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August 24, 2009

Mr. Russell G. Golden  
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Via Email to [director@fasb.org](mailto:director@fasb.org)

File Reference: 1700-100

Dear Mr. Golden:

We are pleased to comment on the Proposed Statement of Financial Accounting Standards, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. We support the FASB's mission to provide users with relevant and meaningful disclosures and agree with the Board's observation that creditors must strike a balance between providing too much information which obscures relevant information and overburdening financial statements with excessive detail. In general, we believe this proposal is approaching excessive detail, particularly for smaller companies that do not necessarily routinely gather the volume and nature of the information required. However, we believe the disclosures could be meaningful without being excessive, with the changes described in this letter.

We agree with the Board that U.S. GAAP requires few disclosures related to credit quality and the allowance for loan and lease losses ("ALLL" or "allowance"). As such, we support the Board's goal to enhance the disclosures. However, we note that the Board has recently added two projects to its agenda which may impact these proposed disclosures: a joint project with the International Accounting Standards Board (IASB), *Financial Instruments: Improvements to Recognition and Measurement*, and more recently, the Board's project *Disclosure Framework*. Depending on the progress on those two projects and the possible impact to credit quality and allowance disclosures, the Board might consider including these proposed revised disclosures as part of those projects rather than issuing a stand-alone standard which will have, potentially, a limited life.

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Below are our responses to the proposal's questions. We have also provided a section for other comments.

## Scope (Paragraph 2)

**Issue 1: This proposed Statement defines a *financing receivable* as both loans as defined by FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, and lessors' investment in leases other than operating leases that have been recorded as assets in accordance with FASB Statement No. 13, *Accounting for Leases*. Do you agree with the definition used to identify a financing receivable subject to the provisions of this proposed Statement? If not, why not?**

We agree with the definition of financing receivables and agree that leases that are recorded as assets should be included, particularly since the allowance includes both loans and leases.

Further, we believe that the statement should exclude financing receivables that are carried at fair value or lower of cost or market, which is consistent with FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*. Those receivables are not evaluated as part of the allowance currently, as the credit risk is evaluated as part of the fair value determination.

We note the proposal uses the terms 'trade receivable' and 'account receivable' and acknowledge that both terms are used throughout U.S. GAAP, although we believe in practice, there is no distinction. As such, we encourage the Board to use one term for consistency. If the Board envisioned a distinction between accounts and trade receivables, we recommend that be clarified and defined.

**Issue 2: This proposed Statement would apply to all creditors, including all public and nonpublic entities that prepare financial statements in accordance with generally accepted accounting principles. Do you agree with the scope of this proposed Statement? If not, why not?**

Yes, we believe the final statement should apply to both public and nonpublic entities. However, the disclosures should be scaled back for all entities as follows:

- Remove the rollforward of financing receivables
- Remove the fair value disclosures (other than those required by FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*)
- Scale back the credit quality indicators to apply only to those receivables which are on management's watch list and require the disclosures by segment rather than by class
- Require all information to be provided at the portfolio, rather than the class level including the aging analysis of past due financing receivables, the impaired financing receivables and the nonaccrual status disclosures

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If the Board chooses to retain all of the proposed disclosures, we recommend nonpublic entities should not be required to provide the items listed above.

We believe the disclosures should apply only to annual financial statements. We believe the existing guidance in APB Opinion No. 28, *Interim Financial Reporting*, provides adequate guidance for interim financial statements.

### **Disclosures (Paragraphs 10-16)**

***Issue 3: This proposed Statement would require a rollforward schedule of the total allowance for credit losses in both interim and annual reporting periods by portfolio segment and in the aggregate. In addition, it also would require a rollforward schedule of financing receivables in both interim and annual reporting periods by portfolio segment and in the aggregate. Do you believe those disclosures will assist financial statement users in better understanding the financial information for the total allowance for credit losses as well as the associated financing receivables? If not, why not?***

We believe the rollforward for the allowance would be a meaningful disclosure. Insured depository institutions do include charge-offs and recoveries by collateral type in their regulatory reports. Presumably, those entities would be able to assemble such a rollforward without undue effort.

