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May 31, 2013

Financial Accounting Standards Board
Technical Director - File Reference No. 2012-260
401 Merritt 7 - PO Box 5116
Norwalk, CT 06856-5116

**Re: Proposed Accounting Standards Update, Subtopic 825-15: *Financial Instruments - Credit Losses*; Exposure Draft; File Reference No. 2012-260**

Dear Board Members:

This letter represents the response of Teachers Insurance and Annuity Association of America ("TIAA", "our", or "we") to the Financial Accounting Standards Board (the "Board") regarding the Board's exposure draft ("ED") *Financial Instruments - Credit Losses*. We appreciate the opportunity provided by the Board to comment on this ED and answer specific questions addressing the proposed expected credit loss accounting model.

**OVERVIEW OF TIAA AND RELEVANCE OF PROPOSED UPDATES**

TIAA is a legal reserve life insurance company under the insurance laws of the State of New York and is regulated by the New York State Department of Financial Services (the "Department"). TIAA is a wholly-owned subsidiary of the TIAA Board of Overseers and is a special purpose not-for-profit corporation. Accordingly, TIAA prepares financial statements on the basis of statutory accounting principles ("SAP") prescribed by the Department; a comprehensive basis of accounting that differs from generally accepted accounting principles in the United States ("GAAP"). The Department requires insurance companies domiciled in the State of New York to prepare their statutory-basis financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual, subject to any deviation prescribed or permitted by the Department. Nonetheless, whenever the Board issues a new Accounting Standards Update ("ASU"), it is our understanding the NAIC will typically review the ASU and consider updating the then existing SAP to incorporate the ASU, either in its entirety or with modifications. The NAIC may also choose to reject the adoption of the ASU in its totality if the ASU conceptually differs from the SAP framework or the NAIC otherwise determines the change is inappropriate or inapplicable. Accordingly, as a non-GAAP reporting entity, TIAA could be indirectly impacted by the issuance of an ASU and subsequent adoption by the NAIC. Furthermore, until the NAIC formally adopts or rejects a new ASU, TIAA will adhere to new and relevant disclosure requirements.

TIAA also holds various investments in marketable securities and real estate in subsidiaries for the benefit of TIAA's policyholders. In accordance with SAP, these subsidiaries report their financial results to TIAA through annual audited GAAP financial statements and therefore are directly impacted upon the issuance of an ASU regardless of the NAIC's position.

In 2010, TIAA-CREF Trust Company, FSB ("Trust Company"), an indirect subsidiary of TIAA, received approval from the Office of Thrift Supervision to expand its charter to include banking services. In 2011, the Trust Company became subject to the regulations of the Board of Governors of the Federal Reserve System ("Federal Reserve") which resulted in TIAA becoming a registered savings and loan holding company ("SLHC"). TIAA is considering any pending reporting requirements based on its

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SLHC status and the evolution of associated regulatory reporting standards, including the potential for increased GAAP reporting responsibilities.

**GENERAL OBSERVATIONS**

We commend the Board on their efforts to develop a financial reporting and disclosure model for financial instruments and related credit losses in order to achieve the most transparent accounting results for financial statement users. However, we continue to support the incurred loss model that currently resides in GAAP for financial assets because the ED's proposed expected loss model requires a subjective prediction of potential credit loss events. Given the subjectivity inherent in the expected loss model, we believe the ED's framework may further vary results and limit comparability among individual companies that apply their distinct judgment. Additionally, we believe the significant amounts of judgment necessary under the proposed credit loss model leads to further complexity when preparing financial statements without materially improving transparency and comparability of such financial statements. While we continue to support the Board's continuing efforts to improve the transparency of financial reporting for financial statement users, we do not believe the expected loss model fulfills an objective which cannot be provided by disclosures already included in the financial statements. The present incurred model relies on current observable conditions and actual events and accordingly is appropriately fact-based when determining whether a credit loss has occurred. This method relies on less judgment, reduces subjectivity, and is established on distinct evidence of a credit loss experienced by a company. Additionally, we believe the significant amounts of judgment necessary under the proposed credit loss model leads to further complexity when preparing financial statements without an associated furthering of transparency and comparability of such financial statements.

