



Timothy Golden  
SVP, Controller  
Global Finance

Capital One Financial Corp  
1680 Capital One Drive  
McLean, VA 22102

January 18, 2019

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

Via email: [director@fasb.org](mailto:director@fasb.org)

RE: Proposed Accounting Standards Update, Codification Improvements—Financial Instruments

File Reference No. 2018-300

Dear Ms. Cospers:

Capital One Financial Corporation (“Capital One”)<sup>1</sup> is a diversified financial services company that offers a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. We applaud the Board’s continued responsiveness to implementation concerns raised by stakeholders and appreciate the opportunity to provide comments on the Exposure Draft, *Proposed Accounting Standards Update, Codification Improvements—Financial Instruments*. We are supportive of the Board’s efforts to improve the accounting for financial instruments and ask that you please consider the comments and suggestions we have provided below.

### **Topic 1: Codification Improvements Resulting from the June 11, 2018 Credit Losses Transition Resource Group (TRG) Meeting**

#### **Issue 1A: Accrued Interest**

It is a common practice for credit card issuers to record *billed* interest that has been capitalized into a loan balance (e.g., billed credit card interest) within the same balance sheet line item as the underlying loan while presenting all other interest receivable (e.g., unbilled but accrued credit card interest) in a separate line item. Therefore, we encourage the Board to allow the presentation and disclosure elections to be applied to any portion of accrued interest receivable that hasn’t yet been capitalized. The Board could achieve this by revising the proposed amendments as follows:

---

<sup>1</sup> Capital One Financial Corporation ([www.capitalone.com](http://www.capitalone.com)) is a financial holding company whose subsidiaries, which include Capital One, N.A., and Capital One Bank (USA), N.A., had \$247.2 billion in deposits and \$362.9 billion in total assets as of September 30, 2018. Capital One, N.A. has branches located primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia, and the District of Columbia. A Fortune 500 company headquartered in McLean, Virginia, Capital One trades on the New York Stock Exchange under the symbol “COF” and is included in the S&P 100 index.

Ms. Susan M. Cospers  
January 18, 2019  
Page 2 of 4

**326-20-45-5** For financial assets measured at amortized cost and net investments in leases within the scope of this Subtopic, an entity may elect to separately present on the statement of financial position or within another statement of financial position line item ~~the entire~~ any uncapitalized accrued interest receivable balance net of the allowance for credit losses (if any) if the entity meets the disclosure requirements in paragraph 326-20-50-3A.

**326-20-50-3A** An entity that chooses to present ~~the~~ any uncapitalized accrued interest receivable balance within another statement of financial position line item as described in paragraph 326-20-45-5 shall disclose the total amount of accrued interest presented separately from the amortized cost basis and shall disclose in which line item on the balance sheet that amount is presented. An entity also shall disclose the amount of the allowance for credit losses measured on the applicable accrued interest, if any.

**326-20-50-3B** As a practical expedient, an entity may exclude ~~the~~ any uncapitalized applicable accrued interest that is included in the amortized cost basis of financing receivables for the purposes of the disclosure requirements in paragraphs 326-20-50-4 through 50-22. If an entity elects this practical expedient, it shall disclose the total amount of accrued interest excluded from the disclosed amortized cost basis.

We respectfully note that allowing entities to have different presentation and disclosure for capitalized and uncapitalized interest within the same class of financing receivable or major security type (e.g., billed and unbilled credit card interest) would not be achieved if the Board were to instead revise the above proposed amendments in a manner that would require the elections to be made at the class of financing receivable or major security-type level.

#### Issue 1C: Recoveries

We agree with the Board's decision to clarify that an entity should include recoveries when estimating the allowance for credit losses. To provide additional clarity, we encourage the Board to consider identifying examples of recoveries. The Board could achieve this by revising the proposed amendments as follows:

**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 shall not exceed the aggregate of amounts previously written off and expected to be written off by the entity.~~ 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). Recoverable amounts included in the valuation account shall not exceed the aggregate of amounts previously written off and expected to be written off by the entity. Examples of recoverable amounts include, but are not

Ms. Susan M. Cospers  
January 18, 2019  
Page 3 of 4

limited to, amounts received from a borrower, sales of collateral, loss sharing arrangements that are not freestanding contracts, and third party servicers.

## Topic 2: Codification Improvements to Update 2016-13

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

We agree with the Board's decision to permit entities to make an accounting policy election by class of financing receivable or major security type to adjust the effective interest rate used to discount expected future cash flows for expected prepayments on financial assets within the scope of Subtopic 326-20 and on available-for-sale debt securities within the scope of Subtopic 326-30. However, we believe the Board should also permit (or clarify its intent to permit) entities to adjust the effective interest rate after a write down of an available-for-sale debt security within the scope of Subtopic 326-30. This would allow entities to use the effective interest rate implicit in the security as of the measurement date, which is consistent with common practice and system designs today under the guidance for other-than-temporary impairment in ASC 320-10-35-35.<sup>2</sup> While this guidance is superseded by ASU 2016-13, we do not believe the Board intended to no longer permit this practice.

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

### Issue 5A: Vintage Disclosures—Line-of-Credit Arrangements Converted to Term Loans

The proposed amendment introduces, but does not define, the concept of a "credit decision". To reduce implementation complexities and potential comparability concerns, we encourage the Board to consider revising the proposed amendments as follows:

**326-20-50-6A** ~~For the purpose of the disclosure requirement in paragraph 326-20-50-6, an entity shall present the amortized cost basis of line-of-credit arrangements that are converted to term loans within each credit quality indicator in the origination year that corresponds with the period in which the entity made its most recent credit decision after the original credit decision. For amounts of line-of-credit arrangements that are converted to term loans in accordance with original contractual terms without an additional credit decision after an entity made its original credit decision or that are converted to term loans because of a troubled debt restructuring, the entity shall disclose the amortized cost basis in a separate column (see Example 15). An entity shall disclose each reporting period, by class of financing receivable or major security type, the amount of line-of-credit arrangements that are converted to term loans each reporting period.~~

---

<sup>2</sup> ASC 320-10-35-35 indicates "In periods after the recognition of an other-than-temporary impairment loss for debt securities, an entity shall account for the other-than-temporarily impaired debt security as if the debt security had been purchased on the measurement date of the other-than-temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other-than-temporary impairment recognized in earnings." It is common practice for entities to interpret this as allowing the use of an adjusted effective interest rate,

Ms. Susan M. Cospers  
January 18, 2019  
Page 4 of 4

Issue 5B: Contractual Extensions and Renewals

To allow flexibility in implementation, we encourage the Board to consider allowing entities to choose, at the individual contract level, whether they consider the likelihood an extension or renewal option will be exercised. This could be achieved within subparagraph 326-20-30-6(b) by replacing “shall” with “may”.

Sincerely,

/s/ Timothy Golden

Timothy Golden  
Controller  
Capital One Financial Corporation