



The Association of
Accountants and
Financial Professionals
in Business

July 30, 2019

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

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

Dear Mr. Kuhaneck:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (Board) Exposure Draft of Proposed ASU, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*.

The IMA is a global association representing over 130,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

We generally support the amendments to permit a negative allowance on purchased financial assets with credit deterioration, provide transition relief for troubled debt restructurings, extend the relief for accrued interest receivable balances to certain financial statement disclosures, clarify the requirements for collateral maintenance provisions and make a conforming edit to a superseded reference.

The proposed guidance allows for the establishment of a negative allowance on purchased financial assets with credit deterioration. This extends the previous guidance on the ability to recover amounts previously charged off to a broader population. As the concept of a negative allowance is counterintuitive to some, we recommend that the staff include a numerical example in the guidance to illustrate a fact pattern in which the Board believes that it would be appropriate to establish a negative allowance and then illustrate how to do the math, including journal entries. In general, examples are powerful in educating constituents and making sure there has been effective communication and no confusion.

The implementation of Topic 326 is a very intensive and costly effort for many entities, and we commend the Board for reacting to the various accounting interpretation and implementation issues that have been raised by the stakeholders to ease the implementation. Our members would like to emphasize the importance of providing flexibility on the implementation date of the proposed amendment to the guidance on negative allowances on purchased financial assets with credit deterioration for those public entities that



The Association of
Accountants and
Financial Professionals
in Business

will be required to adopt the amended guidance on January 1, 2020 (Initial Adoption Date). To the extent that the ASU for these improvements is issued prior to the Initial Adoption Date for ASU No. 2016-13 for Topic 326, entities should have the option of adopting the proposed guidance related to purchased financial assets with credit deterioration concurrent with the adoption of that standard. However, the mandatory effective date for the proposed guidance should be after the first quarter in which ASU No. 2016-13 for Topic 326 is adopted to ensure that entities that are impacted by the change in guidance have enough time to operationalize the proposed changes.

* * * * *

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

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder". The signature is written in a cursive, flowing style.

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com