January 15, 2019

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

Re: File Reference No. 2018-300

Dear Ms. Cosper:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Board's proposed Accounting Standards Update, *Codification Improvements - Financial Instruments*. We support the FASB's ongoing efforts to provide regular updates, corrections, and improvements to the Codification.

We generally agree with the proposed amendments. The Appendix contains our responses to the Questions for Respondents, including certain instances in which we recommend additional amendments.

If you have any questions regarding our comments, please contact David Schmid at (973) 236-7247, Donald Doran at (973) 236-5280, or Chip Currie at (973) 236-5331.

Sincerely,

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Appendix

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

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 entities should be permitted 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. However, it is unclear if the accounting policy election to present accrued interest separate from the related loan balance in ASC 326-20-45-5 is required to be made by class of financing receivable or for each major security-type. The other accounting policy elections proposed for accrued interest are required to be made by class of financing receivable or for each major security-type.

In addition, the accounting policy election in ASC 326-20-45-5 refers to accrued interest receivables balances for both financial assets measured at amortized cost and net investments in leases. The presentation guidance in ASC 842-30-45-1 requires a lessor to present lease assets (that is, the aggregate of the lessor's net investment in sales-type leases and direct financing leases) separate from other assets in the statement of financial position. As a result, absent clarification in ASC 842, the inclusion of net investments in leases in the accounting policy election in ASC 326-20-45-5 may create a conflict in the literature. We suggest the following edit:

> 842-30-45-1 A lessor shall present lease assets (that is, the aggregate of the lessor's net investment in sales-type leases and direct financing leases) separately from other assets in the statement of financial position. <u>A lessor is permitted to make an accounting policy election for presentation of amounts in the statement of financial position in accordance with 326-20-45-5.</u>

We believe the Board should provide similar accounting policy elections for available-for-sale securities. We note that the definition of amortized cost basis in ASC 326-30 includes accrued interest, similar to its inclusion in ASC 326-20.

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 providing these accounting policy elections separately.

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 believe that writing off accrued interest amounts once such amounts are greater than 90 days past due would be a potential starting point in evaluating what is considered a "timely" manner. We understand that this time period may be consistent with current practice for some assets in certain industries following guidance issued by banking regulatory agencies.

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 agree with the proposed amendments related to the transfer of loans and debt securities between classifications or categories and believe these are operable; however, we suggest the following.

- The addition of a numerical example illustrating the transfer of an available-for-sale debt security to held-to-maturity when the available-for-sale debt security has an allowance for credit losses and an unrealized gain/loss reported in accumulated other comprehensive income.

- Paragraph 320-10-35-10B relates to the transfer of a debt security into the held-to-maturity category from the available-for-sale category; however, subparagraph 320-10-35-10B(b) refers to the debt security being transferred into the available-for-sale category. We suggest the following edit to ASC 320-10-35-10B(b) to clarify:

  > 320-10-35-10B(b) Reclassify and transfer the debt security to the held-to-maturity ~~available-for-sale~~ category at its amortized cost basis (which is reduced by any previous writeoffs but excludes any allowance for credit losses) plus or minus the amount of any remaining unrealized holding gain or loss reported in accumulated other comprehensive income.

- The proposed amendment relating to the transfers of loans and debt securities between classifications and categories links to the transition paragraph 326-10-65-1. This paragraph would require an entity to apply these amendments by means of a cumulative-effective adjustment to the opening retained earnings as of the beginning of the first reporting period in the year of adoption ("modified retrospective approach"). We believe that in some cases it may be challenging for entities to apply this amendment on a modified retrospective approach. For example, there may be instances when an entity has transferred a loan between categories more than once before the date of adoption. We suggest a transition provision whereby, as a practical expedient, an entity could elect to apply this proposed amendment prospectively. If an entity elects prospective application, we recommend that an entity could treat write offs associated with transfers between categories prior to adoption similar to write offs associated with credit losses. For example, if an entity had recorded a valuation allowance on a loan classified as held-for-sale and then transferred this loan out of held-for-sale prior to adoption at fair value, the entity could treat the write off of the cost basis to fair value upon transfer similar to a write off associated with credit losses for the purposes of calculating an allowance for credit losses. This would avoid any potential double counting of credit losses under the credit loss standard.