For the rollforward of the financing receivables, we disagree with the proposal for two reasons. First, we question the usefulness of the information to users, particularly since the disclosures are largely balance sheet (point in time) driven. Disclosure of activity within each portfolio segment is not as meaningful to the reader as merely comparing the changes in composition from one period-end to another. We believe it is far more meaningful to provide a rollforward of the allowance, by segment, which provides information about the changes in credit quality.

Secondly, we envision operational issues with this requirement. We acknowledge this proposed requirement is consistent with certain of the preliminary conclusions drawn by the Board in the Financial Statement Presentation project and believe these same operational challenges are applicable to that project as well.

Practices among entities vary as to how they accumulate and post daily loan activity. For example, one entity may post loan renewals to its general ledger as a payoff of the existing loan and funding a new loan, even though no cash inflows or outflows took place. Another entity may not record renewals on the general ledger, but rather track them with its loan accounting system. Other examples where operations differ among entities include how draws and paydowns on open-ended lines of credit are recorded, how renewals when extending new funds are recorded, and how mispostings and corrections are accumulated.

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To accumulate the rollforward called for by the proposed Statement would likely require many entities to assemble information manually in the short term, with varying degrees of reliability, and require systems changes in the long term.

Some of these operational challenges were addressed in the basis for conclusions in FASB Statement No. 104, *Statement of Cash Flows-Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions – an amendment of FASB Statement 95*, which amended FASB Statement No. 95, *Statement of Cash Flows*. In particular, we note paragraph 14 which states:

“The Exposure Draft proposed to amend Statement 95 to permit banks, savings institutions, and credit unions to report net cash flows for certain deposit and lending activities. Most respondents agreed with that proposal and contended that the requirements of Statement 95 for reporting cash flows for deposit and lending activities are costly for those enterprises to apply and that information about the gross cash flows for those activities is not useful. Representatives of the banking industry asserted that banks have had to spend an inappropriate amount of time and money to comply with the requirements for reporting cash flow information and that the additional costs include not only start-up costs or costs of modifying systems to adopt the standard but also ongoing costs of periodic reporting.”

We also observe the proposed requirement is inconsistent with the requirement set forth in paragraph 13.A. of FASB Statement 95 (ASC 942-230-45-1 and 2), which states:

“13.A. Banks, savings institutions, and credit unions are not required to report gross amounts of cash receipts and cash payments for (a) deposits placed with other financial institutions and withdrawals of deposits, (b) time deposits accepted and repayments of deposits, and (c) loans made to customers and principal collections of loans. When those enterprises constitute part of a consolidated enterprise, net amounts of cash receipts and cash payments for deposit or lending activities of those enterprises shall be reported separate from gross amounts of cash receipts and cash payments for other investing and financing activities of the consolidated enterprise, including those of a subsidiary of a bank, savings institution, or credit union that is not itself a bank, savings institution, or credit union.”

**Issue 4: This proposed Statement would require interim and annual credit quality disclosures about a portfolio by class of financing receivable, including quantitative and qualitative information about the credit quality of financing receivables. Do you believe those disclosures will assist financial statement users to better understand the credit quality for the associated financing receivables? If not, why not?**

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We believe information on credit quality indicators provide some benefit. However, the requirements are too disaggregated and if these are retained, we recommend that the requirements should be at the segment, rather than class, level.

For credit quality indicators, which include both grades for corporate and consumer exposures, we are concerned that the grades may not be accurate at the balance sheet date. Some loans may only be graded upon origination and the grade may be stale, or if they are subsequently reviewed, the reviews occur throughout the period and not at a given point in time (the balance sheet). In our experience, many financial institutions do not assign a credit quality indicator for all loans on an on-going basis, other than delinquency status. Therefore disclosure of this information may present an inaccurate picture of the entity's portfolio. For example, if a loan is not graded, it is likely automatically considered a pass. Providing this information will give users a false sense that the entire portfolio has been evaluated on a loan-by-loan basis.

However, we believe it would be meaningful for users to understand the criteria for the receivables that are graded on an on-going basis, how much of the portfolio is being graded on an on-going basis and the results of those processes. We suggest a requirement to disclose only those loans that are subject to a quarterly credit risk evaluation or grading process (which would be defined by the entity) rather than requiring this disclosure for all loans. For those loans that are not subject to the grading process, other disclosures could be considered, such as past due status as proposed in paragraph 13.d.

***Issue 5: This proposed Statement would require an analysis of the age of financing receivables that are past due, but not impaired, at the end of the reporting period separately for each class of financial instruments. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?***

We believe it is misleading to characterize the disclosure in paragraph 13d as applying to financing receivables that are past due but not impaired. Many loans are evaluated collectively and therefore are not individually deemed to be impaired. As such, we recommend the Board either change the requirement to remove the phrase "but not impaired" or clarify the proposed disclosure to state "financing receivables that are past due, but not individually evaluated for impairment".

We believe this may be a meaningful disclosure and observe that this information is collected, in some format, for all insured depository institutions as part of their regulatory reporting. We recommend the information should be presented on a segment, rather than class level. This would also provide consistency and a comparable basis with the associated allowance, which is presented on a segment level.

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**Issue 6: This proposed Statement would require the fair value of loans at the end of the reporting period by portfolio segment. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?**

We do not believe that disclosure of fair value will provide much relevant information to users given that credit quality is only one component of fair value. We also observe that the proposed requirement would apply to certain nonpublic entities with no derivatives and total assets less than \$100 million as of the date of the financial statements. Those entities were previously exempted from providing such disclosures under Statement No. 107

**Issue 7: Do you believe it is operational for entities to disclose all of the proposed requirements for interim and annual reporting periods? Why or why not?**

We have identified certain operational issues in response to Issues 3 and 4 and believe many of the requirements, including the rollforward of the financing receivables, will be difficult to accumulate, particularly for smaller financial institutions. We suggest the Board carefully consider the views of preparers as to whether the specific requirements of the proposed standard are operational.

As previously mentioned, we recommend the disclosures should apply only to annual financial statements. The existing guidance in APB Opinion 28 is sufficient guidance for interim financial statements.

#### **Effective Date and Transition (Paragraph 17)**

**Issue 8: The final Statement is expected to be issued in the third quarter of 2009. The Board concluded that this proposed Statement would be effective for financial statements beginning with the first interim or annual reporting period ending after December 15, 2009. Do you agree with the Board's decision on the effective date? If not, what would be a reasonable period of time to implement the provisions of this proposed Statement? If you do not agree, please provide a description of the process changes necessary to implement this proposed Statement that would require additional time.**

Depending on the required disclosures in the final document, the accessibility of the information needed to assemble those disclosures as well as the timing of the issuance of the final standard will impact the ability of preparers to comply with the proposed effective date. In some cases, systems changes may be needed in order to comply (e.g. the rollforward of the financing receivables). Aside from the disclosures that will ultimately be required, from a practical standpoint, we believe entities will be challenged to comply with the new disclosures if required for periods ending after December 15, 2009. Adoption during the first quarter of 2010 is also not practical, given that entities are focused, during that time, in finalizing their

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December 31, 2009 annual reports. As such, we recommend the effective date be no earlier than for periods ending after December 15, 2010, with early adoption permitted.

## Other Comments

### Key Terms

#### Carrying Amount or Recorded Investment

We observe the Board uses the term 'carrying amount' rather than 'recorded investment'. Most of the existing requirements in U.S. GAAP, including Statement 114, as related to credit quality, refer to recorded investment rather than carrying amount. We believe that the gross amount, which excludes any related allowance, is more meaningful and should be the required basis of disclosure rather than the net amount. Further, we do not believe it is practical to disclose the information on financing receivables on a net basis. We understand the Board is changing the definition of carrying amount, in this proposal, to exclude any related allowance, which is consistent with the definition of recorded investment. While the Board clarified its objective in paragraph B8, it is not clear in paragraph 4 since the reference, to the amount displayed in the financial statements, could in some cases, be presented on a net basis. The Board may also wish to include accrued interest, consistent with the definition in the Master Glossary of the Codification. As such, we recommend that paragraph 4 be amended as follows (new wording has been bolded):

4. The carrying amount is the amount of an item as displayed in the financial statements. For example, the carrying amount in the statement of financial position of loans and trade receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff should be the outstanding principal adjusted for any direct write-downs, **any accrued interest**, any deferred fee or costs, any unamortized premiums or discounts on purchased loans, and any fair value hedge accounting adjustments. **The carrying amount does not include the valuation allowance.**

We also recommend that the Board change the definition of carrying amount in the Master Glossary of the Codification to be amended to be consistent as follows:

#### Carrying Amount

For a receivable, the face amount increased or decreased by applicable accrued interest and applicable unamortized premium, discount, finance charges, or issue costs ~~and also an allowance for uncollectible amounts and other valuation accounts.~~

#### Recorded Investment

The amount of the investment in a loan, which is not net of a valuation allowance, but which does reflect any direct write-down of the investment.

