

800 Nicollet Mall  
Minneapolis, MN 55402

December 13, 2010

Via email: [director@fasb.org](mailto:director@fasb.org)

Technical Director  
File Reference No. 1880-100  
Financial Accounting Standards Board (FASB)  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference 1880-100 – Receivables (Topic 310), *Clarifications to Accounting for Troubled Debt Restructurings by Creditors***

Dear Sir or Madam:

U.S. Bancorp (USB) appreciates the opportunity to comment on the Exposure Draft (ED) of the proposed accounting standards update to Receivables (Topic 310) – *Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. USB supports the FASB's objective of providing guidance to promote consistency in the application of GAAP for loan modifications. The FASB could best accomplish this objective by focusing on enhanced disclosures to address all loan modifications rather than focusing on the identification of troubled debt restructurings (TDRs). We also believe TDR classification should be de-linked from impaired loan classification. This would provide more meaningful information to financial statement users about loan modifications and related exposure to credit loss.

This view is based on the following observations:

- A modification which results in an insignificant delay or de minimis change should not be considered a TDR. To promote consistency, the ED should provide for a scope exception for these modifications similar to certain regulatory guidelines.
- Increases in the number of reported TDRs may not correlate with changes in the allowance for loan losses and therefore will likely lead to confusion about TDR exposures and the related recorded impairment.
- Enhanced disclosures specifically designed to provide qualitative and quantitative information about modifications by loan type and loan quality, how impairment is recorded and the nature of restructurings made under various modification programs would provide more meaningful information to financial statement readers and improve consistency and comparability.
- The retrospective transition provisions for disclosures may not be operationally possible to implement for many modified loans and in all cases will require significant time and costs that will far outweigh any benefits.

- The guidance does not conform to International Financial Reporting Standards and, because of its direct link with recording of impairment in accordance with ASC 310-10 (formerly Statement 114), should be considered only after the FASB and IASB deliberations related to financial instruments impairment have successfully concluded.

The following paragraphs further describe our comments and observations.

#### Relevance and lack of benefit to stakeholders

Stakeholders have raised concerns about the diversity in practice related to identifying TDRs. We understand the purpose of issuing the ED is to assist creditors in determining whether a concession has been granted to a debtor, specifically for purposes of including such modifications in TDR disclosures and recording impairment in accordance with ASC 310-10. However, the issuance of the proposed guidance as written will not provide relevant information for financial statement readers and will lead to further inconsistencies and information that may not be meaningful.

#### *Modifications resulting in insignificant delays or de minimis changes should not be included in TDRs*

Clarification should be made to specially exclude modifications consisting of an insignificant delay in cash flows, which would help achieve consistency and comparability. Institutions may provide for insignificant delays for different reasons. For example, an insignificant delay may be granted under certain programs or on a discretionary basis in order to obtain necessary data to properly evaluate a loan and determine whether a permanent modification is warranted and/or the appropriate terms. Other modifications considered to be insignificant delays may simply not be material such as a decision to allow a customer to delay a payment due to a temporary hardship. Short-term modifications made under certain programs may have a very minor impact on the timing of the collection of the payments and overall economic return on the loan.

Similarly, USB is concerned about situations where insignificant changes in rates and other terms result in a similar or even greater return to the creditor. Since the change in expected return may be de minimis and either equal or even greater to the pre-modification return, it would be inappropriate to conclude a concession was granted. The operational costs to review each of these modifications inclusive of minor delays or de minimis changes will likely significantly outweigh any benefits achieved. Additionally, some of the industry practice that has evolved around short-term modifications has been memorialized in regulatory guidance.

USB believes this is an area where guidance can be prescribed to improve transparency and achieve consistency. Modifications consisting of an insignificant delay in cash flows could be specifically excluded from TDR reporting if disclosures are enhanced to qualitatively and quantitatively address all loan modifications made during a reporting period (see below for suggested disclosures). This would provide more meaningful and relevant information to financial statement users. The focus on broadening the definition of TDRs to trigger disclosures and a specific impairment measurement method may be misaligned with increasing transparency and consistency. It also would be operationally burdensome to implement with the costs outweighing the benefit to financial statement users.