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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.

We agree that the proposed amendments clarify that recoveries are inputs that should be considered when measuring the allowance for credit losses; however, we note that the term "recoveries" is used in a number of contexts. For example:

- "Recoveries" could refer to the total amounts expected to be received from the borrower, collateral, and other sources.
- "Recoverable amount" is defined in the Master Glossary as "Current worth of the net amount of cash expected to be recoverable from the use or sale of an asset."
- "Recoveries" is also used to describe amounts expected to be received that were previously deemed uncollectible and were written off consistent with paragraph 326-20-35-8.

In the context of this guidance, we understand "recoveries" to refer to amounts expected to be received that were previously written off or expected to be written off under the credit loss guidance.

With respect to paragraph 326-20-30-1, we believe the proposed amendment should be updated to clarify that recoverable amounts relate to amounts previously written off by an entity under the credit loss guidance and a "negative allowance" cannot be created in other circumstances (for example, when a loan is purchased at a discount and an entity expects to collect an amount higher than the purchase amount). We therefore suggest the following edits to the proposed language:

> 326-20-30-1 The allowance for credit losses is a valuation account that is deducted from, or added to, the amortized cost basis of the financial asset(s) to present the net amount expected to be collected on the financial asset. Recoverable amounts included in the valuation account <u>which would create an amount that is added to the amortized cost basis</u> shall not exceed the aggregate of amounts previously written off and expected to be written off by the entity <u>under this Subtopic</u>. At the reporting date, an entity shall record an allowance for credit losses on financial assets within the scope of this Subtopic. An entity shall report in net income (as a credit loss expense) the amount necessary to adjust the allowance for credit losses for management's current estimate of expected credit losses on financial asset(s).

In addition, the disclosure requirement in ASC 326-20-50-13(e) requires "recoveries collected" to be included in the rollforward of the allowance for credit losses. We believe that in this context, "recoveries" relates to collections of amounts previously written off. To clarify this disclosure requirement, we suggest the following wording be used instead:

> 326-20-50-13(e) Recoveries collected <u>of amounts previously written off under this Subtopic, if applicable</u>

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?

We believe 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 and 35-5.

We suggest the following amendment to the collateral-dependent financial asset practical expedient in ASC 326-20-35-5 to clarify that when adjusting the allowance for credit losses to equal the fair value (less costs to sell) of the collateral, any "negative allowance" is limited to amounts previously written off under the application of the credit loss guidance.

> 326-20-35-5 An entity may use, as a practical expedient, the fair value of the collateral at the reporting date when recording the net carrying amount of the asset and determining the allowance for credit losses for a financial asset for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty based on the entity's assessment as of the reporting date (collateral-dependent financial asset). If an entity uses the practical expedient on a collateral-dependent financial asset and repayment or satisfaction of the asset depends on the sale of the collateral, the fair value of the collateral shall be adjusted for estimated costs to sell (on a discounted basis). However, the entity shall not incorporate in the net carrying amount of the financial asset the estimated costs to sell the collateral if repayment or satisfaction of the financial asset depends only on the operation, rather than on the sale, of the collateral. When the fair value (less costs to sell, if applicable) of the collateral at the reporting date exceeds the amortized cost basis of the financial asset, an entity shall adjust the allowance for credit losses to present the net amount expected to be collected on the financial asset to equal to the fair value (less costs to sell, if applicable) of the collateral <u>except as limited by the following sentence</u>. 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 <u>under this Subtopic</u>. If the fair value of the collateral is less than the amortized cost basis of the financial asset for which the practical expedient has been elected, an entity shall recognize an allowance for credit losses on the collateral-dependent financial asset, which is measured as the difference between the fair value of the collateral, less costs to sell (if applicable), at the reporting date and the amortized cost basis of the financial asset. An entity also shall consider any credit enhancements that meet the criteria in paragraph 326-20-30-12 that are applicable to the financial asset when recording the allowance for credit losses.

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?

We believe an entity should be permitted to record a negative allowance when measuring the allowance for credit losses on available-for-sale debt securities limited to the amounts previously written off and expected to be written off by the entity under the credit loss guidance.

We understand the amendment to ASC 326-30-35-13 is intended to clarify that write-offs and recoveries for available-for-sale debt securities should be recognized consistent with financial assets measured at amortized cost, therefore permitting a negative allowance for available-for-sale debt securities. However, ASC 326-30-35-12 has language that may be inconsistent with this goal. We suggest the following edit:

> 326-30-35-12 An entity shall reassess the credit losses each reporting period when there is an allowance for credit losses. An entity shall record subsequent changes in the allowance for credit losses on available-for-sale debt securities with a corresponding adjustment recorded in the credit loss expense on available-for-sale debt securities. ~~An entity shall not reverse a previously recorded allowance for credit losses to an amount below zero.~~

Although it may not be a common occurrence, questions may arise regarding whether adjustments to the amortized cost basis (based on the guidance in ASC 326-30-35-10) would be considered a write-off in determining whether an entity would be permitted to record a negative allowance for securities for which an entity has changed its intent to sell or its assessment regarding a requirement to sell.

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<u>Topic 2: Codification Improvements to Update 2016-13</u>

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 generally agree with the proposed amendments to the guidance in Update 2016-13; however, we have a couple of suggestions related to some of the proposed amendments.

Issue 2C: Clarification That Reinsurance Recoverables Are within the Scope of Subtopic 326-20

We agree that the proposed amendments clarify that reinsurance recoverables that result from insurance transactions that are within the scope of ASC 944, *Financial Services—Insurance*, are within the scope of ASC 326-20.

However, we note that (1) an entity can elect the fair value option to measure reinsurance contracts that would include the recoverables and (2) ASU 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts,* states that reinsurance contracts determined to be market risk benefits are measured at fair value. We therefore suggest the following wording instead:

> 326-20-15-2(d) Reinsurance recoverables that result from insurance transactions within the scope of Topic 944 on insurance, <u>except if measured at fair value on a recurring basis through earnings</u>.

In addition, we believe the language in the summary of the main provisions of the amendment on page 6 of the proposed Accounting Standards Update should be updated as follows:

> The proposed amendment would clarify the Board's intent to include all reinsurance recoverables within the scope of Topic 944 within the scope of Subtopic 326-20~~, regardless of the measurement basis of those recoverables~~<u> except if measured at fair value on a recurring basis through earnings</u>.

Issue 2E: Consideration of Prepayments in Determining the Effective Interest Rate

We agree with the proposed amendment to add paragraphs 326-20-30-4A and 326-30-35-7A, which would permit an entity to make an accounting policy election to adjust the interest rate used to discount expected cash flows of a financial asset in accordance with paragraphs 326-20-30-4 and 326-30-35-7 for the consideration of timing of expected prepayments. However, we believe an entity should be permitted to adjust the interest rate used to discount cash flows of a financial asset for timing of both expected prepayments and defaults. The same considerations for using a discount rate calculated assuming an asset will remain outstanding until its contractual maturity to discount cash flows that reflect estimates of the timing of prepayments apply to defaults. We suggest "and defaults" be inserted as follows:

> 326-20-30-4A As an accounting policy election for each class of financing receivable or major security type, an entity may adjust the effective interest rate used to discount expected cash flows to consider the timing (and changes in timing) of expected cash flows resulting from expected prepayments <u>and defaults</u>. However, if the asset is restructured in a troubled debt restructuring, the effective interest rate used to discount expected cash flows should not be adjusted because of subsequent changes in expected timing of cash flows.
>
> 326-30-35-7A As an accounting policy election for each major security type of debt securities classified as available-for-sale securities, an entity may adjust the effective interest rate used to discount expected cash flows to consider the timing (and changes in the timing) of expected cash flows resulting from expected prepayments <u>and defaults</u>.

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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.

