July 24, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2019-710

Dear Mr. Kuhaneck:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the FASB's Proposed Accounting Standards Update, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*.

We generally agree with the proposed amendments. Appendix A contains our responses to the Questions for Respondents, including certain instances in which we recommend additional amendments. Appendix B includes an example of a circumstance when a write-off and recovery can result in recording a net amount similar to the "noncredit discount."

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

Sincerely,

PricewaterhouseCoopers LLP

Appendix A

General Questions

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.

We believe the guidance in ASC 326-20-30-4A and ASC 326-30-35-7A should be amended to permit an entity to consider the impact of estimated defaults on the timing, but not on the amount of estimated cash flows when electing to adjust an effective interest rate used to discount cash flows for the purposes of estimating credit losses. Allowing an entity to consider the timing of defaults when it elects to consider prepayments in determining the discount rate used to discount cash flows for the purposes of estimating credit losses is consistent with the Board's decision to provide entities with the ability to adjust the discount rate. Specifically, an entity can adjust for a potential misalignment between the timing of cash flows and the effective interest rate used to discount those future cash flows.

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.

We do not believe the proposed amendments would require special consideration for nonpublic entities.

Issue 1: Negative Allowance for PCD Assets

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?

We agree that an entity should be permitted to record a negative allowance when measuring the allowance for credit losses for purchased financial assets with credit deterioration.

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.

We support limiting the negative allowance for PCD assets to the amortized cost basis previously written off and expected to be written off by the entity. We agree that the amortized cost basis would include amounts added through the establishment of an allowance for credit losses at acquisition. However, we believe that the last sentence in ASC 326-20-30-13A should be deleted. As proposed, ASC 326-20-30-13A states (emphasis added):

> The allowance for credit losses for purchased financial assets with credit deterioration shall include expected recoveries of the amortized cost basis previously written off and expected to be written off and shall not exceed the aggregate of amounts previously written off and expected to be written off. *An entity shall not include recoveries or expected recoveries of the unamortized noncredit discount or premium in the allowance for credit losses*.

We understand that the last sentence of this paragraph was meant to reinforce the guidance in the first sentence and clarify that if the amortized cost basis was less than the contractual amount due, the limitation related to recording recoveries is not based on the amount contractually due. However, we are concerned that the reference to the "noncredit discount" could be misinterpreted and result in unintended consequences.

The guidance for PCD assets requires the amortized cost basis (and thus the unamortized noncredit discount) to be allocated to individual assets. The guidance also requires the estimate for credit losses to be calculated on a collective (pool) basis when similar risk characteristics exist. The reference to the noncredit discount in ASC 326-20-30-13A could be misinterpreted to preclude the application of the guidance related to recoveries at the same "pool" level at which the credit loss estimate is calculated.

We also note that since purchased assets are recorded at fair value (which represents discounted expected future cash flows) and the estimate of credit losses (including recoveries) is permitted to be calculated on an undiscounted basis, there can be circumstances when a write-off and recovery can result in recording a net amount similar to the "noncredit discount." We believe this is the result of the application of the model whereby the limitations on recoveries is based on the amortized cost basis as opposed to the purchase price. See Appendix B for an example demonstrating this result.

As we understand that the second sentence in ASC 326-20-30-13A was not intended to create additional provisions or complexity and the first sentence indicates recoveries are limited by the amortized cost basis, we believe the second sentence should be removed.

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.

Conceptually, we believe that the recognition of a negative allowance should be the same for financial assets subject to ASC 326-20 and AFS debt securities. However, we recognize permitting a negative allowance for AFS debt securities would be a more significant change to the impairment model for AFS debt securities than intended. As a result, we agree with the guidance that precludes the recognition of a negative allowance on an AFS debt security.

Issue 2: Transition Relief for TDRs

Question 6: Should an entity be permitted to adjust the effective interest rate on existing TDRs 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.

We agree with the addition of a transition provision permitting an entity to adjust the effective interest rate used to discount cash flows for the purposes of estimating credit losses on existing TDRs using prepayment assumptions on the date of adoption of Topic 326. See our response to question 1 for additional comments on the use of an adjusted effective interest rate to discount cash flows for the purposes of estimating credit losses. We believe that this transition provision should be amended consistent with the amendments we propose in question 1.

Issue 3: Disclosures Related to Accrued Interest Receivables

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?

We believe comments on the impact to operational concerns are best addressed by financial statement preparers, but we support the proposed amendment.

Issue 4: Financial Assets Secured by Collateral Maintenance Provisions

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.

We support the proposed amendments to clarify the application of the collateral maintenance practical expedient in accordance with paragraph 326-20-35-6.

Transition and Effective Date

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.

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

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.

We support the proposed transition method and transition disclosures.

Appendix B

Assume an entity paid $100 for a pool of unsecured loans with a total unpaid principal balance of $1,000. The entity expects to collect $350 from the pool of loans, but is unable to identify which specific loans are expected to generate cash flows. The loans are considered to be PCD and the allowance for credit losses is calculated using an undiscounted approach on a collective (pool) basis since the loans share similar risk characteristics. When the entity applies its policies relating to write-offs, it determines that on an individual loan level basis, the loans are deemed uncollectible and writes them off.

The journal entries on the date of acquisition are as follows:

Dr. Loan	$1,000	
Cr. Loan - noncredit discount		$250
Cr. Allowance for credit losses		$650
Cr. Cash		$100
To record the loans		
Dr. Allowance for credit losses	$650	
Dr. Loan - noncredit discount	$250	
Cr. Credit loss expense	$100	
Cr. Loan		$1,000
To charge off the loans		
Dr. Allowance	$350	
Cr. Credit loss expense		$350
To record estimated recoveries for the pool of loans		

As illustrated, the estimated recoveries ($350) are less than the $750 amortized cost basis that was written off ($1,000 loan less the noncredit discount of $250). If the guidance in ASC 326-20-30-13A is interpreted to not permit the recognition in income (on a net basis) of $250 (which equals the noncredit discount), then the limitation on recording recoveries would not be the amortized cost basis of $750, it would be the purchase price of $100, which would be inconsistent with the first sentence in ASC 326-20-30-13A.