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1880-100  
Comment Letter No. 75  
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Via e-mail: [director@fasb.org](mailto:director@fasb.org)

Technical Director  
Financial Accounting Standards Board  
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File Reference No. 1880-100—Proposed Accounting Standards Update, *Clarifications to Accounting for Troubled Debt Restructurings by Creditors*

Dear Technical Director:

BDO USA, LLP appreciates the opportunity to offer comments on the troubled debt restructurings exposure draft (ED). We agree that the clarifications proposed in the ED for determining whether a restructuring of a receivable is a troubled debt restructuring (TDR) would reduce diversity in practice among creditors in this regard. However, we do not believe the proposed transition provisions, as currently drafted, to be operational.

We suggest that the transition guidance be reconsidered and recommend that all aspects of the ED be applied on a prospective basis to restructurings after the effective date. We note that the Board, in conjunction with the International Accounting Standards Board (IASB), is deliberating new impairment guidance in a separate financial instruments project<sup>1</sup> that could potentially impact TDR classification. Therefore, we view the clarifications in this ED only as “interim guidance” to be applied until the separate financial instruments project is finalized. We do not believe that the time and effort that would be required to retrospectively apply any aspect of an “interim guidance” to the first period presented are justified.

Unless a formal study is carried out in this regard, it is not apparent to us whether re-classifying loans restructured in recent prior periods as TDRs would result in a significant re-measurement impact in the period of adoption. In the absence of a significant re-measurement impact, we do not believe that mandating retrospective disclosures is justified or necessary. Since the most recent prior periods reflect restructurings occurring during the height of the credit crisis, some also may argue that retrospective disclosures would not necessarily have a decision-useful predictive value. Further, it is likely that many of the loans modified during recent prior years would now be performing, and of lesser concern from a current disclosure and measurement perspective.

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<sup>1</sup> File Reference No. 1810-100—Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*



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Consistent with our comments on other recent EDs, we believe that one overriding objective of any EDs issued at this time should ultimately be convergence with IFRS. While we appreciate that the Board's intent on issuing this ED was to reduce diversity by clarifying existing US GAAP, it is noteworthy that the IASB currently does not have separate or specific guidance for TDRs. Keeping in mind the ultimate goal of convergence, we urge the Board to discuss and determine the future of TDR guidance with the IASB on a holistic basis and harmonize any long-term standard setting on this topic.

Our specific responses to selected questions posed in the ED are set out in the attached Appendix.

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We would be pleased to discuss our comments with the FASB staff. Please direct questions to Lee Graul, National Director of Accounting, at 312-616-4667 or [lgraul@bdo.com](mailto:lgraul@bdo.com); and David Weiskittel, Technical Partner - Financial Institutions, at 616-776-3766 or [dweiskittel@bdo.com](mailto:dweiskittel@bdo.com).

Very truly yours,

*BDO USA, LLP*

BDO USA, LLP



## APPENDIX

**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.

We agree that creditors should not apply the borrower specific guidance in paragraph 470-60-55-10. Based on our discussions with various lenders, we do not believe that precluding creditors from applying the guidance in paragraph 470-60-55-10 would create any significant operational challenges for determining whether a TDR exists.

**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.

As stated in our cover letter, we agree that the proposed changes would result in a more consistent application of TDR guidance. However, although we conceptually agree that insignificant delays in contractual cash flows be considered along with other terms in determining whether a TDR exists, we recommend that, as a practicability exception, the current practice of not considering modifications of three months or less to result in a TDR be allowed to continue.

**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.

We agree that a payment default that is “probable in the foreseeable future” is an appropriate threshold in considering whether a debtor is experiencing financial difficulty. Further, we believe that a “probable” instead of a lesser threshold, for instance “reasonably possible,” brings more rigor and certainty to TDR assessments.

However, to reduce potential diversity in practice, we recommend that the Board provide additional guidance to illustrate the intended application of this guidance, including clarifying the difference between contract term and “foreseeable future” for a long-term borrowing.

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

As stated in our cover letter, we do not believe the proposed transition provisions to be operational. Under the proposed guidance, an entity would be required to determine whether modifications occurring in recent prior years and not classified as TDRs would now be considered TDRs. This would require significant management judgment and hindsight both as to the appropriate amount of the impairment, if any, to be recorded under Section 310-10-35, as well as the timing of the TDR classification. For instance, we understand lenders have expressed concerns about the market interest rate criteria in the ED. While we understand this may pose significant challenges in current assessments of loan modifications for possible TDR classification, considering the-then-current market interest



rates for modifications occurring in recent prior years would require significant judgment, particularly when the market itself was declining or, in certain instances, frozen due to the credit crisis. In turn, we believe this would create a new level of auditing complexity, since auditing management's judgments on a retrospective basis would require significant audit judgment, particularly when the financial reporting systems do not retain the information necessary to validate such judgments.

We believe that mandatory retrospective application of certain aspects of the guidance to the beginning of the earliest period presented may have the unintended consequence of having separate measurement effects in the period of adoption for public vs. nonpublic or smaller public entities. Since larger public entities present three years of financial statements compared to two years for nonpublic and smaller public entities, these larger public entities would have to retrospectively identify TDRs for an additional year. Thus, wherever the application of this ED results in an entity changing the method of calculating impairment on a receivable from the guidance in Subtopic 450-20 to the guidance in Section 310-10-35, the effect of the change in the method of calculating impairment in the period of adoption is likely to be more pronounced on a relative basis for larger public entities.

A further argument for prospective application only is that such transition would better align with the transition and prospective application requirements of ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which guidance is expected by many to require significant effort and resources to implement. Since it is likely that few will argue with the Board's recently proposed ASU, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructuring in Update No. 2010-20*, to align the effective dates of the TDR related disclosures for these two standards, users could more effectively and efficiently implement the two standards together, in a combined effort.

To prevent any potential misinterpretations of the proposed transition guidance, we separately recommend that the Board further clarify whether any measurement adjustments on application of the ED should be recorded as a cumulative effect adjustment to the adoption date retained earnings or included in adoption period earnings. If included in adoption period earnings, we further recommend that the Board specify that the impact be separately disclosed.

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

If the Board reconsiders the transition guidance and makes all aspects of the ED effective only prospectively, we believe that the transition and effective date should be the same for public and nonpublic entities. However, if the current transition guidance proposed in the ED is retained, we believe that the Board should carry out more outreach activities to determine whether nonpublic and smaller public entities have the systems and personnel resources that are necessary to apply the disclosure requirements retrospectively, as required by the ED.

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



Yes. Based on our discussions with various lenders, we believe that early adoption of the proposed amendments should be permitted. Given existing diversity in practice, it would seem difficult to preclude practitioners from considering the proposed guidance in current reporting periods.

In many instances, adoption of the proposed amendments will not result in material measurement changes. In addition, we understand through our discussions with some lenders that the proposed guidance for identifying TDRs will more closely align with current practice under prudential banking regulations. As such, while many preparers may not elect to early adopt the proposed amendments if certain aspects of the ED must be adopted retrospectively, we believe some entities may be more inclined to early adopt if the Board accepts our recommendation for prospective transition.