We believe the scope of the proposed expected loss model should exclude the following assets:

i. *Securities Reported as FV-OCI*: The valuation methodologies applied to these securities generally include inputs associated with expected losses and therefore these securities do not require reassessment for credit losses under the proposed expected loss model. Furthermore, the proposed expected loss model was designed to consider the treatment of loans recorded at an amount materially greater than their fair value. The proposed expected credit loss model, if promulgated, should exclude securities reported at fair value on the balance sheet.

ii. *Trade and Lease Receivables:* These assets are generally short in duration (i.e. one year or less). The current loss assessment model under GAAP sufficiently considers associated losses and should be retained. In consideration of the general intent to collect trade and lease receivables within a one-year period the application of the expected credit loss model will not yield substantive transparency for the financial statements user by discounting potential losses on amounts expected to be collected within twelve months. At minimum, we suggest excluding trade and lease receivables with a duration of one year or less from the scope of the expected credit loss model.

As a result, we continue to support the incurred loss model that currently resides in GAAP for financial assets above the ED's proposed expected loss model.

**EFFECTIVE DATE AND IMPLEMENTATION**

Given the operational impacts of implementing the proposed ED, we request an effective date that allows an implementation period of 24 months from the date the Board issues a final Accounting

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Standards Update. This period of implementation would allow users to assess, design, modify or acquire financial modeling systems to support the new processes, and hire and train additional staff, as well as implement and revise valuation procedures, internal controls, and accounting policies to accommodate the new reporting and disclosure requirements.

The addendum below provides answers to specific questions presented in the ED and in support of our comments above. If you would like to discuss any questions regarding this request or about TIAA in general, please contact me at 212-916-5884 or at mkurzweil@tiaa-cref.org

Very truly yours,

Matthew L. Kurzweil
Senior Vice President and Controller

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# Financial Instruments—Credit Losses (Subtopic 825-15)

## *TIAA-CREF*

## *Question for All Respondents*

**Question 1:** Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

*Response:*

We do not agree with the scope of financial instruments included in this proposal and offer the following comments for consideration:

*Assets reported at FV OCI:* Securities measured and reported as FV OCI should be excluded from guidance that addresses loans and receivables since fair value includes considerations for expected losses. Asset and equity overstatement concerns do not arise when assets are reported at fair value and the difference between amortized cost and fair value is reported in OCI. The proposal adds complexity without significant financial statement impact as the loss reserve is effectively offset within OCI. Users can extract expected credit loss information for FV OCI assets using credit quality disclosures.

*Practical Expedient:* To the extent that FV OCI securities are within scope of this guidance, a practical expedient for such securities should be used, and the Board may also consider expanding the practical expedient to include short-term financial assets reported at amortized cost.

With regard to the practical expedient criteria, in a period of increasing interest rates, the practical expedient may no longer be available under the ED criteria. Therefore, the practical expedient criteria should be either the fair value of the individual financial asset is greater than or equal to amortized cost or (not “and”) the expected credit losses are insignificant.

*Purchased Credit Impaired Assets:* Clarifying language would prevent broadly scoping in assets purchased at a discount when the credit rating has declined since original issuance. It is unclear whether significant deterioration in credit quality equates to the probability, at acquisition, that the investor will be unable to collect all contractually required payments applied in the current guidance. The treatment of post-acquisition accounting for income and the accrual status of assets purchased with credit impairment should be further clarified.

*Trade and Lease Receivables*: Credit losses on short-term trade receivables and lease receivables under existing or new guidance[1], should be evaluated in accordance with the

[1] Leases—Joint Project of the FASB and the IASB

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current guidance in ASC 310 which involves, in part, evaluation of the experience of the reporting or comparable entities, debtor ability to pay, and appraisal of receivables in light of the current economic environment.

In addition, the primary difference between ASC 310 and this exposure draft is adding the time value of money for the estimate of expected credit losses. However, for instances such as trade receivables, where payments are expected to be received in less than twelve months, discounting would have an immaterial impact which does not further transparency objectives.

The Board should consider an exclusion, under a practical expedient, for short-term receivables.

*Policy Loans*: We believe policy loans, whereby cash is advanced to insurance contract policy holders in accordance with the terms of an insurance contract, should be considered in connection with the insurance contracts ED.

**Recognition and Measurement**

**Questions for Users**

**Question 2:** The proposed amendments would remove the initial recognition threshold that currently exists in U.S. GAAP and, instead, view credit losses as an issue of measurement as opposed to an issue of recognition because the credit losses relate to cash flows that are already recognized on the balance sheet. Do you believe that removing the initial recognition threshold that currently exists in U.S. GAAP so that credit losses are recognized earlier provides more decision-useful information?

*Response:*

We believe management's view on expected credit losses for loans carried at amortized cost at times might provide decision-useful information for users of financial statements. However, the complexity and variability in assumptions applied in an expected loss model will challenge the objectives of financial statement comparability among different reporting entities. As an alternative, the Board may wish to consider retention of the incurred loss model and addition of a sensitivity analysis for loans carried at amortized cost.

For debt securities, we believe the carrying value for FV OCI debt securities includes a market-based evaluation of expected credit losses, whereas applying an expected loss model to such securities does not provide incrementally useful information to financial statement users. As noted above, a thoughtful sensitivity disclosure may be more useful and appropriate.

In addition, we believe that existing guidance for all debt securities contained in FSP 115-2 promulgated with regard to the Emergency Economic Stabilization Act of 2008 provides useful and measureable information. In accordance with that guidance, when a reporting entity does not expect to recover the entire amortized cost basis, an impairment is recorded with the credit component recognized in net income. That is, credit losses are recognized within the financial statements when expected cash flows do not support amounts reported on the balance sheet.

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**Question 3:** As a result of the proposed amendments, the net amortized cost on the balance sheet (that is, net of the allowance for expected credit losses) would reflect the present value of future cash flows expected to be collected, discounted at the effective interest rate. Do you agree that the net amortized cost (which reflects the present value of cash flows expected to be collected) results in more decision-useful information than currently exists under U.S. GAAP?

*Response:*

Expected credit losses are implicit in a position's fair value. We do not believe recording the net amortized cost provides any significant relevant information with respect to assets held at fair value.

**Question 4:** The Board has twice considered credit loss models that would permit an entity not to recognize certain expected credit losses. In the January 2011 Supplementary Document, the Board considered a model that would permit an entity not to recognize some credit losses expected to occur beyond the foreseeable future. In the recent discussions on the three-bucket impairment model, the Board considered a model that would permit an entity only to recognize lifetime credit losses for loss events expected to occur within a 12-month horizon. Instead, the proposed amendments would require that at each reporting date an entity recognize an allowance for all expected credit losses. Do you believe that recognizing all expected credit losses provides more decision-useful information than recognizing only some of the expected credit losses? If not, how would you determine which expected credit losses should not be recognized (for example, 12 months or similar foreseeable future horizon, initial recognition threshold, and so forth)?

*Response:*

Given an expected credit loss recognition model, a practical expedient or scope exclusion should apply for financial assets in circumstances where little credit loss is expected. As noted in other comments, the Board should consider expanding the proposed practical expedient and scope exclusions.

**Question 5:** The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. Do you believe that expected credit losses based on this information provide decision-useful information?

*Response:*

We support calculation of expected credit losses based upon such information. However, in addition to the FV NI exclusion from the expected credit loss model, the Board should reconsider a similar FV OCI exclusion. We feel it is appropriate in connection with the existing FV OCI model to recognize credit losses which are incorporated within an investment's fair value.

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**Question 6:** For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be amortized into and recognized as interest income over the life of the asset. To achieve this result, upon acquisition the initial estimate of expected credit losses would be recognized as an adjustment that increases the cost basis of the asset. Apart from this requirement, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you believe that using the same approach to recognize changes in the credit impairment allowance for purchased credit-impaired assets and non-purchased-credit-impaired assets provides decision-useful information? Do you believe that this is an improvement from the current model used for purchased credit-impaired assets?

*Response:*

As noted in other responses, we feel that the practical expedient and scope exclusions should be expanded. With respect to assets within the expected credit loss model, we support using the same approach for recognizing changes in the credit impairment allowance for purchased credit-impaired assets and non-purchased-credit-impaired assets. With regard to changing the existing accounting model used for purchased credit-impaired assets in the proposed model, the credit component previously embedded in yield will become explicitly stated. When purchased credit-impaired assets are a substantive portion of a company's assets, such information may provide relevant information to financial statement users.

**Question 7:** As a practical expedient, the proposed amendments would allow an entity not to recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost amount of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. The proposed amendments would require an entity to disclose the amortized cost basis of assets that apply this practical expedient each period. Do you believe that the practical expedient for some financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income is reasonable? Why or why not?

*Response:*

We feel that assets carried at FV OCI should be excluded from the proposed amendments as fair value includes consideration of expected credit losses. However, to the extent such assets are within the scope of the proposed amendments and a practical expedient applies, the practical expedient criteria should allow for the fair value of the individual financial asset to be greater than or equal to amortized cost or (not "and") the expected credit losses are insignificant. Accommodations may be warranted for financial investments denominated in highly inflationary currencies.

