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August 28, 2017

Via email to director@fasb.org

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, Elimination of Certain Guidance for Bad Debt Reserves of Savings and Loans (File Reference No. 2017-260)

Dear Ms. Cosper:

We are pleased to provide comments on the proposed improvements to Topic 942, Financial Services – Depository and Lending accounting.

BDO supports the Board's ongoing project regarding technical corrections and improvements to clarify the FASB Accounting Standards Codification. We believe the proposal, together with our recommendations, would improve the guidance for Financial Services – Depository and Lending accounting.

Our responses to the Board's specific questions are provided in the Appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Yosef Barbut at (212) 885-8292 or Adam Brown at (214) 665-0673.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

Question 1: Do you agree that the guidance in Subtopic 942-740 for bad debt reserves of savings and loans (and other qualified thrift lenders) that arose after December 31, 1987, is no longer relevant and should be superseded from the Codification? If not, why not?

Yes. We believe that the guidance in Subtopic 942-740-25-2, 942-740-35-1, and 942-740-35-2 for bad debt reserves of savings and loans (and other qualified thrift lenders) that arose after December 31, 1987, is no longer relevant as these "applicable excess reserves" were required to be recaptured evenly over six taxable years as a result of The Small Business Protection Act of 1996. Thus, all "applicable excess reserves" should have been fully recaptured, and the guidance in Subtopic 942-740 is no longer relevant and should be superseded from the Codification, consistent with the Board's Proposal.

We also agree that the guidance related to bad debt reserves that arose before December 31, 1987 (i.e., ASC 942-740-25-1) should be retained because nearly all affected entities still carry "Base Year" reserves on their tax balance sheets which would become taxable upon liquidation, cessation of banking activities, or distribution in excess of earnings & profit. Additionally, we agree that adding a cross-reference to subtopic 740-30 is useful and improves the Codification's clarity and ease of navigation.

We have two recommendations:

- Consider whether the last paragraph in 942-740-25-1 (copied below) is still necessary given that U.S. GAAP no longer contains guidance for "extraordinary" items:

  "However, if circumstances indicate that the association is likely to pay income taxes, either currently or in later years, because of known or expected reductions in the bad debt reserve, income taxes attributable to that reduction shall be accrued as tax expense of the current period; the accrual of those income taxes shall not be accounted for as an extraordinary item."

  We believe the income tax effect from all temporary differences subject to recognition exception in subtopic 740-30 should be recognized in income tax expense, subject to normal intraperiod allocation and interim period rules (i.e., recognized as discrete period effect if not related to current year ordinary income).

- Consider updating paragraph 942-740-35-3 (copied below) to remove the reference to the "percentage-of-taxable-income bad-debt deductions" as this method is no longer available to thrifts.

  "Under Topic 740, deferred tax assets and liabilities for temporary differences shall be measured by applying the enacted tax rate expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. It is not permissible to reduce a deferred tax liability so determined by anticipated future percentage-of-taxable-income bad-debt deductions for the same reasons that other special deductions may not be anticipated as set forth in paragraphs 740-10-25-37 and 740-10-30-13. However, for associations for which graduated tax rates are a factor, the existence of the percentage-of-taxable-income bad-debt deduction may result in a lower

> average graduated tax rate being applied in measuring deferred taxes if it results in taxable income falling into a lower tax rate bracket."

Question 2: Do you agree that the guidance related to Circular 202 on the accounting for net deferred tax charges is no longer relevant and should be superseded from the Codification? If not, why not?

Yes. We believe that the guidance related to Circular 202 on the accounting for net deferred tax charges is no longer relevant and should be superseded, consistent with the Board's simplification Initiative. Alternatively, if the FASB wanted to retain a reference in the relevant Codification section indicating that the industry's statutory accounting requirements related to recognition and presentation of net deferred tax assets are not determinative of US GAAP requirements, we would not object to updating paragraph 942-740-45-1 to reflect the replacement of Circular 202 with Basel III and retaining the statement about lack of comparability between US GAAP and statutory accounting. We think this could be a useful reference to users of the Codification.