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File Reference No. 2024-ED900
Financial Accounting Standards Board
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14 January 2025

Proposed Accounting Standards Update, *Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities* (File Reference No. 2024-ED900)

Dear Mr. Day:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities* (the proposal) that was issued by the Financial Accounting Standards Board (FASB or Board).

We support the efforts of the Board and the Private Company Council (PCC) to simplify the guidance for private companies and certain not-for-profit entities (NFPs) on measuring credit losses for current accounts receivable and current contact assets arising from transactions accounted for under Accounting Standards Codification (ASC) 606, *Revenue from contracts with customers*. We believe the proposal would reduce the cost and complexity of developing reasonable and supportable forecasts for private companies and NFPs when measuring expected credit losses for these short-term assets, while maintaining the usefulness of the financial reporting.

While we overall support the Board's proposal, we recommend certain clarifications to improve operability and help entities apply the guidance consistently. We also make other observations on expanding the scope of the guidance. Our responses to questions in the proposal and our recommendations for the Board's consideration are included in the Appendix.

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

Very truly yours,

Ernst + Young LLP

Appendix A — Responses to questions raised in the Proposed Accounting Standards Update, Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities

> **Question 1 — Entities:** Should the amendments in this proposed Update be limited to private companies and not-for-profit entities, excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market?
>
> Should the proposed amendments be expanded to include public business entities, all not-for-profit entities, or other types of entities?
>
> Please explain your reasoning.

The proposal would address challenges private companies and NFPs encounter when applying ASC 326-20 to current accounts receivable and current contract assets and is intended to reduce the costs of applying the expected credit loss guidance to these short-term assets. We believe the scope of the proposed amendments would be appropriate and responsive to the concerns raised by private companies and NFPs.

We are not aware of significant concerns raised by public business entities regarding the cost or complexity of applying the expected credit loss guidance for current accounts receivable and current contract assets arising from transactions recognized under ASC 606. Public business entities have shorter and more frequent filing deadlines (i.e., quarterly filings) and, therefore, may encounter different issues or incur additional costs under the proposed guidance, specifically, the proposed accounting policy election to consider subsequent collections, in comparison to private companies and NFPs. For example, public business entities would need to develop processes and controls for selecting the period(s) over which subsequent collection activities would be considered and tracking the collection activities for each quarter.

In the FASB's recently issued Invitation to Comment (ITC) related to its future standard-setting agenda, the Board said it is seeking stakeholder feedback on whether to include public business entities in the scope of proposed practical expedient and accounting policy election. We are supportive of the Board's efforts in understanding the proposal's expected benefits and costs for public business entities, and we believe the Board should defer its decision on expanding the scope of the proposal until it has considered the feedback it receives as part of the ITC process.

> **Question 2 — Assets:** Should the proposed amendments apply to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606?

Yes. We agree that the proposed amendments should apply to current accounts receivable and current contract assets arising from transactions accounted for under ASC 606. Given the short-term nature of these assets, the effect of changes in macroeconomic conditions that would otherwise be incorporated into reasonable and supportable forecasts over the life of their contractual terms would generally not be significant. However, private companies and NFPs have been spending significant time and effort in applying the expected credit loss guidance to these assets. Applying the proposed guidance to these assets would reduce costs.

Question 3 — Should the proposed amendments be extended to other assets or transactions and, if so, which ones and why? For example, should the proposed amendments apply to the initial estimate of expected credit losses on current accounts receivable and current contract assets acquired in a business combination accounted for under Topic 805, Business Combinations? Should the proposed amendments apply to transactions accounted for under Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and, if so, what specific assets?

As discussed above, we are supportive of the Board's efforts to obtain stakeholder input on this matter as part of its ITC process and believe the Board should defer making a decision until it has considered the feedback it receives.

However, we believe it would be appropriate for private companies and NFP entities to apply the proposed guidance to current accounts receivable and current contract assets acquired in a business combination or an asset acquisition, or recognized through the consolidation of a variable interest entity that is not a business as these assets are originated from transactions accounted for under ASC 606 and retain their character as assets with customers after the acquisition.

Question 4 — Practical Expedient and Accounting Policy Election: Will the proposed practical expedient improve the ability for entities to apply Topic 326 for current accounts receivable and current contract assets? Is it clear and operable? If not, what changes would you suggest?

We believe the proposed practical expedient would be operable and improve an entity's ability to apply ASC 326 to current accounts receivable and current contract assets because it would simplify the consideration of macroeconomic information in measuring credit losses.

Question 5 — Practical Expedient and Accounting Policy Election: Will the proposed accounting policy election to consider subsequent collection activity improve the ability for entities to apply Topic 326 for current accounts receivable and current contract assets? Is it clear and operable? If not, what changes would you suggest?

We believe the proposed accounting policy election would improve an entity's ability to apply ASC 326. While we believe the proposed amendments would generally be clear and operable, we suggest that the Board consider making certain clarifications noted below to make sure entities apply the accounting policy election consistently.

Paragraph 326-20-30-10F (b) states that:

> The entity shall then evaluate any remaining uncollected amounts as of the date the financial statements are available to be issued (or the date after the balance sheet date but before the financial statements are available to be issued selected by the entity) using the practical expedient in paragraphs 326-20-30-10C through 30-10D. That evaluation shall be based on the collection status of those assets as of the date the financial statements are available to be issued or the date selected by the entity (see paragraphs 326-20-55-40H through 55-40M for an illustrative Example).

However, the footnote in paragraph 326-20-55-40J states, "(a) Credit loss rate based on the days past due measurement as of the date the financial statements are available to be issued." This could be interpreted to mean that the historical loss rate applied considers loss and recovery activity after the balance sheet date but before the financial statements are available to be issued.

If this is not the Board's intention, we suggest the Board modify the footnote as follows to align with the guidance in paragraph 326-20-30-10F (b):

> "(a) Credit loss rate based on the ~~days past due measurement~~ collection status as of the date the financial statements are available to be issued."

We also suggest the Board make the following changes to the proposed amendments in ASC 326-20-30-10E and ASC 326-20-30-10F (in bold and strike-through) to be consistent with how the phrase "… after the balance sheet date but before the financial statements are available to be issued" is generally used in US GAAP (for example, in paragraph ASC 855-10-25-3).

> "**326-20-30-10E** An entity that elects the practical expedient in paragraphs 326- 20-30-10C through 30-10D may make an accounting policy election when estimating expected credit losses to consider collection activity after the balance sheet date but before **~~the date~~** the entity's financial statements are available to be issued, including any date selected by the entity which is after the balance sheet date but before **~~the date~~** the financial statements are available to be issued. For example, under this accounting policy election, the allowance for credit losses related to current accounts receivable and current contract asset balances arising from transactions accounted for under Topic 606 that are fully collected before **~~the date that~~** an entity's financial statements are available to be issued (or the date after the balance sheet date but before the financial statements are available to be issued selected by the entity) would be zero.
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> **326-20-30-10F** An entity that applies the practical expedient and elects the accounting policy shall estimate its expected credit losses on current accounts receivable and current contract asset balances as follows:
>
> a. The entity shall first consider subsequent collections of current accounts receivable and current contract asset balances arising from transactions accounted for under Topic 606 that were outstanding as of the balance sheet date. No credit loss allowance shall be recorded for assets that have been fully collected before **~~the date~~** the financial statements are available to be issued (or the date after the balance sheet date but before the financial statements are available to be issued selected by the entity)."

Question 6 — Practical Expedient and Accounting Policy Election: Should the proposed accounting policy election to consider subsequent collection activity be limited to entities that have elected the practical expedient? Please explain why or why not.

Yes. We believe this limitation would provide the most consistency among entities while still addressing the challenges raised by preparers. We generally expect the population of entities that would apply the accounting policy election without applying the practical expedient to be sufficiently limited.

Question 7 — Disclosure: Should the proposed amendments include a specific requirement for entities to disclose that they are applying the proposed practical expedient and accounting policy election? Please explain why or why not?

Yes. We believe this disclosure requirement would provide investors and creditors with transparent and decision-useful information.

We recommend that the Board also consider requiring entities that apply the accounting policy election to disclose the amount of receivables that are fully collected before an entity's financial statements are available to be issued (or the date after the balance sheet date but before the financial statements are available to be issued selected by the entity) to provide further transparency on receivables subject to the accounting policy election.

Question 8 — Transition: Do you agree with the proposed prospective transition requirements? Should entities be able to initially apply the practical expedient and accounting policy election in any period after the effective date without performing a preferability assessment under Topic 250, Accounting Changes and Error Corrections? Please explain why or why not.

We agree with the proposed prospective transition requirements and believe entities should be able to initially elect the practical expedient and accounting policy in any period after the effective date without performing a preferability assessment under ASC 250. We believe this aligns with the Board's overall objective to reduce cost and complexity for entities applying ASC 326 to current accounts receivable and current contract assets arising from transactions accounted for under ASC 606.

Question 9 — Effective Date: Should the proposed amendments be effective upon issuance of a final Accounting Standards Update? If not, how much time would be needed to implement the proposed amendments? Should early adoption be permitted for financial statements that are not yet available to be issued? Please explain why or why not?

While we would support the proposed amendments becoming effective upon issuance of a final Accounting Standards Update, we ultimately defer to preparers about how much time would be needed to implement the guidance. We believe early adoption should be permitted.

Question 10 — Benefits and Costs: Will the proposed amendments reduce costs without reducing the decision usefulness of information provided to investors and creditors? Please explain why or why not.

In our experience, the amount of credit losses recorded on current accounts receivable and current contract assets arising from transactions accounted for under ASC 606 is not significant to the financial statements. Given that the proposed amendments would generally simplify the accounting requirements in ASC 326, we believe they would reduce costs without negatively impacting the decision usefulness of the information provided. However, we believe preparers and users of the financial statements are better positioned to answer this question.