



December 19, 2018

Ms. Susan Cospers  
Technical Director  
File Reference No. 2018-300  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

**RE: File Reference No. 2018-300: Codification Improvements – Financial Instruments**

Dear Ms. Cospers:

Texas Capital Bancshares, Inc. (“we” or TCBI) appreciates the opportunity to provide feedback on the Financial Accounting Standards Board’s (FASB) Proposed Accounting Standards Update – *Codification Improvements – Financial Instruments* (“proposed ASU”).

TCBI is a registered bank holding company and a financial holding company. TCBI is the parent company of Texas Capital Bank, N.A., headquartered in Dallas, Texas. We are an independent bank focused primarily on serving the needs of middle market commercial businesses, successful professionals and entrepreneurs in Texas. In addition, we operate four national lines of business to provide specialized products and services for customers in Builder Finance, Lender Finance, Mortgage Finance and Premium Finance.

We commend the FASB’s actions to continue to improve areas within the Codification that require clarification and correction in order to avoid its unintended application. We generally support the proposed amendments related to Accounting Standards Codification (ASC) 326 *Financial Instruments – Credit Losses* (Topics 1, 2, and 5 of the proposed ASU) except as further discussed below. We have not provided comments on the proposed amendments related to ASC 815 *Derivatives and Hedging* or ASC 321 *Investments – Equity Securities* (Topics 3 and 4 of the proposed ASU) as they would not significantly impact TCBI.

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

- *Issue 1A Accrued Interest*

**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?

We agree with the proposed 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. We generally believe a period of 90 days past due to be timely and also consistent with certain regulatory guidance. We do however acknowledge that certain product types and certain industries as well as the economic environment may produce unique or different thresholds of uncollectibility and that the FASB should allow for flexibility by a reporting entity to determine what would be considered a reasonable timely period for reversing or writing off accrued interest amounts that is based on supportable assumptions. We also believe that relevant disclosures by the reporting entity regarding its accrued interest reversal and write-off policies in conjunction with the presentation and disclosure proposals in Question 1 of the proposed ASU would provide sufficient information to users of financial statements about a reporting entity's exposure related to accrued interest amounts.

- *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.

In general, we agree that the proposed amendments are operable. However, for allowance for credit losses assigned to loans at a pool level and not an individual level, it is not clear how an entity would determine the allowance to be reversed on a reclassified loan or group of loans from within that pool. Rather, as a matter of practicality, we believe an entity would re-measure the allowance for credit losses on the remaining pool at the end of the reporting period, thereby effectively reversing any allowance related to the reclassified loans during the reporting period. As currently drafted, the proposal would appear to require the specific sequencing of events that could require an entity to determine the portion of the allowance for the reclassified loans from within a pool prior to the periodic remeasurement date of such pool. In order to provide flexibility to the reporting entity whilst preserving the intended outcome of the proposed amendments, we have provided the following suggested adjustments for your consideration:

**>> Transfers of Nonmortgage Loans between Classifications**

**310-10-35-48A** For a nonmortgage loan that is transferred into the held-for-sale classification from the nonmortgage loan not-held-for-sale classification, an entity shall, during the reporting period, reverse in earnings any allowance for credit losses previously recorded on the nonmortgage loan not held for sale, ~~at the transfer date.~~ An entity shall ~~then~~ reclassify and transfer the nonmortgage loan into the held-for-sale classification at its amortized cost basis (which is reduced by any previous writeoffs but excludes any allowance for credit losses) at the transfer date. An entity shall then determine if a valuation allowance is necessary by following the guidance in Subtopic 310-10.

Similar adjustments may also apply to transfers of debt securities from the held-to-maturity to available-for-sale categories as described in ASC 320-10-35-10A.

Alternatively, in lieu of adjusting the proposed amendments, additional clarification could be added allowing the reporting entity flexibility on how to determine the allowance amount to be reversed upon transfer of loans within a pool as long as the allowance for credit losses at each reporting date results in the presentation of the net amount expected to be collected on the remaining pool.

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

**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.

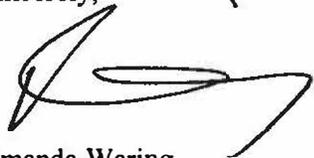
While we believe that conceptually, extension or renewal options that are not unconditionally cancellable by the reporting entity may represent a current obligation to extend credit similar to other off-balance-sheet credit exposures, the complexities of evaluating the likelihood that such option will be exercised based on the terms and conditions of the option at the individual loan level may be prohibitively burdensome to reporting entities resulting in a wide disparity in allowance for credit losses between entities of similar size and product mix. Many such options that may technically be unconditionally cancellable by the reporting entity contain limitations on their availability to be drawn such that exercise of the option may have little or no impact on expected loss. Historical data related to the exercise of extension and renewal options has not typically been tracked or validated in order to provide sufficient and reliable history for the purpose of estimating either the likelihood of exercise or the impact on expected loss and more time would be needed by reporting entities to gather such information over a period of time in order to report meaningful results.

We therefore propose including a practical expedient that would both alleviate the cost of those complexities and at the same time provide users of financial statements with sufficient information to evaluate a reporting entity's additional potential credit exposure until an adequate amount of time has been allowed to accumulate the relevant historical information – at which time, the practical expedient can be eliminated. Such practical expedient could be to permit a reporting entity to exclude all extension or renewal options from the contractual term and instead require the following disclosures:

- Qualitative information regarding the types of extensions or renewal options offered and related terms and conditions
- Quantitative information such as the average term of such extensions or renewal options and the estimated additional potential credit exposure not currently reported.

Thank you for the opportunity to comment on the proposed ASU. We would be pleased to discuss any of our comments at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'Amanda Waring', with a stylized flourish at the end.

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