



RSM US LLP

One South Wacker Drive, Suite 500
Chicago, IL 60606

www.rsmus.com

December 19, 2018

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

File Reference No. 2018-300

Dear Ms. Cospers:

RSM US LLP is pleased to express our support for the proposed Accounting Standards Update (ASU), *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. Our responses to the specific questions raised in the proposed ASU follow.

Responses to Questions for Respondents

Topic 1: Codification Improvements Resulting from the June 11, 2018 Credit Losses TRG Meeting

Issue 1A: Accrued Interest

Question 1: *Will the amendments in this proposed Update to (a) measure expected credit losses on accrued interest separately from other components of amortized cost basis, (b) make an accounting policy election to present accrued interest amounts separately from the related loan balance, and (c) elect a practical expedient to separately disclose the total amount of accrued interest included in amortized cost basis as a single balance to meet certain disclosure requirements simplify and reduce operational concerns when implementing the guidance in Update 2016-13 related to accrued interest? If not, please explain why you disagree and what changes should be made instead.*

We agree that the flexibility the proposed amendments would provide related to accrued interest should address operational concerns and simplify the transition to Update 2016-13.

Question 2: *Do you support the separate accounting policy elections that would allow an entity to choose to (a) write off accrued interest amounts by either reversing interest income or adjusting the allowance for credit losses and (b) elect not to measure an allowance for credit losses on accrued interest if the entity writes off uncollectible accrued interest amounts in a timely manner? If not, please explain why you disagree and what changes should be made instead.*

We support the proposed accounting policy election that would provide a choice in how to write off accrued interest amounts (i.e., either through reversing interest income or adjusting the allowance for credit losses). We have concerns with the proposed amendment that would indicate no allowance is necessary on accrued interest if uncollectible amounts are written off in a timely manner, due to concerns that such a provision could be misinterpreted and abused. Most write-off policies are based on the number of days or months past due. As such, an entity that writes off past due interest may believe it is writing off uncollectible amounts in a timely manner, and not establish an allowance for credit losses on accrued interest associated with receivables for which the payment of accrued interest is deferred (e.g., until maturity). We understand from paragraph BC16 of the proposed ASU

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that the intent of this proposed amendment is to alleviate the burden associated with recognizing and shortly thereafter reversing an allowance for credit losses. As such, we believe it may be preferable to simply indicate that expected credit losses on accrued interest can be recognized either through an allowance for credit losses or a direct write off.

Question 3: *If you agree with the policy election not to measure an allowance for credit losses on accrued interest if the entity reverses or writes off uncollectible accrued interest amounts in a timely manner, what period would you consider to be timely?*

As indicated in our response to the preceding question, we have concerns with permitting such a policy election. We believe it would be challenging to define a period, given that certain receivables provide for interest payment deferrals of varying lengths.

Issue 1B: Transfers between Classifications or Categories for Loans and Debt Securities

Question 4: *Are the proposed amendments related to the transfer of loans and debt securities between classifications or categories operable? If not, please explain why you disagree and what changes should be made instead.*

We believe that these proposed amendments are operable as drafted.

Issue 1C: Recoveries

Question 5: *Do the proposed amendments clarify that recoveries are inputs that should be considered when measuring the allowance for credit losses? If not, please explain why you disagree and what changes should be made instead.*

As it relates to additional changes that should be made, we noted that while the proposed amendments to paragraph 326-20-35-8 remove all provisions related to recoveries, the heading that precedes this paragraph was not amended to remove the reference to recoveries. We believe it would be beneficial to reinforce in paragraph 326-20-35-8 how estimated reasonable and supportable recoveries should be factored into the allowance for credit losses and how recoveries should be reported for disclosure purposes (i.e., when collected).

We also believe it would be beneficial to elaborate on how the proposed addition to paragraph 326-20-30-1, which would limit recoveries to the aggregate of amounts previously written off and expected to be written off, should be applied in the context of a pool of assets with similar risk characteristics for which the allowance is measured on a collective basis. For example, given that assets can and will move in and out of pools, would the aggregate amount of previous write offs for a given pool be (a) the life-to-date write offs associated with solely the assets that are in the pool at the measurement date, regardless of whether or not the asset was in the pool at the time of the write off, or (b) the aggregate amount of previous write offs that occurred when an asset was in the pool regardless of whether the asset remains in the pool on the measurement date? We encourage the Financial Accounting Standards Board to perform additional outreach if necessary to determine whether this limitation is operational for a pool of assets for which the allowance is measured on a collective basis.