In addition to the changes recommended above, we suggest the following additional improvements:

Issue 2B: Conforming Amendments to Subtopic 323-10

In our response to Question 5, one of the edits we proposed to Topic 326 was to clarify that recoverable amounts relate to amounts written off under the credit loss guidance. We believe this distinction is important because there are other Topics, such as ASC 323-10, that can cause adjustments to the amortized cost basis of instruments subject to the impairment guidance. As an example, ASC 323-10-35 may require an entity to record equity method losses in excess of the carrying amount of the equity method investments as basis adjustments to investments subject to ASC 326-20 and ASC 326-30. We understand that the Board's intent regarding the creation of "negative allowances" is limited to recoveries of amounts written off under the credit loss guidance, as opposed to amounts that may be "written off" as a result of the application of guidance in Subtopic 323-10.

Issue 2F: Consideration of Estimated Costs to Sell When Foreclosure Is Probable

The proposed amendment to ASC 326-20-35-4 requires an entity to adjust the fair value of the collateral for the estimated costs to sell on a discounted basis if it intends to sell rather than operate the collateral. This is consistent with the collateral-dependant practical expedient in ASC 326-20-35-5.

While these paragraphs indicate that costs to sell should be reflected on a discounted basis, we do not believe this should be required. We believe an entity should be able to estimate costs to sell assuming the collateral was sold at the balance sheet date (that is, the cost to sell as of the reporting date). This is consistent with the concept of using the fair value of the collateral at the reporting date to measure credit losses. We believe the intent of the practical expedient was to simplify the accounting for collateral-dependent financial assets and the requirement to discount costs to sell adds unnecessary complexity. We therefore believe this should be removed from both ASC 326-20-35-4 and ASC 326-20-35-5 as follows:

> 326-20-35-4 Regardless of the initial measurement method, an entity shall measure expected credit losses based on the fair value of the collateral when the entity determines that foreclosure is probable. The entity shall adjust the fair value of the collateral for the estimated costs to sell ~~(on a discounted basis)~~ if it intends to sell rather than operate the collateral. When an entity determines that foreclosure is probable, the entity shall remeasure the financial asset at the fair value of the collateral (less costs to sell, if applicable) so that the reporting of a credit loss is not delayed until actual foreclosure. An entity also shall consider any credit enhancements that meet the criteria in paragraph 326-20-30-12 that are applicable to the financial asset when recording the allowance for credit losses.
>
> 326-20-35-5 An entity may use, as a practical expedient, the fair value of the collateral at the reporting date when recording the net carrying amount of the asset and determining the allowance for credit losses for a financial asset for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty based on the entity's assessment as of the reporting date (collateral dependent financial asset). If an entity uses the practical expedient on a collateral-dependent financial asset and repayment or satisfaction of the asset depends on the sale of the collateral, the fair value of the collateral shall be adjusted for estimated costs to sell ~~(on a discounted basis)~~.

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 do not believe the proposed amendments would require special consideration for non-public 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?

We do not believe an entity should be required to use a prepayment-adjusted discount rate if it uses projections of interest rate environments in estimating expected cash flows. We believe that the concept of aligning the discount rate with the estimated timing of cash flows is different than estimating future cash flows using projections of future interest rate environments. In addition, we note that the guidance is intended to provide entities with flexibility in determining the allowance for credit losses.

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

We believe this question is best addressed by financial statement preparers.

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?

We believe the effective date for the amendments in this proposed Update should align with that of Update 2016-13 for entities that have not yet adopted Update 2016-13. We do not believe that any additional transition disclosures should be required. See our response to Question 4 for a suggestion with respect to a transition provision relating to the reclassification of loans and securities between categories.

