PRA Group™

January 18, 2019

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

VIA EMAIL: director@fasb.org

Re: File Reference No. 2018-300, proposed Accounting Standards Update, *Codification Improvements – Financial Instruments*

Dear Ms. Cosper:

PRA Group, Inc. ("PRA") appreciates 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" or "Board") on November 19, 2018.

We are in strong support of the FASB's efforts in conjunction with its Credit Losses Transition Resource Group, to clarify and improve the guidance related to ASU 2016-13, *Financial Instruments – Credit Losses* (the "Standard"). We agree that the 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.

Since meeting with you and members of the Board early last year, PRA has approached the FASB on multiple occasions to discuss implementation challenges with the Standard as issued and to seek interpretive feedback that would enable meaningful reported results to the users of our financial statements. Our revenue is almost entirely derived from purchasing, and then collecting, portfolios of post charge-off, nonperforming loans. We believe the proposed amendments will clarify and address key interpretive issues in the Standard, providing us the ability to align our accounting and reporting with the economics of our business. Most importantly, we agree with the proposed amendment to paragraph 326-20-30-1, which now clearly specifies that recoverable amounts only include those amounts previously written off and/or expected to be written off by the entity.

For reasons we discuss further in the Appendix, we request that in its final deliberations of the exposure draft, the FASB directly acknowledge that the application of this amendment may result in presenting an aggregate negative allowance on a portfolio of purchased credit deteriorated ("PCD") loans that individually have had their amortized cost charged off after purchase. In the absence of specific acknowledgement, we believe some may require our industry participants to seek clarifying interpretation through other authoritative regulatory agencies. We also believe the amendments provide needed alignment between the Standard and IFRS 9 with respect to the accounting for these deeply distressed financial assets, and will benefit the users of our financial statements, who invest in and benchmark us against our industry competitors reporting under IFRS 9.

Our responses to the questions in the Proposal related to Issue 1C (Recoveries) are set out in the Appendix to this letter. In the Appendix, we have also included (a) background information on our industry, (b) a discussion of the challenges we encountered with our proposed application based on the proposed amendments, and (c) responses to certain questions in the Proposal.

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Once again, thank you for the opportunity to comment on the Proposal. We would be pleased to discuss our comments further with the Board or its staff at your convenience.

Sincerely,

Pete Graham
Executive Vice President
Chief Financial Officer

Timothy Santo
Senior Vice President
Global Controller

Appendix

(a) Background on our Industry

Our primary business is the purchase, collection and management of portfolios of charged off, nonperforming loans. The accounts we acquire are primarily the unpaid, unsecured obligations of individuals owed to credit grantors, which include banks, and other types of consumer, retail, and other lenders. We purchase these discounted receivables as portfolios of individual accounts. These are portfolios of nonperforming loans which have been deemed uncollectible and have been written down or fully written-off by the original credit grantor prior to the portfolio sale. The price at which we acquire portfolios is based on our estimate of the future recovery of cash flows, with consideration given to the age of the portfolio, geographic distribution, our historical experience with a certain class of asset or credit grantor and other similar factors. We play a critical role in the consumer lending industry, which itself is a key driver of the U.S. and world economies. The collection process we provide is an essential part of a well-functioning lending market. Through our operations, we have provided billions of dollars of recovery to lenders and helped millions of consumers on the road to recovery with terms that fit their needs.

(b) Application of ASU 2016-13 Based on the Clarifications in the Proposal

We believe the guidance within the Standard for PCD loans will apply to portfolios of finance receivables that we currently account for in accordance with ASC 310-30. As originally issued, certain accounting requirements for PCD loans would have made it impossible for us to achieve the objectives of the Standard to present the net amount expected to be collected on the face of the balance sheet and to appropriately report the underlying economics of our business. The portfolios are purchased from the originating institution after they have determined the accounts are uncollectible; thus, we acquire them at a substantial discount to the face value of the underlying receivables (i.e., loans).

In applying the Standard to acquired portfolios of nonperforming loans, we expect the individual loans receivable will continue to be deemed uncollectible as the portfolio level transaction itself does not change the underlying creditworthiness of the individual receivable. Additionally, our collection history has consistently proven that a substantial majority of the individual accounts in our portfolios of nonperforming loans have not provided any recoveries due to their deeply distressed nature. Our collection efforts are then based on identifying the remaining minority of accounts that will pay based on our continued operational or legal efforts. Those payments received are often one time or continue to be inconsistent for purposes of forecasting ongoing cash flows related to those individual accounts. Therefore, the likelihood of collection at the individual unit of account, if assessed at that level, would not change upon acquisition from the originating institution. We have concluded that a reasonable and supportable forecast of recoverable amounts for this class of financial asset can only be developed with any degree of precision based on collective data estimated at the portfolio level.

As originally issued, we believe the PCD guidance in the Standard would require us to assess the individual account at purchase, which would require a gross-up to arrive at amortized cost at initial recognition followed by an immediate, or soon thereafter, write-off of the individual account for the reasons described above. Our finance receivables would have a resulting amortized cost basis of zero at the balance sheet date. Based on our interpretation of certain of the clarifications made in the Proposal, we would record a negative allowance based on our estimate of expected recoveries at the portfolio level. The estimated recoveries included in the allowance would never exceed the amounts previously written off. At the point of write off it may appear that the accounting result deviates from the expected ongoing accounting for PCD assets prescribed under ASU 2016-13; however, we believe this interpretation provides the best method of meeting the overarching principle of the Standard to present the net amount expected to be collected on these financial assets on the face of our balance sheet and aligns our financial reporting with the information most useful to the users of our financial statements.

Responses to Certain Questions in the Proposal

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.

Yes. We believe the proposed amendments to paragraph 326-20-30-1 appropriately clarify that recoveries should be considered in measuring the allowance for credit losses such that the balance sheet reflects the net amount expected to be collected on the financial asset (which we understand to be the primary intent of the Standard). In addition, we believe it would be beneficial to specifically state that the allowance can be negative to avoid any confusion or interpretive differences.

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 to paragraph 326-20-30-1 (specifically, the added phrase "or added to") appropriately clarify that an entity may record a negative allowance for financial assets within the scope of the Standard, and we agree that the proposed amendments to paragraphs 326-20-35-4 through 35-5 clarify that an entity may record a negative allowance considering the fair value of the underlying collateral for collateral-dependent financial assets.

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?

Yes. We believe the approach for available-for-sale securities should be the same as that for financing receivables, receivables, and held-to-maturity securities.