Question 6: *Do the proposed amendments clarify that an entity may record a negative allowance when measuring the allowance for credit losses using the fair value of the underlying collateral in accordance with paragraphs 326-20-35-4 through 35-5?*

By indicating that the allowance for credit losses can be added to the amortized cost basis, one can infer from the proposed amendments that a negative allowance may be recorded. To minimize the

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risk that this aspect is over looked, we believe it would be beneficial to specifically state that the allowance may be negative.

We noted that paragraphs 326-20-35-4 and 35-5 both state that “an allowance for credit losses, that is added to the amortized cost basis of the financial asset(s), shall not exceed amounts previously written off.” We question whether the words “and expected to be written off” should be added to this sentence in both paragraphs 326-20-35-4 and 35-5, similar to the wording proposed in paragraph 326-20-30-1.

We also question whether paragraph 326-20-35-6 (relevant to financial assets secured by collateral maintenance provisions) should be amended to address how to account for circumstances in which the fair value of the collateral exceeds the amortized cost basis of the asset.

Question 7: *Should an entity be permitted to record a negative allowance when measuring the allowance for credit losses on available-for-sale debt securities? If yes, why?*

To avoid confusion, we believe it would be beneficial to amend the guidance in Subtopic 326-30 to be consistent with any amendments to Subtopic 326-20 in this regard.

Topic 2: Codification Improvements to Update 2016-13

Question 8: *Do the proposed amendments clarify the guidance in Update 2016-13? If not, please explain which proposed amendment(s) you disagree with and why.*

We believe the proposed amendments do clarify the guidance in Update 2016-13.

Question 9: *Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification improvement projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvement project.*

As it relates to the use of a prepayment-adjusted effective interest rate when an entity uses a discounted cash flows approach to estimate credit losses, at its December 13, 2017 meeting, the Board decided to provide transition relief for existing troubled debt restructurings in that an entity could calculate the prepayment-adjusted rate based on the original contractual terms of the loan and prepayment assumptions as of the date of adoption, rather than using prepayments assumptions as of the date of the restructuring. We believe it would be beneficial to incorporate this transition relief as an amendment to the transition provisions of Update 2016-13.

Question 10: *The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?*

We are not aware of any proposed amendments within Topic 2 that in our opinion require special consideration for nonpublic entities.

Question 11: *Should an entity be required to use a prepayment-adjusted effective interest rate if it uses projections of interest rate environments in estimating expected cash flows, including expected prepayments and defaults?*

Given the flexibility that is otherwise inherent in Update 2016-13, we do not believe this should be a requirement.

Question 12: *How much time would be needed to implement the proposed amendments for an entity that has already adopted Update 2016-13 before these proposed amendments are finalized? What transition*

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method and transition disclosures should be required when adopting these proposed amendments and why?

In responding to this question, we defer to the reporting entities that will be impacted by the proposed amendments.

Question 13: *Should the effective date and transition requirements for the amendments in this proposed Update align with that of Update 2016-13 for entities that have not yet adopted Update 2016-13 before these proposed amendments are finalized? What transition disclosures should be required when adopting the proposed amendments and why?*

In responding to this question, we defer to the reporting entities that will be impacted by the proposed amendments. We believe the standard transition disclosures for adoption of a new accounting standard should suffice.

Topic 3: Codification Improvements to Update 2017-12 and Other Hedging Items

Question 14: *Do the proposed amendments clarify the guidance in Topic 815? If not, please explain which proposed amendment(s) you disagree with and why.*

We agree that the proposed amendments clarify the guidance in Topic 815.

Question 15: *Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the proposed Codification improvements related to (a) the change in hedged risk guidance for cash flow hedges discussed at the March 28, 2018 Board meeting and (b) use of the word prepayable in the shortcut method guidance discussed at the February 14, 2018 Board meeting will be included in a future proposed Update.*

As it relates to paragraph 815-20-25-84A and the ability to assume that the timing in which hedged forecasted transactions are expected to occur and the maturity date of the hedging instrument match if those forecasted transactions occur and the derivative matures within the same 31-day period or fiscal month, we believe it would be beneficial to clarify whether this assumption can only be made when all other critical terms match. For example, if there are timing differences between the hedging instrument and the hedged item as well as differences in another critical term, can the quantitative assessment of effectiveness focus solely on the non-timing differences if the hedged transactions are expected to occur in the same month that the hedging derivative matures? We also believe it would be beneficial to address the application of this guidance for commodities, such as electricity, for which the pricing is dependent on the hour of the day. In other words, could one assume that the timing matches if the derivative is a forward contract to purchase a stated amount of electricity between 10:00 and 11:00 A.M. on December 1, if the hedged forecasted transactions are expected to occur within the month of December?

Question 16: *The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?*

We are not aware of any proposed amendments within Topic 3 that in our opinion require special consideration for nonpublic entities.

Question 17: *Should partial-term fair value hedging be expanded to all risks eligible for hedge accounting?*

We see no reason to not extend partial-term fair value hedging to all relevant eligible risks.

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Question 18: *Do you agree with the specific considerations for transition and the effective date for the proposed amendments to Topic 815? Please explain why or why not.*

As it relates to transition considerations, it is not evident to us what the ramification is if, as of the inception of the hedge, the entity did not have an analysis in place to support the last-of-layer designation required by paragraph 815-20-25-139. We suggest this be specifically addressed in the transition requirements for the final standard so that it is clear whether this analysis can be performed retrospectively, without interrupting the hedge, or whether an entity that did not have this analysis in place at the inception of the hedge should not have applied hedge accounting prior to the time it met this requirement. As it relates to the effective date for the proposed amendments, we defer to the reporting entities that will be impacted to respond to this question.

Question 19: *Should the proposed amendments to Topic 815 be effective as of the earlier of the beginning of the first quarterly period (if applicable) or the first annual period after the issuance date of a final Update? Would this provide entities with sufficient time to implement these amendments?*

As indicated in the preceding question, we defer to the reporting entities that will be impacted by the proposed amendments to respond to the appropriateness of the proposed effective date.

Topic 4: Codification Improvements to Update 2016-01

Question 20: *Do the proposed amendments clarify the guidance in Update 2016-01? If not, please explain which proposed amendment(s) you disagree with and why.*

With one exception, we believe the proposed amendments related to Topic 4 clarify the guidance in Update 2016-01. Paragraph 54 of the proposed ASU states that “*the proposed amendments also would clarify that only debt securities intended to be held to maturity are required to follow paragraph 830-10-45-18*”; however, there is no amended language in paragraph 830-10-45-18 as modified that specifically states this.

Question 21: *Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification improvement projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvement project.*

We noted that the proposed amendments would eliminate sub-paragraph 320-10-50-5(aa) since entities other than public business entities are no longer required to disclose the fair value of held-to-maturity debt securities. We noticed that paragraph 320-10-50 50-5(f) and paragraph 942-320-50-3 continue to require financial institutions (including those that are not public business entities) to disclose the fair value of such securities and question whether this was intentional or an oversight.

Question 22: *The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?*

We are not aware of any proposed amendments within Topic 4 that in our opinion require special consideration for nonpublic entities.

Question 23: *How much time would be needed to implement the proposed amendments for an entity that has already adopted Update 2016-01 before these proposed amendments are finalized? What transition method and transition disclosures should be required when adopting the proposed amendments and why?*

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In responding to the time necessary for transition, we defer to reporting entities that will be impacted by the proposed amendments. We believe the standard transition disclosures for adoption of a new accounting standard should suffice. As it relates to the transition method, for comparability purposes, we believe retrospective application should be permitted.

Question 24: *Should the effective date and transition requirements for the proposed amendments align with that of Update 2016-01 for entities that have not yet adopted Update 2016-01 before these proposed amendments are finalized? What transition disclosures should be required when adopting the proposed amendments and why?*

We defer to the reporting entities that will be impacted by the proposed amendments to respond to effective date considerations. As noted in our response to the preceding question, we believe the standard transition disclosures for adoption of a new accounting standard should suffice.

Topic 5: Codification Improvements Resulting from the November 1, 2018 Credit Losses TRG Meeting

Question 25: *Do the proposed amendments clarify how an entity should present line-of-credit arrangements that convert to term loans within the vintage disclosure table requirement in paragraph 326-20-50-6? If not, please explain which proposed amendment(s) you disagree with and why.*

In Example 15 at paragraph 326-20-55-79, we believe it would be beneficial to add a note to the column heading for *Revolving Loans Converted to Term Loans Amortized Cost Basis* to reference paragraph 326-20-50-6A for additional guidance or to otherwise indicate that this does not include line-of-credit arrangements that converted upon a subsequent credit decision. This would minimize the risk that one would see the example but overlook the clarifications to paragraph 326-20-50-6A and inappropriately conclude that all converted revolving loans should be reflected in the newly added column.

Question 26: *Do the proposed amendments clarify how an entity should consider extension or renewal options (excluding those that are accounted for as derivatives in accordance with Topic 815) that are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity? If not, please explain which proposed amendment(s) you disagree with and why.*

We believe the proposed amendments clarify how extension and renewal options should be considered when determining the contractual life of an instrument.

We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Faye Miller at 410.246.9194.

Sincerely,

RSM US LLP

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