*TDR classification should be de-linked from impaired loan evaluation and measurement*

USB believes another objective of issuing the ED may have been a presumed assumption that increasing the number of loans that are considered to be TDRs would generally increase the allowance for credit losses for most creditors. By its nature, the ED would require more modifications to be classified as TDRs. All TDRs, except those that are purchased impaired loans accounted for in pool, are required to be evaluated for impairment in accordance with ASC 310-10. Under the proposed guidance, many of the loans classified as TDRs will not show a deterioration in expected cash flows, and in many cases may show an increase in expectations about cash flows (for example, due to a temporary or permanent increase in contractual rate and the borrower's ability to pay that rate). As a result, the disclosures about numbers and balances of TDRs will not necessarily be an indicator of increased credit exposure and the need for additional allowance for credit losses. The information may in fact become less meaningful and ultimately may be confusing to financial statement readers. Therefore, consideration should be given to de-linking TDR classification from impaired loan classification.

Stakeholders would be better served by enhanced disclosures to address all loan modifications rather than narrowly focusing on TDRs

As indicated in the ED, the number of receivables restructured has increased during the recent economic downturn. USB has raised many concerns in this letter about the ability to provide consistent and meaningful information to financial statement readers and the potential lack of correlation between TDRs and allowance balances. To address these concerns and provide more useful information, USB believes the objective of the project should be focused on enhanced qualitative and quantitative disclosures around all types of modifications made, including short term modifications, as well as modifications made under various national programs. Disclosures should also provide information about modifications by loan type as well as by asset quality. Providing enhanced disclosure information about how and why modifications are made in addition to how impairment is measured on modified loans would provide a financial statement reader with more meaningful and useful information and would improve transparency and comparability of financial statements.

All transition provisions, including disclosures, should be prospective

The Board acknowledges that some entities may incur significant costs as a result of the amendments in the ED. USB agrees that costs incurred may be significant, and believes the evaluation will be very operationally burdensome. Additionally, it is doubtful that enough information exists to evaluate prior modifications to properly consider what may have been a market rate at the time, as well as to make historical subjective determinations about whether a debtor might experience future payment default and whether default would be "probable in the foreseeable future." USB is concerned about how institutions will be able to consistently determine appropriate historical market rates, particularly in situations and economic environments where market rates may not be observable for specific lending relationships. These evaluations would involve significant time and expense, be operationally burdensome, and likely will produce inconsistent and potentially unsupportable "past" subjective decisions. As a result, implementation of any amendments should be on a prospective basis.

Proposed guidance does not converge with IFRS and may be significantly impacted by the current joint FASB-IASB financial instruments project

The proposed changes are not convergent with IFRS and will impact the amount of loan impairment recorded prospectively. USB is concerned that this guidance could significantly increase the scope of

Technical Director  
December 13, 2010  
Page 4

impaired loans and would be issued before the FASB and IASB have completed the financial instruments project, which is expected to include a new impairment model that will drive how and when loan impairment is measured and recorded. The proposed guidance will require significant changes to ensure systems, processes, and controls are in place; and shortly thereafter further changes will likely be required to adopt the final financial instruments guidance of the FASB, IASB, or both depending on how and when convergence may be required. Any changes made to the classification, measurement, and impairment of loans should be considered in its entirety in the financial instruments project consistent with the FASB's objective to develop a comprehensive financial instruments model rather than separately issuing interdependent guidance in a phased approach.

1880-100  
Comment Letter No. 65

\* \* \* \* \*

USB appreciates the opportunity to submit views and would be pleased to discuss our comments with you at your convenience. Please contact me at (612) 303-5238 with questions or if you need additional information.

Sincerely,



Craig E. Gifford  
Executive Vice President and Controller