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**Question 8:** The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this approach provides decision-useful information?

*Response:*

This approach may simplify an entity's recordkeeping. However, we are not certain whether such presentation provides decision-useful information which is not currently disclosed given existing guidance.

**Questions for Preparers and Auditors**

**Question 9:** The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

*Response:*

We do foresee operability and auditing concerns or constraints in basing the estimate of expected cash flows on relevant information about past events, including historical loss experience with similar assets and reasonable and supportable multi-year forecasts that affect the expected collectability of the financial assets' remaining contractual cash flows.

Historical loss experience data may need to be accumulated by specific preparers using industry data for certain specific financial instruments and incorporated and analogized to derive current expected credit losses.

Another concern is the inclusion of reasonable and supportable forecasts. The measurement of expected credit losses would require significant judgment by management. In addition to evaluating the issuer's current creditworthiness, the assessment would also include an evaluation of forecasted creditworthiness and financial condition of the issuer as well as assumptions regarding the broader economic cycle.

An estimate of expected credit losses would reflect the entire contractual term of the financial assets. As the forecast horizon increases, the degree of judgment involved in estimating the expected credit losses would similarly increase.

Estimates of expected credit losses depend on many factors including management's judgment and the availability of quality data. The variability of these factors may create inconsistencies in practice and result in less comparability of credit loss estimates between entities. Inconsistencies may be attributed to different views on the long-term economy, availability of historical information and the method used to measure expected credit losses.

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Auditors evaluating similar entities may reconcile different results provided by different companies which may challenge their ability to protect client confidentiality and maintain appropriate independence.

Operationally, companies would need to consider a broader information set and the increased subjectivity of expected loss assumption processes and internal controls. Entities will be required to implement new processes, systems and controls or make changes to their existing risk management systems to implement an expected credit loss model.
While the ED scopes out certain disclosure requirements for trade receivables, a similar accommodation is not apparent for lease receivables. In its assessment, TIAA, as a significant owner/manager of commercial properties, would need to consider thousands of separate leases individually as well as each lease's related credit quality information. We believe the Board should clarify the use of an aggregation principle to accommodate lease receivables for companies like TIAA who invest broadly in commercial or related real estate properties.

**Question 10:** The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

*Response:*

At present, we do not have Company-specific historical loss experience data available to forecast losses on individual debt securities; instead we perform credit analysis on the portfolio to forecast security performance. In addition, compilation of such data for debt securities is problematic, both prospectively and retrospectively, as insurance companies may choose to sell securities based upon credit expectations and thereby avoid a possible future loss event. Determination of Company historical loss experience would, in theory, capture realized credit loss related specifically to non-payment of principal, as well as consider trading strategies designed to mitigate such loss. Historic loss data will reflect economic factors that may not provide a good basis for current or future credit loss estimation (e.g. industry shifts, changes in credit policies or other factors). Given these dynamics, development of meaningful company specific expected credit loss reserves will be difficult, time consuming, and subjective.

Data from rating agencies may be available, but that information is not likely available at a level that is operationally applicable to an individual company's specific portfolio. The debt securities portfolio for a large life insurance company typically contains thousands of investments and is diversified considering in part such factors as industry, issuer, geography, and security type. We do not believe public data is available to compute a specific company's expected credit loss based on its exposures or credit loss management strategies.

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**Question 11:** The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

*Response:*

Yes, we foresee certain operational and auditing concerns.

The current incurred loss model for evaluating credit loss is forward-looking based on quantifiable market analysis included in the models for pricing and for other quantifiable loss attributes and economic assumptions. As the fair value price of a security has an element of credit risk included in the price, the financial statements include this credit risk in the current incurred loss model. Every security is assessed for credit loss criteria and when criteria suggesting credit losses are present, losses are recorded within the financial statements. Using an expected loss model which suggests credit losses creates a subjective estimation process. The results of the expected loss model may create comparability concerns in the financial statements, and produce evidence that may not be definitely verifiable under audit.

Auditability of the estimates and the disclosures remains a significant concern under an expected loss model that includes proprietary estimates of credit loss. Entities may not have verifiable historical trend information for base case analysis, and the establishment of the first year estimate will require considerable management judgment that will be difficult to audit.

This will increase the complexity of the audit and maintenance of models developed to provide various scenarios.

