PRA Group™

July 29, 2019

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

VIA EMAIL: director@fasb.org

Re: File Reference No. 2019-710, proposed Accounting Standards Update, *Codification Improvements – Financial Instruments*

Dear Mr. Kuhaneck:

PRA Group, Inc. ("PRA") appreciates the opportunity to comment on the proposed Accounting Standards Update ("ASU"), *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* (the "Proposal") issued by the Financial Accounting Standards Board ("FASB" or "Board") on June 27, 2019.

We are in strong support of the FASB's efforts in conjunction with its Credit Losses Transition Resource Group, to clarify and improve the guidance related to ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (the "Standard" or "ASC 326").

Our responses to selected questions put forth by the Board in the Proposal are set out in the Appendix to this letter.

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

Sincerely,

Pete Graham
Executive Vice President
Chief Financial Officer

Timothy Santo
Senior Vice President
Global Controller

Appendix

Responses to Certain Questions in the Proposal

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.

As currently proposed, the guidance in paragraph 326-20-30-13 does not explicitly permit purchased financial assets with credit deterioration ("PCD") to record a negative allowance. The guidance regarding negative allowances is in paragraph 326-20-30-1, which states that the "allowance for credit losses is a valuation account that is deducted from, or added to, the amortized cost basis". We note that paragraph 326-20-30-13 does not reference paragraph 326-20-30-1. For clarity, we believe amendments to paragraph 326-20-30-13 should include language regarding the applicability of negative allowances to PCD assets or reference paragraph 326-20-30-1.

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 believe a negative allowance for PCD assets should be permitted as it supports the objective of ASC 326 to ensure that the balance sheet reflects the "net amount expected to be collected". Further, we believe that such an approach is further supported by the Board's intent to develop a single model for assessing and accounting for impairment, as expressed in paragraph BC85 of the Standard.

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 an entity should be limited to the amortized cost basis previously written off and expected to be written off by the entity. We note that amortized cost basis for PCD assets is clearly defined in paragraph 326-20-30-13: "An entity shall add the allowance for credit losses at the date of acquisition to the purchase price to determine the initial amortized cost basis for purchased financial assets with credit deterioration." We agree with the exposure draft language that amends paragraph 326-20 to include paragraph 326-20-30-13A to state that "Recoverable amounts included in the valuation account shall not exceed the aggregate of amounts previously written off and expected to be written off."

We believe capping the negative allowance at any value less than amortized cost raises significant questions. For example, if the negative allowance is capped at the purchase price, then this would limit the ability to recognize probable increases in cash flow estimates similar to existing restrictions in ASC 310-30 that are realized at a future date post acquisition. We agree with the Board's considerations stated in BC10 of the Proposal that do not support capping negative allowances to the purchase price of PCD assets. Further, in ASC 310-30 the restriction results in a prospective change in yield. The intent of ASC 326 is to decouple interest income and credit impairment through a constant yield. Therefore, if the negative allowance was capped at a specific amount, then similar to ASC 310-30, there will continue to be a disconnect between changes in estimates of future cash flows and amounts allowed to be recognized and reported.

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 the proposed effective dates may not provide sufficient time for entities with significant investments in PCD assets to implement the proposed amendments. We believe a one-year delay in implementing ASC 326, with an option to early adopt, would provide adequate implementation time for those entities with significant PCD assets.

In addition, unlike other financial service entities, our revenue is almost entirely derived from purchasing, and then collecting, portfolios of post charge-off, nonperforming loans. Portfolios that we expect will qualify as PCD assets under the Standard represented 100% of our investment in finance receivables and 79% of our total assets as of December 31, 2018. These portfolios are currently accounted for in accordance with ASC 310-30. The Standard and its amendments will significantly alter how we measure and report the vast majority of our revenue.

Since the Proposal was not released until June 27, 2019, with the comment period ending on July 29, 2019, we have less than five months to implement a significant accounting standard, which will substantially alter all of our existing measurement and reporting processes. We contrast this with the three-year implementation time provided to financial institutions for the majority of their financial assets impacted by the Standard. Changes to the final amendment not currently included in the Proposal would put us at further risk with respect to implementing our interpretation of the Standard. Given the extent of PCD assets in our business we believe entities with this type of profile may need additional time to implement the Standard. As we would be unable to implement the Standard in phases with the elimination of ASC 310-30, we would request the one-year delay for all of ASC 326 be provided such that sufficient time is available for us to fully implement the appropriate processes and related internal controls.

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 when adopting the proposed amendments.