Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 North Wabash, Suite 3200
Chicago, IL 60611

July 26, 2019

Via email to director@fasb.org

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

Re: Codification Improvements to Topic 326, Financial Instruments – Credit Losses (File Reference No. 2019-710)

Dear Mr. Kuhaneck:

We are pleased to comment on the Board's proposed improvements for the new credit loss standard, "CECL". We generally agree with the specific items in the exposure draft. However, we note the timing of the amendments related to purchased financial assets with credit deterioration, known as "PCD assets", likely impacts a considerable population of preparers. For example, it is common for a bank to acquire a loan portfolio, whether by itself or as part of a larger acquisition. Similarly, credit card loan portfolios are bought and sold regularly. As such, entities will have a limited amount of time to review the final amendments and update their financial reporting systems after the FASB completes this project and issues a final standard later this year. Assuming the Board approves final amendments that are identical to its proposals, this task will still be challenging in all but the simplest scenarios. But to the extent the final amendments differ from the exposure draft, we question whether the financial reporting system will be able to thoughtfully design and implement appropriate internal controls by January of 2020.

On a related matter, we note the Board's recent decision to provide a deferral for CECL's effective date until January of 2023 applies to SEC registrants that are considered "smaller reporting companies", as well as private companies. We understand the Board also plans to solicit public input as to whether other public entities should be included in the deferral.

The remaining population of SEC registrants that the FASB has not identified for deferral includes those holding PCD assets as discussed above. Rather than attempting to parse that population more finely to identify only entities that hold PCD assets, we recommend providing all SEC filers an optional one-year deferral, if they are not already included in the January 2023 deferral. Entities that are prepared to adopt CECL will be able to do so as scheduled, while those requiring additional time will have another year to ensure they provide high-quality information to investors. Additionally, we observe that the Board

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

clarified certain implementation issues earlier this year, including providing certain options, and has recently also issued a Q&A to help organizations estimate expected credit losses. A year's deferral would allow entities to fully assess these items and consider the related systems changes, if any.

Our responses to the Board's specific questions are provided in Appendix A to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Gautam Goswami at (312) 616-4631, Brad Bird at (312) 730-1294 or Tim Kviz at (703) 245-8685.

Very truly yours,

BDO USA, 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.

Please refer to our cover letter for considerations related to an optional one-year deferral of CECL for entities that are not otherwise anticipating a January 2023 effective date based on the Board's July 17th decision to defer the effective dates for several recent accounting standards.

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 special considerations are required for nonpublic entities, assuming that smaller reporting companies and nonpublic entities are provided more time to absorb and apply the guidance as discussed at the July 17, 2019 Board Meeting.

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?

Yes, we agree with the Board's conclusion that a negative allowance be extended to PCD assets.

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.

Yes, we believe a negative allowance should be limited to the amortized cost basis previously written off and expected to be written off by the entity. We believe this conforms to the stated objective of the standard to reflect the net amount expected to be collected. Limiting the negative allowance to the purchase price would not result in this objective being met. Further, limiting the negative allowance to the amortized cost basis maintains the same guidance for PCD and originated financial assets. Therefore, it would also be in accordance with BC 85 of ASU 2016-13 that purchased assets and originated assets should follow the same model, to the extent possible.

We note that the originating entity may have already written off the asset as a result of applying regulatory charge off policies. Therefore, we suggest the board clarify whether the purchasing entity can "step in the shoes" of the originating entity. That is, whether it would be allowed to consider the acquired credit deteriorated asset as already being previously written off or would need to develop and apply its own write off policy for purposes of determining any negative allowance. While the proposed paragraph 326-20-30-13A indicates it to be the latter, a clarification in this regard would mitigate any confusion.

The proposed paragraph 326-20-30-13 provides that recoveries or expected recoveries of the unamortized noncredit discount or premium should not be included in the allowance for credit losses. To assist in application, we suggest the Board provide an example illustrating how to apply the negative allowance guidance in circumstances where an unamortized noncredit discount or premium exists. For instance, if the amortized cost basis at the time of write off exceeds the amounts of expected recoveries, can an entity presume that none of that currently expected recovery pertains to the noncredit discount or premium? Or will additional analysis be required to reach that conclusion?

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.

Based on the guidance in ASC 326-30 and the discussions in the basis paragraphs BC 11 and BC 12, we agree with not allowing a negative allowance for available for sale securities.

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.

Yes, we agree with the proposed transition relief. We note this is similar to the transition relief granted for ASC 842 with respect to the discount rate to apply in determining the present value of the lease liability.

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 agree that the amendments in the proposed Update would simplify and reduce operational concerns with implementing ASU 2016-13.

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 prosed amendment to clarify the collateral maintenance practical expedient. However, we suggest it be clarified that the guidance is in contemplation of a collateral maintenance agreement where collateral shortfalls are permitted in the contract. Absent that clarification, there could be confusion on how one could reasonably expect the borrower to continue to replenish the collateral if there is already a shortfall at the reporting date.

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 are concerned whether stakeholders will have adequate time to implement the ASU once finalized, given the current 2020 effective date (subject to the Board's recent decision to defer CECL for certain SEC registrants). Refer to our cover letter regarding consideration of a deferral of CECL. We believe an optional one-year deferral is warranted for entities that are not included in the January 2023 deferral.

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.

Yes, we support the proposed transition method and transition disclosures.