Recent experience of audit firms under PCAOB oversight suggest that even well understood fair value measurements continue to be a subject of great debate including matters related to the quality of testing and judgments of auditors. These proposed changes will likely create greater stress on the audit profession’s audit process.

**Question 12:** The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

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*Response:*

We agree that the allowance for credit losses should reflect the time value of money. As noted in our answer to question 11, operability and auditability are concerns and more needs to be explored while incorporating present value principles.

**Question 13:** For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

*Response:*

We can support a principle designed to bifurcate the credit component embedded in the value of the security at date of acquisition of a purchase credit impaired ("PCI") security. Upon purchase, there should not be any significant concerns if PCI assets are accounted for at fair value through Other Comprehensive Income.

**Question 14:** As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

*Response:*

We do not see significant operability and auditing concerns regarding application of the practical expedient as drafted. However, we do see operational concerns calculating a roll-forward of applicable financial assets as detailed in section 825-15-50 of the exposure draft.

Also, as addressed in response to other questions, we believe the Board should consider modifying the expedient criteria to include individual financial assets measured at fair value through OCI with amortized cost greater than or equal to fair value OR insignificant expected credit loss rather than requiring that both criteria be met to qualify for the expedient.

We believe that the practical expedient as currently written could result in the unintended consequence of debt instruments moving in and out of the scope of the practical expedient due to changes in market conditions such as benchmark interest rates that are unrelated to the credit risk of the issuer. This could not only result in unnecessary volatility in a company's

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estimate of expected credit losses but also could create a significant operational complexity for companies.

For example, it is possible that a US government security could move from an unrealized gain position to an unrealized loss position solely due to movements in benchmark interest rates. However, while the value of the security may have changed, no component of the change in value was attributable to a change in the credit risk of the issuer. In a situation such as this, we do not believe it would be appropriate or consistent with the principle of the proposed standard to record an expected credit loss solely due to non-credit related fair value changes.

**Question 15:** The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

*Response:*

This proposal will change current practice as it applies to debt instruments and to Purchased Credit Impaired securities. Companies would cease the accrual of interest income when it is not probable that substantially all of the principal or interest would be received. Systems would need to be programmed for monitoring the non-accrual status (and the potential "return-to-accrual") and for applying the condition appropriately. Additionally, systems would also need to accrue interest but not report these accruals in its financial statements. This accrual would be reversed for financial reporting purposes so interest is not reported as a component of net income.

While we do not foresee any significant operability concerns with such a practice (given sufficient adoption time), we do believe the reporting of securities using fair value through OCI with appropriate disclosures meets the intent of recording assets on a nonaccrual status.

**Questions for All Respondents**

**Question 16:** Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45–BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?

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*Response:*

The troubled debt restructuring designation under current GAAP establishes criteria for immediate recognition of credit losses from significant changes in contract loan terms. We believe the proposed guidance would provide for timely recognition of credit losses in lending arrangements and eliminates the need for distinguishing troubled debt restructurings.

**Disclosures**

**Questions for Users**

**Question 17:** Do you believe the disclosure proposals in this proposed Update would provide decision-useful information? If not, what disclosures do you believe should (or should not) be required and why?

*Response:*

There would be a significant increase in quarterly disclosure requirements. The increase in disclosures will require a substantial amount of work which we believe provides limited value to the users of the financial statement disclosures. The ED requirements for roll forward of certain debt instruments and the roll forward of fair value with changes in other comprehensive income, may not provide the user with information that enables a better understanding of credit risk. The disclosures provide certain transactional level detail which does not appear to clarify a company's broader credit risk profile. We suggest re-evaluating the proposed disclosures to require information regarding the entity's credit risk management profile and philosophy.

Additionally, we are concerned about the extent to which management judgments will be required disclosure within the financial statement footnotes. As such judgments are not proposed under a prescribed methodology that is governed by accounting standards; these judgments may cause confusion and inconsistent application and presentation. As end users are expected to interpret and utilize the information for risk assessment, inconsistent methodologies may introduce risk of misinterpretation as users determine how to best glean decision useful information from the disclosures. These assumptions and management judgment assertions are better reported in accompanying commentary outside the financial statements (such as MD&A for public companies) within the context of a thoughtful focus on a qualitative framework designed for comparability and consistency.

**Questions for Preparers and Auditors**

**Question 18:** Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

*Response:*

We foresee certain operability concerns regarding the collection of data and execution of a process to complete the roll forwards of certain debt instruments and the roll forwards of fair

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value with changes in other comprehensive income. While many of these data attributes are available in our company's operational systems, the increase in operational work flow must be balanced with value provided to financial statement users. Our recommendation is to focus on a prescribed format of disclosing relevant risk attributes.