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 believe the proposed amendments clarify the guidance in Topic 815; however, we believe the following suggestions will further clarify the guidance:

Issue 3A: Partial-Term Fair Value Hedges of Interest Rate Risk

We understand that with the issuance of Update 2017-12, the intent was that fair value hedges of selected cash flows of interest rate risk would not apply the guidance in ASC 815-20-25-12(b)(2)(ii) and ASC 815-20-55-5 through 8 (which were deleted) and instead apply the guidance in ASC 815-25-35-13B. We further understand that the intent of this proposed amendment is for fair value hedges of selected cash flows for foreign exchange and interest rate risk to similarly apply the guidance in ASC 815-25-35-13B. Based on this understanding, we recommend the following clarification:

> 815-20-25-12(b)(2)(ii) One or more selected contractual cash flows, including one or more individual interest payments during a selected portion of the term of a debt instrument (such as the portion of the asset or liability representing the present value of the interest payments in any consecutive two years of a four-year debt instrument). Hedges of selected contractual cash flows for interest rate risk and hedges of both interest rate risk and foreign exchange risk must be designated in accordance with paragraph 815-25-35-13B, which discusses the measurement of the hedged item in hedges of interest rate risk or of both interest rate risk and foreign exchange risk for partial-term hedges.

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.

We suggest the following additional improvements:

Issue 3B: Amortization of Fair Value Hedge Basis Adjustments

We agree with the proposed amendments to ASC 815-25-35-9A, but have the following recommendation to clarify that fair value hedge basis adjustments relating to foreign exchange risk are not amortized to earnings:

> 815-25-35-9A If, as permitted by paragraph 815-25-35-9, an entity amortizes the adjustment to the carrying amount of the hedged item in an outstanding partial-term hedge of interest rate risk (or of the interest rate risk element of a hedge of interest rate risk and foreign exchange risk), that adjustment shall be fully amortized on or before the hedged item's assumed maturity date in accordance with paragraph 815-25-35-13B. For a discontinued hedging relationship, all remaining adjustments to the carrying amount of the hedged item shall be amortized over a period that is consistent with the amortization of other discounts or premiums associated with the hedged item in accordance with other Topics (for example, Subtopic 310-20 on receivables—nonrefundable fees and other costs).

We also believe that the FASB should clarify when the amortization of the adjustment to the carrying amount of the hedged item should begin for certain partial-term hedges. For example, assume an entity has an active hedging relationship that is a partial-term hedge of the interest rate risk of cash flows in years four and five of a five-year bond. If an entity elects to amortize the adjustment to the carrying amount, should the amortization begin immediately or should the basis adjustment be amortized during years four and five?

Issue 3E: Scope for Not-for-Profit Entities

We suggest amendments to the following paragraphs to clarify that only certain not-for-profit entities do not report earnings as a separate caption in a statement of financial performance:

> 815-10-15-1 This Subtopic applies to all entities. Some entities, such as certain not-for-profit entities (NFPs) and defined benefit pension plans, do not report earnings as a separate caption in a statement of financial performance. The application of this Subtopic to those entities is set forth in paragraphs 815-10-35-3, 815-20-15-1, 815-25-35-19, and 815-30-15-3.

> 815-20-25-12(c) The hedged item presents an exposure to changes in fair value attributable to the hedged risk that could affect reported earnings. The reference to affecting reported

earnings does not apply to an entity that does not report earnings as a separate caption in a statement of financial performance, such as a certain not-for-profit entity (NFP), in accordance with paragraph 815-20-15-1

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 do not believe that the proposed amendments would require special consideration for non-public entities.

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

We believe that the permissibility of partial-term fair value hedging should be expanded to allow its use for all risks eligible for hedge accounting. However, we believe that in certain instances, the concept of partial-term fair value hedging can be applied to other risks eligible for hedge accounting through the use of the excluded component guidance. For example, an entity with a ten-year foreign-denominated debt issuance could enter into a fair value hedge of the foreign exchange risk with a one-year forward contract by electing to assess effectiveness based on changes in fair value attributable to changes in spot prices. The excluded components would be accounted for based on the guidance in ASC 815-20-25-83A.

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.

We generally agree with the proposed transition requirements and effective date; however, we have the following suggestion.

