

Technical Director
File Reference No. 2019-710
FASB
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July 21, 2019

Cf. Codification Improvements to Topic 326, Financial Instruments – Credit Losses; Proposed Changes

To the Technical Director :

This commenter greatly appreciates the opportunity to give feedback on the important issue of Financial Instruments – Credit Losses and the FASB’s proposed guidance on this question. The accounting treatment of these items is one that is unsung and that appears to greatly depend upon valuation considerations apart from accounting and bookkeeping considerations that are important to financial statement disclosures. This commenter substantially agrees with the proposed guidance and in the event of any disagreement thereupon (hopefully) provides identification and clear explanation on the issue or question to which it relates. Any disagreement with the proposed guidance in this letter is comprised of (a) suggested alternative(s) and is supported by specific reasoning.

Question 1: Should other changes be made that are directly or indirectly related to amendments in this proposed Update? 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.

This commenter is in agreement with the proposed guidance barring any future requirements for the disclosure in the financial statements of public companies of unrealized gains and losses on the financial instruments it has purchased and secured.

Question 2: 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?

This commenter is in agreement with the proposed guidance and the disclosure requirements for non – public companies should include presentation of any concentration of value and volume for the financial instruments they have purchased and secured. Disclosure of the concentration of value and volume of credit instruments for a non - public company will show valuable details as to the credit risk(s) assumed by the business.

Question 3: Should an entity be permitted to record a negative allowance (basis recovery) when measuring the allowance for credit losses for purchased financial assets with credit deterioration?

This commenter agrees with the proposed guidance while requesting the FASB to consider that when debt is written off, its basis is reduced to zero and upon any subsequent recovery of the amortized historical cost of the debt for cash or value, the financial statement can show an extraordinary item for the gain above basis upon cost recovery of the debt.

Question 4: Should a negative allowance (basis recovery) for PCD assets be limited to the amortized cost basis previously written off and expected to be written off by the entity? If not, please explain why and what changes should be made instead.

A negative allowance for PCD (credit deterioration) assets should be limited to the amortized cost basis previously written off and expected to be written off by the entity. This fits overall with the accounting treatment of financial instruments under the circumstances.

Question 5: Should the recognition of a negative allowance (basis recovery) be extended to available-for-sale (AFS) debt securities? Please explain why and what changes, if any, should be made instead. Write – offs of available – for – sale securities are apparently rare and the adoption of a (basis recovery) below - zero allowance for this type of security is not homogeneous with, e.g., PDC assets write – off methodology in the proposed guidance. One might propose here that any allowance adopted for available – for – sale financial instruments could be reduced to, but not below, a zero amount. For credit losses, the individual assessment of fair value of these securities is necessary and adopting a policy that includes a negative basis allowance might impair the representational faithfulness of the financial statements by unwarranted priorities based upon amortized cost basis for available – for – sale securities.

Question 6: Should an entity be permitted to adjust the effective interest rate on existing TDRs (troubled debt restructurings) using prepayment assumptions on the date of adoption of Topic 326 rather than the prepayment assumptions in effect immediately before the restructuring? If not, please explain why and what changes, if any, should be made instead.

In the interests of Conservatism and Materiality, and given the nature of debt covenants and future uncertainties involving financial instruments, the most restrictive alternative, either the prepayment assumptions a priori or those ex post, should be used. The nature of covenant restrictions and a risk assessment thereby would help determine which assumptions should be used given Conservatism and Materiality principles, their relevance and thereafter representational faithfulness in the financial statements.

Question 7: Will the proposed amendment to permit an election of a practical expedient to disclose the total amount of accrued interest receivables separately from other components of amortized cost basis for certain disclosure requirements simplify and reduce operational concerns when implementing the guidance in Update 2016-13?

The proposed separate disclosure of accrued interest amounts, if adopted would give financial statement users a way to calibrate the utilities of interest payments and accruals of the entity as presented in the financial statements. It also will permit a useful, informative and practical expedient to separate accrued interest from other components of financial instruments as presented in the financial statements. In this way, the entity might be required to disclose a related debt rate or rates in the financial statements also.

Question 8: Do you support the proposed amendments to clarify the application of the collateral maintenance practical expedient in accordance with paragraph 326-20-35-6? If not, please explain why and what changes, if any, should be made instead.

This commenter does believe the value of collateral should be maintained as in the proposed guidance, though nor the same collateral nor other collateral should be substituted for value to maintain a financial instrument contract. Collateral maintenance is important, and though while debt maintenance has a priority in the finances of the entity, collateral should be of sufficient quality to maintain proper value over the life of the debt instrument.

Question 9: Will the proposed effective dates provide sufficient time for entities to implement the proposed amendments? If not, please explain why and how much time would be needed to adopt the proposed amendments.

Sufficient time within the year, and in the interim, following December 15, 2019 depends upon the entity being able to present accrued interest items, allowances, effective interest rate treatment, basis allowances, fair - value assumptions, collateral assumptions, and other details. This is probably enough time for public companies to present for 2020 annual statements. The challenge, if any, is for compliance in the interim and the FASB must decide the validity of any degree of restriction placed upon the entity by the proposed interim requirements.

Question 10: Do you support the proposed transition method and transition disclosures when adopting the proposed amendments? If not, please explain why and what transition method and disclosure changes should be required instead.

This commenter supports the proposed transition method and transition disclosures in adoption of these proposed amendments. In a transition to the proposed guidance, special attention should be paid to the following from its "Conforming Amendment to Subtopic 805-20" language : Financial statement content in adoption (and early adoption) of the proposed rules that links to Subtopic 805 – 20 as to the transition to and effective date of the proposed changes in the proposed update to Topic 326, and as relates to disclosure of Financial Instruments – Credit Losses – it must be shown for the items of financial instruments -- credit losses

1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle.
2. The method of applying the change.
3. The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the pending content that links to this paragraph is applied. Presentation of the effect on financial statement subtotals is not required.
4. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which the pending content that links to this paragraph is applied.
5. An entity that issues interim financial statements shall provide the disclosures in (1) through (4) in each interim financial statement of the fiscal year of change and the annual financial statement of the fiscal year of change.

By,

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