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File Reference No. 2019-710
Financial Accounting Standards Board
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Proposed Accounting Standards Update, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses* (File Reference No. 2019-710)

Dear Mr. Kuhaneck:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Codification Improvements to Topic 326, Financial Instruments — Credit Losses,* issued by the Financial Accounting Standards Board (FASB or Board).

We generally agree that the proposed amendments would clarify certain aspects of ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. We also agree that it would address certain implementation issues raised by stakeholders. However, we recommend that the FASB clarify certain points to make it easier for entities to apply the new credit impairment standard and the proposed amendments.

Our responses to the questions for respondents in the proposal are in the appendix to this letter.

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We would be pleased to discuss our comments with the Board or its staff at your convenience.

Very truly yours,

Ernst + Young LLP

Responses to the *Questions for Respondents* included in the FASB's proposal

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

We believe the Board should clarify whether an entity may apply the collateral-dependent practical expedient described in ASC 326-20-35-5 to an asset that has been modified in a troubled debt restructuring (TDR). It is unclear whether an entity can apply the collateral-dependent practical expedient to a TDR because the 6 September 2017 FASB meeting minutes state that "an entity must use a discounted cash flow (DCF) method if the TDR involves a concession that can be captured using only a DCF method (or reconcilable method)."

We suggest that the Board consider providing guidance on how to apply the credit quality and nonaccrual status disclosure requirements in ASC 326-20-50 to ASC 310-30 pools that an entity elects to maintain after adopting ASU 2016-13. We understand that the disclosure requirements in ASC 326-20 apply to these pools. However, we suggest that the FASB consider permitting entities to disclose these items separately in the applicable disclosure because doing so may reduce operational complexity.

We also suggest that the Board consider providing guidance on how a nonaccrual policy should be applied to ASC 310-30 pools that are maintained, including whether a nonaccrual policy should be applied at the pool or individual asset level.

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 any of the proposed amendments would require special consideration for nonpublic entities.

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 generally believe an entity should be permitted to record a negative allowance when measuring the allowance for credit losses for purchased financial assets with credit deterioration (PCD assets). We believe prohibiting a negative allowance on PCD assets would require an entity to separately track and account for PCD and non-PCD assets. We believe this would be inconsistent with the Board's intent to evaluate PCD and non-PCD assets together, would introduce operational complexity and, without separate PCD and non-PCD disclosure, would reduce the decision-usefulness of information.

We suggest that the Board provide an example of how a negative allowance on a PCD asset may be recognized to provide further clarity on how to apply the proposed guidance. Additionally, it is not clear whether the proposed language in ASC 326-20-30-13A that states that "an entity shall not include recoveries or expected recoveries of the unamortized noncredit discount or premium in the allowance for credit losses" would further constrain the recognition of recoveries.

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 generally believe negative allowances on PCD assets should be limited to the amortized cost basis previously written off and expected to be written off, in order to be consistent with the limit on negative allowances on non-PCD assets. We believe this would be consistent with the Board's intent to have PCD and non-PCD assets follow the same model when possible.

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.

We believe that an entity should be permitted to record a negative allowance when measuring the allowance for credit losses on an AFS debt security, but this allowance should not result in a carrying value in excess of the security's fair value. We believe the accounting for recoveries on AFS debt securities should be consistent with the accounting for recoveries on assets measured at amortized cost.

Additionally, if the Board decides that entities should be required to record a negative allowance on AFS debt securities to reflect expectations of recoveries, the Board should consider clarifying whether and how recoveries should be considered in the estimate of the allowance for debt securities for which an entity recognized an other-than-temporary impairment before adopting ASU 2016-13. The transition guidance currently precludes any other-than-temporary impairment recognized before the adoption of ASU 2016-13 from being reversed at transition and requires recoveries to be recorded in income only when they are received. We also observe that any clarification to this transition provision would affect both AFS and held-to-maturity debt securities.

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 generally believe an entity should be permitted to adjust the effective interest rate on existing TDRs using prepayment assumptions on the date of adoption of Topic 326 to reduce operational complexity at transition.

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 generally believe the proposed amendments related to accrued interest simplify and reduce operational concerns when implementing the guidance in ASU 2016-13 and promote consistency in the financial statements.

We recommend that ASC 320-10-50-5C be modified to remove "financing receivables" because that paragraph provides additional guidance to paragraph ASC 320-10-50-5, which only applies to held-to-maturity securities:

> "**ASC 320-10-50-5C** If for the purposes of identifying and measuring an impairment the applicable accrued interest is excluded from the amortized cost basis of ~~financing receivables and~~ held-to-maturity securities in accordance with paragraph 326-20-45-5, an entity may, as a practical expedient, exclude the accrued interest receivable balance that is included in the amortized cost basis of the held-to-maturity securities for the purposes of the disclosure requirements in paragraph 320-10-50-5. If an entity applies this practical expedient, it shall disclose the total amount of accrued interest, net of the allowance for credit losses (if any), excluded from the disclosed amortized cost basis."

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 generally support the amendments clarifying the application of the collateral maintence practical expedient.

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 preparers of financial statements are better suited to provide information about the time needed to implement the amendments.

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.