



Ernst & Young LLP
One Manhattan West
New York, NY 10001-8604

Tel: +1 212 773 3000
ey.com

Ms. Hillary H. Salo
Technical Director
File Reference No. 2021-006
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

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Proposed Accounting Standards Update, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*

Dear Ms. Salo:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, issued by the Financial Accounting Standards Board (FASB or Board).

We support the FASB's efforts to address issues that have arisen since entities began applying Accounting Standards Codification (ASC) 326, *Financial Instruments – Credit Losses*, in its post-implementation review of the standard. More specifically, we believe the troubled debt restructuring (TDR) recognition and measurement accounting guidance for creditors should be eliminated because it doesn't provide decision-useful information about entities that apply ASC 326. That's because ASC 326 requires entities to estimate expected credit losses over the contractual life of the financial asset (i.e., a lifetime expected credit loss model), so any incremental effect on the allowance for credit losses of a TDR under existing guidance is insignificant. We also support the enhanced disclosures proposed by the FASB about certain modifications. In addition, we support the proposal to require public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases in the vintage disclosures required by ASC 326. However, as noted in our responses to questions in the proposal, we believe several aspects of the proposed guidance can be further clarified.

Our responses to certain questions in the proposal are included 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 its convenience.

Very truly yours,

Appendix – Responses to Questions for Respondents included in the FASB’s proposal**Issue 1: Troubled Debt Restructurings by Creditors**

Question 1 – Should the designation of and accounting for TDRs by creditors be eliminated? That is, do the benefits of designating and accounting for certain loan modifications as TDRs and providing specific disclosures about those modifications justify the costs of providing that information? Please explain why or why not.

We believe the designation of and accounting for certain loan modifications as TDRs is not relevant after an entity applies ASC 326. ASC 326-20 introduced a current expected credit loss (CECL) model, which requires an estimate of expected credit losses measured over the contractual life of a financial asset, considering information about past events, current conditions, and reasonable and supportable forecasts of future economic conditions.

Because an estimate of credit loss under ASC 326’s CECL model already includes lifetime expected credit losses for loans that have been modified as a TDR, a separate recognition and measurement requirement for modifications that meet the definition of a TDR is unnecessary. We believe that the enhanced disclosures the FASB proposed about the types of modifications provided to borrowers, the expected financial effect of those modifications and the performance of the loans for a period after modification would provide decision-useful information to users of financial statements.

Question 2 – If the accounting for TDRs by creditors was eliminated, an entity would have to apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether the modification results in a new loan or a continuation of an existing loan. Would applying the guidance in paragraphs 310-20-35-9 through 35-11 be operable? Please explain why or why not.

We believe applying the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to modifications made to borrowers experiencing financial difficulty to determine whether the modification results in a new loan or a continuation of an existing loan would be operable. This guidance has existed for many years, and preparers are familiar with it.

Question 3 – Would the amendments in this proposed Update result in financial reporting outcomes that are appropriate and meaningful for users of financial statements? That is, would the proposed amendments related to recognition and measurement changes on loan modifications produce meaningful information absent designation of certain modifications as TDRs? Is application of the modification guidance to loans previously accounted for as TDRs appropriate, or should the Board consider amending that guidance such that TDRs are more or less likely to be accounted for as new loans? Please explain why or why not.

We believe that the amendments in the proposed update would result in financial reporting outcomes that are appropriate and meaningful for users of the financial statements. That is, we believe most modifications of loans to borrowers experiencing financial difficulty would be treated as continuations of the existing loans because their effective yields would likely be lower than the effective yields for

loans to customers with similar collection risks. This accounting would be consistent with the current treatment of TDRs and with a creditor's ongoing effort to recover its investment in the original loans.

Question 6 – Do you foresee any operability or auditing concerns in providing the disclosures in the proposed amendments? Please describe the nature and magnitude of costs and any operability or auditing concerns, differentiating between one-time costs and recurring costs.

We do not foresee any auditing concerns over the information provided in support of the proposed disclosures. We defer to preparers regarding any operability concerns.

Question 7 – Are there certain assets within the scope of Topic 326 that if modified with a borrower experiencing financial difficulty should not be required to provide the information required by the disclosures in the proposed amendments? Are there certain modification types that should not be included in the disclosures in the proposed amendments? Please explain why or why not.

We believe there are no assets in the scope of Topic 326 that, if modified with a borrower experiencing financial difficulty, should be exempt from the disclosure requirements in the proposed amendments.

However, we encourage the FASB to be more specific about which types of modifications would have to be disclosed if it didn't intend for minor modifications to be included in the disclosures. We note that ASC 310-10-50-39A through 50-42 would require all modifications to borrowers experiencing financial difficulty to be included in the disclosures, which would increase the population of loan modifications an entity would need to make disclosures about. For example, a change to a borrower-covenant in a loan to a debtor experiencing financial difficulty would have to be disclosed under the proposal, even though such a modification may not have been classified as a TDR under current guidance. This could be burdensome for financial statement preparers, who would have to track, accumulate and report information about all such modifications, including information they didn't previously track. What's more, information about these modifications may not be useful to the users of the financial statements because they are not substantive and do not directly impact the financial statements.

One of the ways to address this is that the FASB could limit the disclosure requirements to modifications that cause a change or delay in contractual cash flows.

We also encourage the FASB to consider limiting the look-back period for the effects of past restructurings. ASC 310-10-50-45 in the proposal states, "If the debt has been previously restructured, an entity shall consider the cumulative effect of the past restructurings when determining whether a delay in payment resulting from the most recent restructuring is insignificant." The absence of a specific look-back period requires preparers to consider all restructurings over the life of a loan, which we believe may not be meaningful for longer-term instruments since a modification that is considered minor may be made in the loan's early stages (potentially due to a natural disaster) but would need to be combined with modifications made several years later. Including these types of loans in the loan modification disclosures may not be useful because the accumulation of modifications over the entire life of the instrument may not provide meaningful information about its current credit risks. If the FASB does consider limiting the look-back period for the effects of past restructurings, the views of users and preparers would be important inputs to that evaluation.

Question 8 – Are the proposed transition methods appropriate? Please explain why or why not.

We believe a prospective adoption relating to loan modification disclosures is appropriate, as it would alleviate some of the complexity and cost of providing comparative information for prior periods.

With respect to transition related to the elimination of the recognition and measurement guidance on TDRs, we support the FASB's efforts to provide flexibility to entities by proposing to permit them to choose either a prospective or modified retrospective transition. As the FASB noted in the Background Information and Basis for Conclusions, prospective application would reduce complexity for entities that want to continue to measure their allowance for loans previously modified in a TDR using a discounted cash flow method until those loans are settled, while modified retrospective application would allow entities that want to change their method to a non-discounted cash flow method to do so.

However, allowing entities to choose between a prospective and modified retrospective transition may cause a lack of comparability among entities. We encourage the Board to consider the feedback of investors and other users of the financial statements on comparability before finalizing any transition guidance.

Question 9 – The proposed amendments would affect all entities that have adopted Update 2016-13. Are there any specific private company considerations, in the context of applying the Private Company Decision-Making Framework, that should be brought to the Board's attention?

In our view, there are no specific private company considerations that need the Board's attention.

Issue 2: Vintage Disclosures – Gross Write-offs

Question 11 – Are the proposed amendments that would require that a public business entity disclose the current-period amount of gross write-offs by origination year for financing receivables and net investment in leases clear and understandable? Please explain why or why not.

Yes, we believe the requirements to disclose the current period gross write-offs by year of origination for financing receivables and net investment in leases are clear and understandable.

Question 12 – Do you foresee any operability or auditing concerns or constraints in complying with the proposed amendments in paragraph 326-20-50-6? Please describe the nature and magnitude of costs and any operability or auditing concerns about providing this information, differentiating between one-time costs and recurring costs.

We do not foresee any auditing concerns or constraints for information supporting the disclosures in the proposed amendments in ASC 326-20-50-6. We defer to preparers regarding any operability concerns.

Question 14 – In developing these proposed amendments, the Board considered, but decided not to require, gross recoveries by year of origination. If the Board decided to consider requiring gross recovery information, please describe the nature and magnitude of costs and any operability or auditing concerns about providing that information, differentiating between one-time costs and recurring costs. For financial statement users, is gross recovery information by year of origination necessary and, if so, how you would use that information?

Our ability to audit the information supporting gross recovery disclosures would depend on an entity's ability to accumulate and report this information. We defer to preparers regarding the costs of accumulating this information and any operability concerns. That being said, we do not foresee any auditing concerns regarding this information.