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January 18, 2019

Susan M. Cosper
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Re: File Reference No. 2018-300

Dear Ms. Cosper:

We appreciate the opportunity to respond to the FASB's request for comment on Proposed Accounting Standards Update (ASU), *Codification Improvements - Financial Instruments*. We also appreciate the extensive outreach performed by the FASB staff and thoughtful proposed resolutions for the issues identified.

We fully support the FASB's ongoing project to improve and clarify the codification to avoid any unintended consequences. Traditionally, codification improvements are not expected to have a significant effect on current accounting practice or cause significant administrative burden. For this proposal, a number of the proposed changes are significant clarifications. We understand the Board decided to issue the proposed ASU to expedite the clarifications for ASUs 2016-01, 2016-13 and 2017-12, especially given current implementation efforts.

While we are supportive of the proposed amendments, we offer the following recommendations for the Board's consideration:

<u>Issue 1A: Accrued Interest</u>

We offer the following editorial change (underlined and in bold below) for consideration:

> 326-20-30-5A An entity may make an accounting policy election, at the class of financing receivable or the major security-type level, not to measure an allowance for credit losses for accrued interest receivables if the entity writes off the **<u>uncollectible</u>** applicable accrued interest receivable balance in a timely manner. This accounting policy election should be considered separately from the accounting policy election in paragraph 326-20-35-8A.

Issue 1C: Recoveries

Paragraph 326-20-30-1 includes the term "recoverable amounts." We observe the term is not bold which suggests it is not defined. However, in the Master Glossary, the term is defined as follows:

> Recoverable Amount: Current worth of the net amount of cash expected to be recoverable from the use or sale of an asset.

If the Board intended the defined term to be consistent with the term in the proposal, we suggest the term be bolded. If the defined term is not intended to be consistent, perhaps a different term should be used to avoid confusion. Based on the November 2018 TRG discussion, it does not seem the term should be consistent given the general consensus that sales of performing assets are not viewed as a recovery.

In addition, we offer the following editorial change (underlined and in bold below) to 326-20-35-4 for consideration:

> A **negative** allowance for credit losses that is added to the amortized cost basis of the financial asset shall not exceed amounts previously written off.

Issue 2C: Clarification that reinsurance recoverables are within the scope of subtopic 326-20

We observe other forms of instruments issued by insurance companies may apply accounting models similar to amortized cost or net present value, for example, contract value or cash surrender value. In order to eliminate confusion, it would be beneficial to clarify if such instruments as well as other insurance recovery receivables are within the scope of subtopic 326-20.

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

The initial and subsequent measurement of a troubled debt restructuring (TDR) requires an entity not to adjust the effective interest rate. The last sentence in 326-20-30-4A states: "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." With this addition, we are concerned the proposed changes could be read to be re-introducing a concept similar to "once a TDR always a TDR." We believe in certain circumstances a loan that has undergone a TDR should use an adjusted effective interest rate even if it has not undergone a subsequent modification. For example, consider a borrower that did not have access to funds at a market rate for debt with similar characteristics at the time of TDR modification, but subsequently the loan weaknesses are rectified such that the loan is now at market. Based on the proposed amendments, it appears that an adjustment to the effective interest rate would not be allowed and TDR accounting, including a requirement to utilize a discounted cash flow calculation, would continue to be required. We suggest including a clarification if that is not the Board's intent.

Issue 4B: Held-to-Maturity Debt Securities Fair Value Disclosures

We understand the Board's rationale for proposing to remove the disclosures for aggregate fair value, gross unrealized gains and gross unrealized losses for held for maturity (HTM) debt securities is a continuation of the Board's removal of the disclosure of fair value of financial instruments carried at amortized cost table in ASU 2016-01. Removal of that table has resulted in a helpful reduction of cost.

However, for HTM debt securities, we do not envision a similar reduction in cost by removing aggregate fair value, gross unrealized gains and losses from the existing disclosure by major security type. For example, entities with significant holdings of debt securities typically engage a service provider that routinely provides fair values. In addition, unlike other assets, such as loans, debt securities are typically more liquid and frequently have fair values which are easy to obtain.

This change is a proposed amendment to ASU 2016-01; however, fair value for debt securities is necessary for other financial reporting purposes. Entities will still have to obtain fair values, and retain existing processes, in order to perform other than temporary impairment assessments until non-PBEs adopt the credit losses standard in 2022.

We encourage consideration of these points, and obtaining input from users, prior to removing these disclosures, especially aggregate fair value.

If the proposed amendments are retained, we suggest the following editorial change (in strikethrough below) to 320-10-50-5:

> f. Information about the contractual maturities of those securities as of the date of the most recent statement of financial position presented. (Maturity information may be combined in appropriate groupings. In complying with this requirement, financial institutions [see paragraph 942-320-50-1] shall disclose ~~the fair value and~~ the net carrying amount ~~(if different from fair value)~~ of debt securities on the basis of at least the following four maturity groupings:

Issue 4C: Applicability of Topic 820 to the measurement alternative

The proposed amendments appear to clarify the remeasurement should be consistent with Topic 820 and is a nonrecurring fair value measurement. We have a concern the proposed changes could present an unintended consequence. Specifically, we believe that if an entity went through a diligent process and did not identify a qualified transaction, but subsequent to the issuance of the financial statements, it identifies a qualified transaction, it would record it in the current period. Paragraph 321-10-35-2, as proposed, appears to require the adjustment be recorded in the period they occurred, which suggests re-opening a prior period. We offer the following edit (underlined, in bold and strikethrough below) for your consideration to alleviate this potential unintended consequence:

> 321-10-35-2 An entity may elect to measure an equity security without a readily determinable fair value that does not qualify for the practical expedient to estimate fair value in accordance with paragraph 820-10-35-59 at its cost minus impairment, if any. If an entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, it shall measure the equity security ~~at~~ **using the** fair value as of the date that the observable transaction occurred.

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

We offer the following editorial change (underlined, in bold and strikethrough below) to 326-20-50-6A, to remove the duplication, for your consideration:

> 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 **during** each reporting period.

Please contact Sydney Garmong at (202) 779-9911 (sydney.garmong@crowe.com) or Scott Lehman at (630) 574-1605 (scott.lehman@crowe.com) should you have any questions or would otherwise like to discuss our response.

Sincerely,

Crowe LLP

Crowe LLP

cc: James Dolinar, Partner, Crowe LLP
Matthew Schell, Partner, Crowe LLP