

Tel: 312-856-9100 Fax: 312-856-1379 www.bdo.com

July 13, 2012

Via email to <u>director@fasb.org</u>

Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (File Reference No. EITF 12C)

Dear Ms. Cosper:

We are pleased to provide comments on the exposure draft. We agree that entities should account for changes in the measurement of indemnification assets on the same basis as the indemnified item, as detailed in the ED. We also agree that the life of the indemnification assets should be limited to the lesser of their underlying loss-sharing agreement or the remaining term of the indemnified assets. However, we offer two recommendations on the proposed language in 805-20-35-4B.

First, we do not see a reason to limit the scope of the amendments to only those indemnification assets that are recorded "as a result of a government-assisted acquisition of a financial institution." In a similar transaction that lacks government assistance, a seller may provide the same type of indemnification to a buyer. We would find it odd for the final amendments to preclude practitioners in that situation from applying the same model that the Task Force has concluded is the only acceptable approach for buyers in a government-assisted transaction. More specifically, all acquired loans with evidence of deteriorated credit quality apply the same Day 2 accounting model. Why would there nonetheless be a difference for some of the related indemnification assets? That outcome would guarantee that all loss sharing agreements are not reported on the "the same basis" as the underlying loans.

Second, we recommend rephrasing the term "impairment allowance" to "valuation allowance" to make it consistent with the language that currently exists in ASC 310-30-35-10.b.1.

With respect to transition, we prefer retrospective adoption for all periods presented to enhance comparability, rather than applying the proposed amendments only to new assets acquired and to changes in existing contracts. In this light, we note that Topic 250¹ provides relief if retrospective adoption is impracticable. For example, it may be impracticable for an entity to reinstate an indemnification asset that it has previously written off.

We agree that early adoption should be permitted, and believe that the amendments could be implemented for periods beginning after December 15, 2012 for both public and private entities.

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¹ Accounting Changes and Error Corrections

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We would be pleased to discuss our comments with the FASB staff. Please direct questions to Lee Graul, National Director of Accounting at (312) 616-4667 or Adam Brown, Partner in the National Accounting Department at (214) 665-0673.

Very truly yours,

BDO USA, LLP