-55-8 and 9 are appropriate. However, we do not support precluding creditors from applying the effective borrowing rate test applicable to debtors within paragraph 470-60-55-10 through 470-60-55-14. We expand further on our rationale for this comment in our response to Question #1 in the Questions for Respondents below.

Market Rate

We are also concerned with the proposed guidance in paragraph 310-40-15-8A which requires a restructuring be identified as a TDR when a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt. While this guidance may be operational for more homogenous asset classes, we believe it will be operationally challenging for non-homogenous assets thereby rendering utility to the effective borrowing rate test in paragraph 470-60-55-10 through 470-60-55-14. Many factors (such as additional collateral, escrow, etc. provided by the debtor to the creditor) need to be taken into consideration when evaluating whether the new interest rate or modified payment terms represent adequate compensation to the creditor for the increased exposure to credit risk the modified terms present. Specifically, creditors use a combination of these factors to ensure they are receiving fair value equal to the amount they are owed and the amount of the credit risk exposure. We expand further on our rationale for this comment in our response to Question #1 in the Questions for Respondents below.

This guidance also seems to imply that almost all restructurings would be TDRs during periods of extreme market illiquidity. We do not believe this to be the intent of the ED and believe provision should be made to acknowledge this otherwise fundamentally sound criterion is not automatically indicative of a TDR during periods of temporary illiquidity.

TDR Classification

Once a loan modification has been identified as a TDR, the related disclosures are required for the remaining term of the loan. Under the proposed guidance in paragraph 310-40-55-10C modified loans that have insignificant delays or other minor modifications, such as brief periods of only requiring interest payments to temporarily accommodate debtors during brief periods of illiquidity, are more likely to be identified as TDRs. However, many of these debtors quickly recover from their temporary liquidity crisis that led to the minor modification or insignificant delay in payment and ultimately satisfy their obligation in full. Without a mechanism that releases a modified loan from the TDR related disclosures, once it is subsequently determined to be in "good standing", the overall disclosure for TDRs will not provide meaningful information to the users of the financial statements and could potentially be misleading.

Insignificant Delays and Materiality

Further, we believe that materiality and management judgment should be considered when insignificant delays occur or other minor modifications are granted. GAAP currently recognizes the concepts of materiality and use of management judgment and we believe these concepts should not be prohibited in the determination of a TDR. An insignificant delay does not necessarily have a material effect on the expected cash flows of a loan. The inability of management to use judgment could result in recognizing a TDR for a loan that is not impaired thereby impacting the meaningfulness of the information provided to the users of the financial statements.

Prospective Application

Lastly, we strongly believe that in addition to measurement, prospective application should apply to both identification and disclosure as well. Trying to reassess the market rate for transactions that occurred

up to 3 years prior would be difficult and arbitrary for most assets but next to impossible for non-homogenous assets and we believe such efforts would not be cost beneficial or meaningful to the users of the financial statements.

Our remaining comments are included in our responses to the Questions for Respondents that were included within the proposed accounting update and restated below.

Question 1: Would precluding creditors from applying the guidance in paragraph 470-60-55-10, create any operational challenges for determining whether a troubled debt restructuring exists? If yes, please explain why.

Yes. Many creditors have used the quantitative test from 470-60-55-10 as an indicator that a concession has been granted when the effective borrowing rate on the restructured debt is less than the effective borrowing rate of the old debt immediately before the restructuring. While the additional criteria proposed in 310-40-15-8A and 310-40-15-8B helps achieve clarification for a creditor in determining whether a concession has been granted, the preclusion of the effective borrowing rate test will result in additional operational challenges in determining a market rate and increased diversity in practice. This contradicts one of the main objectives of the ED.

We further call into question the need for different criteria for debtors and creditors. Paragraph BC4 in the background information and basis for conclusions indicates the Board noted this test was only meant to be used by the debtor and further supports this view by referencing paragraphs 310-40-15-3 and 470-60-15-3 which both acknowledge that the identification of a restructuring as a TDR need not be symmetrical between the debtor and creditor. However, the example provided in 310-40-55-3, which illustrates the concept in 310-4-15-3, addresses a creditor selling the receivable to a third party. The reason for the non-symmetrical accounting is the different basis of the new creditor and not whether or not a concession has been granted.

As such, to eliminate consistency and comparability issues, we believe the quantitative analysis included in paragraphs 470-60-55-10 through 14 should be consistent for debtors and creditors alike.

Question 2: Do you believe that the proposed changes to the guidance for determining whether a troubled debt restructuring exists would result in a more consistent application of troubled debt restructuring guidance? If not, please explain why.

No. We believe that the proposed changes for identifying a TDR will result in increased diversity in practice and inconsistent application between entities. Our primary concerns regarding consistent application have been addressed in our responses to questions 1 and 3.

Question 3: The Board decided that a creditor may consider that a debtor is experiencing financial difficulty when payment default is considered to be “probable in the foreseeable future.” Do you believe that this is an appropriate threshold for such an assessment? If not, please explain why.

No. We do not believe a creditor should include in its determination of whether a debtor is experiencing financial difficulties the additional assessment as to whether payment default is “probable in the foreseeable future.” This threshold will result in additional operational challenges for a creditor in both its determination and documentation of its assessment. Further, it will result in different criteria for debtors and creditors and diversity in practice while providing little, if any, benefit to the users of the financial statements.

As such, to eliminate consistency and comparability issues, we believe the “probable in the foreseeable future” threshold included in paragraph 310-40-55-10A should be eliminated.

Question 4: Are the proposed transition and effective date provisions operational? If not, please explain why.

No. We believe that prospective application should be allowed for all parts of the proposed accounting update. Retrospective application for identifying TDRs would cause each company to reassess prior conclusions that were based on facts and circumstances based on a point in time, which is counterintuitive to the conclusion of measuring impairments prospectively. For instance, trying to determine the market rate of a comparable loan in 2009 during 2011 would be difficult, not meaningful and arbitrary. We also believe the efforts to retrospectively evaluate prior conclusions is not cost beneficial and may lead to troubling questions regarding the adequacy of previously established allowances. As currently exposed, requiring prospective application for measuring impairments and retrospective application for identification and disclosures will result in confusion among the users of the financial statements.

Question 5: Should the transition and effective date be different for nonpublic entities versus public entities? If so, please explain why.

No. We do not believe there should be different transition and effective dates for nonpublic and public entities, particularly if it is all applied prospectively. Doing so would only undermine comparability among entities, which is one of the main objectives of the ED.

Question 6: Should early adoption of the proposed amendments in this Update be permitted? If so, please explain why.

Yes. We do not believe there are any compelling reasons to prohibit early adoption.

We appreciate the opportunity to provide input to the board in its efforts to achieve high quality accounting standards.

Sincerely,



Michael Monahan
Director, Accounting Policy