Issue 3H: Update 2017-12 Transition Guidance

For an entity that has adopted the amendments in Update 2017-12 before the issuance date of this proposed update and reflects the amendments on a retrospective basis in accordance with ASC 815-20-65-5(c), the intent of the following transition language is unclear:

> "…new hedging relationships may be retrospectively designated between the date of adoption of the amendments in Update 2017-12 and the effective date of Update 201X-XX in accordance with (a) above for existing eligible hedging instruments and existing eligible hedged items or existing eligible forecasted transactions related to the amendments in paragraph 815-20- 25-12(b)(2)(ii), 815-30-35-26, or 815-20-55-33G."

The guidance appears to permit an entity to retroactively designate derivatives not in hedging relationships into hedge relationships governed by the paragraphs mentioned. However, it is unclear if there are any constraints as to the date of those retroactive designations. If the FASB intended any limitations (e.g., the retroactive designation should be as of a single date or as of when the derivative was entered into), we believe that such limitations should be clearly specified. As written, it appears entities could retroactively designate hedges as of any date an entity chooses and make such elections on a hedge by hedge basis.

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?

While this question is best addressed by financial statement preparers, we believe preparers may require longer than what will likely be less than three months to adopt these proposed amendments to Topic 815. We therefore suggest the proposed amendments to Topic 815 be effective as of the first annual period beginning after the issuance date of a final update, with early adoption permitted in a prior interim periods.

<u>Topic 4: Codification Improvements to Update 2016-01</u>

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.

We believe the proposed amendments clarify the guidance in Update 2016-01.

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 suggest the following additional improvements:

Issue 4D: Remeasurement of Equity Securities at Historical Exchange Rates

We agree with the proposed amendments to ASC 830-10-45-18. Based on this proposed update, held-to-maturity debt securities will continue to be monetary balance sheet items. However, the language in paragraph 54 of the Update is inconsistent with this amendment as it suggests that debt securities that are intended to be held-to-maturity should be treated as a non-monetary balance sheet item. We suggest the following edit to clarify:

> 54. The proposed amendments would clarify that the only equity securities required to follow paragraph 830-10-45-18, which requires that those accounts be remeasured at historical exchange rates, are those equity securities without readily determinable fair values accounted for under the measurement alternative in accordance with paragraph 321-10-35-2. The proposed amendments also would clarify that ~~only~~ debt securities intended to be held to maturity are <u>not</u> required to follow paragraph 830-10-45-18.

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 do not believe that the proposed amendments would require special consideration for non-public 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?

We believe the question related to the amount of time needed to implement the proposed amendments is best addressed by financial statement preparers.

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 believe the question on effective date is best addressed by financial statement preparers.

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.

We believe that when revolving lines of credit are converted into term loans, an entity should first determine if it results in a new loan or the modification of an existing agreement. If it is a new loan, then we believe the term loan should be reported as if it was originated on the modification date. If it is determined to be a modification, then we believe it should be reported in a separate column titled "Revolving Loans Converted to Term Loans Amortized Cost Basis." We note that other instruments are not classified within these tables based on when the most recent credit decision was made.

In addition, we believe that the language included within the proposed amendment may not result in what was intended. We understand the intent of this guidance was if credit underwriting was performed in conjunction with a conversion of a line of credit into a term loan, the term loan would be reported in the vintage disclosures based on the year of that underwriting. The proposed guidance requires amounts to be disclosed "in the origination year that correspondes with the period in which the entity made its most recent credit decision." The guidance does not link the "most recent credit decision" made by the entity to the conversion of the line-of-credit arrangement to a term loan. This could result in financial assets being included in an origination year that is not relevant to the conversion. For example, an entity could make a credit decision in the period between origination of the line-of-credit arrangement and the conversion to a term loan, with no credit decision made by the entity upon conversion to a term loan. This would result in the term loan being included in an origination year based on a credit decision not relevant to the conversion in the vintage disclosures.

In addition, it is unclear what would constitute a "credit decision" resulting in the converted term loan being disclosed in that origination year in the vintage disclosure. For example, a modification of a line-of-credit into a term loan as a result of a restructuring with a borrower experiencing financial difficulties, but that does not involve a concession, could be interpreted as a "credit decision," as the lender made a credit decision that the restructuring would maximize the amount recoverable by the borrower.

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 an entity should consider these extension or renewal options.