The operational workflow to capture and report the changes in fair value through other comprehensive income will require additional analysis related to components for both fair value and the allowance changes. As these components are not maintained in separate transactional tables in the systems, manual tracking and roll forwards will be required. Given the large volume of the debt instruments for typical insurance companies, this will increase the operational work flows, and add additional operability and auditing concerns for both preparation and audit testing.

Additionally, we are concerned with the audit approach and techniques that would be required to audit management's judgment.

**Implementation Guidance and Illustrations**

**Questions for All Respondents**

**Question 19:** Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

*Response:*

The examples and illustrations provided in ASC 825-15-55 provide guidance on identifying future expected credit losses generally in relation to loan losses. It would be of value for the exposure draft to contain similar examples specific to different types of debt securities. For example, demonstrating the loss-rate approach to debt securities and identifying the valuation inputs that the Board views as pertinent to the process would be particularly relevant.

**Transition and Effective Date**

**Questions for All Respondents**

**Question 20:** Do you agree with the transition provision in this proposed Update? If not, why?

*Response:*

The transition guidance appears appropriate. The effective date should allow time for companies to modify their systems, procedures and controls. We believe the effective date should allow companies at least twenty-four months to implement the final standard.

We believe there should be additional implementation guidance provided in the final standard as to how the transition adjustment should be calculated. We believe it is important for there to be a consistent approach among companies to the transition and calculation of the Day 1

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allowance. Without additional implementation guidance, we note that alternative approaches may be taken by different companies, which could result in comparability issues.

One potential approach for all current holdings with a prior impairment could require a company to reverse the previous other-than-temporary impairments (with all the activity between the initial impairment date and the implementation date reversed and re-applied) and then re-calculate the expected credit losses based on the new guidance. Under this approach, the initial allowance would include all incurred and expected credit losses since the investment was acquired. Alternatively, a company could calculate the initial allowance as the expected credit losses from the effective date forward without reversing previous other-than-temporary impairments. Under this approach, the initial allowance would include only expected credit losses from the implementation date forward. While the initial net carrying value under either approach would not materially differ, these two approaches could result in significantly different initial allowance amounts for nearly identical portfolios of assets. Furthermore, the first approach outlined above it could result in a significant incremental burden to the transition and implementation compared to the latter approach.

**Question 21:** Do you agree that early adoption should not be permitted? If not, why?

*Response:*

Yes, we agree that early adoption should not be permitted.

**Question 22:** Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

*Response:*

The calendar year during which the new accounting guidance is effective should be the same while noting that public entities would be required to report credit losses under the expected loss model by the end of the first quarter of the target year while non-public entities would apply the same rules by the end of their fiscal year. As noted above, the Board should remain mindful that all entities will require a minimum of twenty-four months to fully implement the expected credit loss model as it is currently exposed.

**Questions for Preparers and Auditors**

**Question 23:** Do you believe that the transition provision in this proposed Update is operable? If not, why?

*Response:*

The transition guidance appears appropriate. The effective date should be carefully considered to allow time for companies to modify systems, procedures and controls. We recommend the effective date allow companies at least twenty-four months to implement the final standard.

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We recommend additional implementation guidance be provided in the final standard as to how the cumulative effect transition adjustment should be calculated. It is important to achieve consistency among companies during the transition and calculation of any initial credit allowance. Implementation guidance should be designed to minimize alternative approaches taken by different companies, which could result in comparability issues.
Additionally, we recommend the Board consider any other implications related to the systematic recording and future measurement for the allowance for previously impaired securities.

See question 20 for additional detail discussions on approach.

**Question 24:** How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

*Response:*

The time needed to implement the proposed guidance will likely require twenty-four months prior to the effective date to secure and train staff, implement new or update existing accounting and financial modeling systems, and revise procedures and internal controls to accommodate the new accounting and reporting. Significant software requirements would be introduced to accommodate the new accounting and reporting requirements. Additional incremental costs may also include the expense of staffing and increased external audit fees. System and process changes include the collection and maintenance of historical loss data for each asset type, third party data reviews and analysis, and detailed support of various models. Additional systems programming, operational procedures and controls will be needed to properly implement the changes in the guidance related to accruing interest on financial instruments where substantially all the contractual cash flows will be collected, as well as to produce information required by the new disclosure in the proposed standard.