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Technical Director

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FASB

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Re: Proposed Accounting Standards Update *Receivables- Troubled Debt Restructurings by Creditors (Subtopic 310-40)*

Classification of Certain Government – Guaranteed Residential Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)

The Accounting Principles and Auditing Standards Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) respectfully submits its comments on the referenced proposal. The Committee is the senior technical committee of CalCPA. CalCPA has approximately 40,000 members. The Committee consists of 53 members, of whom 47 percent are from local or regional CPA firms, 27 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 10 percent are in academia and 4 percent are in international CPA firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

Below are the Committee’s responses to the questions posed in the proposed Update:

Question 1: Do you agree with limiting the scope of the guidance in the proposed Update to Government-guaranteed residential mortgage loans for which the government guarantee is not separable from the loan and the creditor has the intent and ability to recover the full unpaid principal balance of the loan upon foreclosure? If not, please explain why and discuss the types of guaranteed mortgage loans that also should be addressed.

Yes, the Committee agrees that the scope should be limited as determined in the proposed Update. The Committee notes that other guarantees may have terms which could result in inappropriate classification if the provisions of the proposed Update were applied to them.

However, the Committee notes that the scope of the proposed Update is limited to classification and measurement upon foreclosure and does not address subsequent classification and measurement should the condition in proposed section 310-40-40-7A (b) change. In other words, the classification and measurement of the other receivable should the creditor elect (assuming it has the ability to elect), subsequent to foreclosure, not to make a claim on the guarantee and rather to recover its investment through sale of the foreclosed property is not addressed. The Committee believes that a reference to the appropriate Codification section (or a description of the appropriate accounting if this event is not currently addressed in the Codification) should be included in the proposed Update.

Question 2: Do you agree that a guaranteed residential mortgage loan within the scope of this proposed Update should be reclassified from loans to other receivables upon foreclosure (foreclosure as determined by paragraph 310-40-40-6)? If not, please explain why.

Yes, the Committee agrees. The character of the asset has changed from that of a loan and, although the creditor holds title to the real estate, there is no intent to recover the investment from a sale of the real estate, thus its value is not relevant to users. However, please see the Committee's response to Question 1.

Question 3: The proposed amendments require a single unit of account to be recognized as other receivables upon foreclosure of loans within the scope of the proposed Update. The Task Force decided not to require disclosure of the amount expected to be recovered under the guarantee and the fair value less cost to sell of the real estate for such foreclosed loans. Would it be decision-useful for an entity to provide recurring disclosure of both the amount expected to be received under the government guarantee and the fair value less cost to sell of the foreclosed residential real estate? If yes, please explain why.

The Committee agrees that it would not be decision-useful to include the fair value less cost to sell of the real estate so long as the creditor intends to recover its investment through the guarantee. However, please see the Committee's response to Question 1. If the creditor has the ability to seek recovery from the sale of the real estate subsequent to foreclosure the fair value less cost to sell of the real estate becomes relevant to users as either a measurement or disclosure.

Question 4: Do you agree that the proposed amendments should be applied using the same method of transition applied for Update 2014-04, that is, either under the modified retrospective transition method (requiring a cumulative-effect adjustment as of the beginning of the annual reporting period in which the guidance is effective) or under the prospective transition method? If not, please explain why.

The Committee agrees that the same method of transition should be applied.

Question 5: Do you agree that the proposed amendments should apply to both public entities and nonpublic entities? If not, please explain why.

The Committee agrees that the proposed amendments should apply to both public and nonpublic entities.

Question 6: Do you agree that an entity should be permitted to early adopt the proposed amendments?

Yes, the Committee agrees.

Question 7: The Private Company Decision-Making Framework states that, generally, amendments should be effective one year after the first annual period for which public companies are required to adopt them and for interim periods thereafter. Should nonpublic entities have one additional year for implementation? Please explain why or why not.

The Committee sees no reason to depart from the Private Company Decision-Making framework and thus supports the one year delay. The Committee notes that the election to early adopt the proposed Update permits all creditors to apply the provisions early if they so choose.

We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,



Michael D. Feinstein
Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants