

American Institute of CPAs 220 Leigh Farm Road Durham, NC 27707-8110

December 20, 2010

Technical Director FASB 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Re: October 12, 2010 Exposure Draft of a Proposed Accounting Standards Update (ASU), Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors [File Reference No. 1880-100]

Dear Sir/Madam:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

Although TIC understands the need to improve guidance for creditors on whether a troubled debt restructuring has occurred, TIC believes the ED fails to take into account certain operational issues that could occur. Certain creditors may not be able to obtain sufficient information about the debtor's credit risk related to accounts receivable (and similar instruments) to determine whether the modified terms represent a "below-market" concession. TIC has found that financial statement users typically exclude accounts receivable over a certain number of days past due from any borrowing base determination and, therefore, TIC believes that the analysis required by the ED will not benefit users (especially in the nonpublic arena).

The ED also does not adequately address the appropriate accounting in a less-than-liquid credit market.

TIC's specific comments below address the above issues in more detail.

SPECIFIC COMMENTS

Question 1: Would precluding creditors from applying the guidance in paragraph 470-60-55-10 create any operational challenges for determining whether a troubled debt restructuring exists? If yes, please explain why.

TIC believes that precluding creditors from using the borrower's effective rate test in *Accounting Standards Codification* (ASC) paragraph 470-60-55-10 may create significant operational challenges for determining whether a troubled debt restructuring exists. Many privately held creditors will not have ready access to the necessary information to determine a market interest rate for debt with similar risk characteristics as the restructured debt.

Further operational issues arise due to the scope of the standard. Many privately held creditors currently agree to changes in the terms of their open trade accounts receivable in the normal course of business for a variety of reasons that have nothing to do with a belief that the debtor is troubled. A creditor may offer extended terms (e.g., extending the due date on the account without charging interest) to a good customer simply to maintain that customer relationship. Frequently, these entities lack any financial information on the debtor other than limited information that might be available from sources such as Dun & Bradstreet. Even if these financial statement preparers had access to credit markets sufficient to assess rates in general, they may lack information sufficient to estimate the credit risk of the specific debtor and, accordingly, would not be able to determine if the revised terms are below market.

Private company users do not consider troubled debt restructurings when making a lending decision based on a creditor's open trade accounts receivable. Financial statement users that are lending to a creditor based on the quality of its open accounts receivable will simply exclude any accounts receivable over a certain number of days past due from any lending analysis. Therefore, TIC believes accounts receivable (and similar lending arrangements) for nonpublic entities should be scoped out of the proposed changes. The use of the debtors' guidance in ASC paragraph 470-60-55-10, when information about the credit markets and/or the creditor's specific financial situation is not readily available, would serve to mitigate some of the operational issues identified above.

Question 2: Do you believe that the proposed changes to the guidance for determining whether a troubled debt restructuring exists would result in a more consistent application of the troubled debt restructuring guidance? If not, please explain why.

While we agree with the concepts embodied in this standard, TIC believes that application in its current form may well result in similar transactions being accounted for differently based on the information that is available to a particular creditor with respect to the debtor. This is especially true when applying this standard to transactions other than traditional lending. For example, a primary supplier could extend credit terms that require submission of financial statements and a secondary supplier might not require such information. If they both extend terms 120 days, the creditor with the financial statements may be in a position to assess the risk and determine the credit rate based on the actual information, whereas the secondary supplier may have to estimate and make certain assumptions in order to follow

the proposed guidance. This could potentially result in one supplier qualifying for troubled debt restructuring accounting treatment and the other not.

Further, we believe that the application of the guidance as written does not adequately address the appropriate accounting in a less-than-liquid credit market. During the past year or two, entities that would traditionally have been able to borrow funds and whose debt would not necessarily have been restructured may have been unable to borrow funds due to business decisions of traditional lenders in the marketplace. To require modifications to these agreements to be considered as troubled debt restructurings does not adequately reflect the nature of the transactions. For example, some TIC members have seen debt with subjective acceleration clauses being modified to shorten the term for no reason other than the lender has a need to exit a particular industry or needs to balance its exposure solely for its own business or regulatory compliance reasons.

If the borrower is unable to borrow funds (which has not been unusual in the current economic environment) from another source, the standard as currently written would seem to require treatment as a troubled debt restructuring when it is in fact simply a business decision made by the lender that may be completely unrelated to the borrower's financial circumstances. We would suggest that criteria for evaluating when a credit market is illiquid be considered and an alternative model be developed to assess if a modification of terms represents a troubled debt restructuring from the lender's perspective.

Question 3: The Board decided that a creditor may consider that a debtor is experiencing financial difficulty when payment default is considered to be "probable in the foreseeable future." Do you believe that this is an appropriate threshold for such an assessment? If not, please explain why.

We conceptually agree with this consideration; however, TIC would suggest that a more limited decision timeframe be utilized, especially in illiquid or somewhat illiquid credit markets. There is a significant amount of debt, especially in the private company sector, that has a balloon payment with relatively short maturities (less than 5 years). For that debt, generally there is no option for the borrower to repay the debt solely from its cash flows. Thus, a significant balloon payment that is due after one year but prior to 5 years in an illiquid credit market creates a presumption that the probability of payment default in the foreseeable future is likely because the Company could not establish its ability to refinance the balloon payment when it comes due.

Accordingly, many such obligations, were they to be modified, would require troubled debt restructuring accounting treatment solely because of an inability for the borrower to substantiate its ability to borrow in the future based on a currently illiquid credit market. We would suggest that the modification would only receive troubled debt restructuring accounting if the probability of default were to occur within two years from the date of issuance of the financial statements.

Question 4: Are the proposed transition and effective dates operational? If not please explain why.

TIC believes that the proposed effective date should be for interim and annual periods ending after June 15, 2012—one year beyond the date stated in the ED. TIC believes a minimum one-year extension will be necessary to ensure that adequate data is available to preparers regarding the informal modification of the terms of trade and other accounts receivable, if modifications to such receivables are not scoped out of the final standard (as requested in our responses to questions 1 and 2).

TIC also believes that such changes should be applied only on a prospective basis for troubled debt restructurings occurring after the effective date. The cost and effort involved in retrospective application of the standard would not have sufficient user benefits to justify the cost incurred.

Question 5: Should the transition and effective date be different for nonpublic versus public entities? If so please explain why.

TIC believes the effective date for nonpublic entities should be one year later than the effective date for public companies. The informal modifications of the terms of trade accounts receivables and other receivables, discussed in the response to Question 4 above, occur more frequently among private entities than in the public company arena.

Question 6: Should early adoption of the proposed amendments in this Update be permitted? If so, please explain why.

TIC does not believe that this "clarification" warrants early adoption; its adoption date should be uniform for all reporting entities.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely.

Philip J. Santarelli, Chair

PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees