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August 2, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Re: File Reference No. 2019-710

Dear Mr. Kuhaneck:

We are pleased to respond to the Board's request for comment on Proposed Accounting Standards Update, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses* ("Proposed ASU").

We support the Board's continued efforts to clarify and provide transition relief for issues arising from the application of Topic 326. We recommend, however, the Board clarify the application of the proposed negative allowance guidance contained in Issue 1 of the Proposed ASU related to purchased financial assets with more than insignificant credit deterioration since origination (PCD assets). The proposed guidance does not sufficiently explain how an entity would record a negative allowance for PCD assets when there is an expectation of recovery of previously written off amounts.

Specifically, it is unclear how entities should apply proposed paragraph ASC 326-20-30-13A, which prohibits including recoveries or expected recoveries of the unamortized noncredit discount or premium in the allowance for credit losses. Appendix A to this letter provides an illustration of our understanding of the proposed guidance. Other interpretations result in limiting, or deferring, income recognition.

We suggest the final guidance be clarified and include an illustrative example to show the Board's intended application of ASC 326-20-30-13A. Without further clarification, differing applications may arise that 1) could be inconsistent across entities and 2) are possibly not representative of the Board's intent when proposing the improvements to Topic 326.

Please contact Sydney Garmong at (202) 779-9911 (sydney.garmong@crowe.com) or Scott Lehman at (630) 574-1605 (scott.lehman@crowe.com) should you have any questions or would otherwise like to discuss our response.

Sincerely,

Crowe LLP

Crowe LLP

cc: Jim Dolinar, Partner, Crowe LLP

Appendix A
PCD Asset – Expected Recovery Example

Facts
Bank A purchases a delinquent unsecured consumer loan with an unpaid principal balance (UPB) of $100 from Seller Z for $10. At the time of purchase, Bank A expects to collect $15 using a non-discounted-cash flow pool approach. The remaining difference between the loan - par amount, allowance for credit losses, and the purchase price represents a loan - noncredit discount that will be amortized to interest income.

Bank A concludes the loan represents a purchased financial asset with credit deterioration (PCD asset) and records the following entry:

Dr.	Loan – par amount	$100	
Cr.	Cash		$10
Cr.	Allowance for credit losses		85
Cr.	Loan - noncredit discount		5

Bank A applies its loan charge off policy that requires a loan to be charged off to zero when it is past due for a certain amount of time. Based on this guidance, Bank A determines it must charge off its entire investment in the loan even though its pool level expectation of credit losses remains unchanged. Assume no activity has occurred since acquisition.

To charge off its investment in the loan, Bank A records the following entries:

Dr.	Credit loss expense	$10	
Cr.	Allowance for credit losses		$10

Dr.	Allowance for credit losses	$95	
Dr.	Loan - noncredit discount	5	
Cr.	Loan – par amount		$100

In accordance with proposed ASC 326-20-30-13A, Bank A determines it still expects to recover $15 of the amortized cost (loan – par amount and loan – noncredit discount) basis of the loan previously written off, and Bank A determines it should record an expected recovery (negative allowance).

We believe the Board's intent is for Bank A to recognize the $10 credit loss expense (above) and the $15 of expected recoveries (below) in the same period by reducing credit loss expense, resulting in recognition of $5 of income.

Dr.	Allowance for credit losses	$15	
Cr.	Credit loss expense		$15

However, other interpretations result in limiting the negative allowance to avoid any income recognition related to the noncredit discount, which would seemingly conflict with paragraph BC10 of the Proposed ASU, or otherwise defer recognition of income.