RMA
RECEIVABLES MANAGEMENT ASSOC.

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December 18, 2018

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

Proposed Accounting Standards Update, *Codification Improvements – Financial Instruments* (File Reference No. 2018-300)

Dear Ms. Cosper:

On behalf of the Receivables Management Association International ("RMAI"), we appreciate the opportunity to comment on the Proposed Accounting Standards Update ("ASU"), *Codification Improvements - Financial Instruments* (the "Proposal") issued by the Financial Accounting Standards Board ("FASB") on November 19, 2018.

By way of background, RMAI is a nonprofit trade association representing more than 500 companies that purchase or support the purchase, sale, and collection of performing and non-performing receivables on the secondary market. Members of RMAI include banks, non-bank lenders, debt purchasing companies, third party collection agencies, collection law firms, and brokers.

RMAI is a national leader in promoting strong and ethical business practices within the receivables management industry. RMAI requires all its member companies who are purchasing receivables on the secondary market to become certified through RMAI's Receivables Management Certification Program ("RMCP") as a requisite for membership (publicly available at https://rmassociation.org/certification/).

We are in support of the FASB's efforts in conjunction with its Credit Losses Transition Resource Group ("TRG"), to clarify and improve the guidance related to ASU 2016-13, *Financial Instruments – Credit Losses* (the "Standard"). Fundamentally, the nature of the debt purchasing industry is such that for expected recoveries to be accurately calculated, they need to be analyzed at the pool level, not the individual account level. In instances when our debt purchasing members buy a particular pool of defaulted, well past-due receivables, they may have no reasonable "expectation" of recovery at the individual loan level because their historical experience concerning that particular type of receivable may indicate a zero collection on the majority of individual loans. Further, while debt purchasers can typically predict the timing and amount of collections at the portfolio level based on statistical modeling and behaviors, they cannot predict with any degree of accuracy the amount and timing of expected collections at the individual loan level. When evaluated at the unit-of-account level, each loan will be individually deemed "uncollectible" and charged-off. However, when evaluated at the pool level, debt purchasers can have a reasonable and supportable "expectation" of recoveries.

Therefore, in order to achieve the Standard's objective of having the balance sheet reflect the net amount expected to be collected, we support our debt purchaser members' request to use a negative allowance, as a practical way to bridge the difference between charge-off guidance (applied at the individual unit of account level) and CECL (applied at the pool level).

With the above in mind, we agree that the FASB's proposed amendment to paragraph 326-20-35-8, which removes the reference to recognition of recoveries only "when received," will result in the timely measurement of changes in expected credit losses when calculating the allowance. Furthermore, we support the proposed principle that an entity should be permitted to record a "negative allowance" for the inclusion of estimated recoveries in arriving at the "net amount expected to be collected" on the financial assets within the scope of the Standard. We believe that it is critical for the financial statements of our members to provide transparent information to their investors about the realizability of amounts on their balance sheets and, more broadly, the strength of their businesses.

Once again, thank you for the opportunity to comment on the Proposal.

Sincerely,

Jan Stieger, CAE, CMP, CRCP
Executive Director