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Furthermore, we question the need to retain the definition of recorded investment if the meaning will now be the same as carrying amount. The Board may also wish to consider any other consequences of changing the definition of carrying amount in the Master Glossary to the Codification.

### Regulated Creditor

We recommend defining the term 'regulated creditor' as that term is used in paragraph 13.b.1. A regulated creditor could include a regulator for consumer protection for example. As we do not believe this was the Board's intent, we recommend the Board define this term. We assume the Board intended for this population to apply to depository institutions as follows:

- Depository institutions insured by the Federal Deposit Insurance Corporation's (FDIC's) Deposit Insurance Fund (DIF) or the National Credit Union Administration's (NCUA's) National Credit Union Share Insurance Fund (NCUSIF)
- Bank holding companies and financial holding companies
- Savings and loan association holding companies
- Branches and agencies of foreign banks regulated by U.S. federal banking regulatory agencies
- State-chartered banks, credit unions, and savings institutions that are not federally insured
- Foreign financial institutions whose financial statements are purported to be prepared in conformity with accounting principles generally accepted in the United States

### Portfolio Segment versus Class of Financing Receivables

We believe the definition of these two terms is confusing. In addition, the differing levels of aggregation, depending upon the disclosure, are difficult to follow. In some cases, this appears to result in data being presented that is not comparable (e.g. financing receivables presented by class while the allowance is presented by portfolio segment). In the interest of simplification, we recommend that all disclosures be based on portfolio segment.

## **Paragraphs**

### Paragraph 6

This paragraph provides various methods for disaggregating portfolio segments. While this provides flexibility for preparers to comply using their own methods, we observe these examples are not mutually exclusive as there are many ways to "carve up" a portfolio. If the Board chooses to retain the notion of disaggregation by class, we recommend this paragraph be clarified to require disclosure based on how the entity disaggregates for purposes of determining the allowance.

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### Paragraph 9

The last sentence in paragraph 9 is not clear. We are uncertain what class of financing receivables would not be related to a “portfolio segment (because there is no associated allowance)”. For example, a loan that is evaluated under Statement 114 may be deemed to be ‘impaired’ but have no associated allowance; however, the loan would still be included in paragraph 5b. As such, we recommend the Board clarify the application of the type of financing receivables that would not be related to a portfolio segment.

### Paragraph 11.d.

While we disagree with disclosing the rollforward of financing receivables, if this requirement is retained, we recommend the Board clarify the treatment of the operational challenges described previously, including how draws and repayments of lines of credit should be disclosed (i.e., gross or net presentation), how loan refinances should be disclosed, including circumstances when additional credit is extended, and whether renewals should be separately disclosed.

### Paragraph 13

Paragraph 13.b.2. - We observe the lead in states “to the extent that the following credit quality indicators are used by creditors, either of the following additional disclosure requirements applies”, which we interpret to mean that to the extent an entity uses consumer risk scores at origination, they would be required to update and disclose those scores. We believe that many institutions, particularly smaller institutions, do not use consumer credit risk scores on an on-going basis and to do so would entail additional cost and effort. As previously mentioned, we believe the more meaningful and practical disclosure for consumer loans is the past due status. As such, we recommend this requirement be removed or clarified on how it applies to situations where ongoing credit scores are not updated.

Paragraph 13.c. - As mentioned above in the scope section, we disagree with the requirement in paragraph 13.c. to include financing receivables carried at a measurement other than amortized cost as this includes assets carried at fair value or the lower of cost or market which will typically be presented separately on the balance sheet and not evaluated as part of the allowance. Instead, we recommend the paragraph be modified as follows:

For financing receivables carried at a measurement other than amortized cost (~~fair value, the lower of cost or market, or~~ present value of amounts to be received) that are neither past due as determined by management’s policy nor impaired as defined by Statement 114, quantitative information about the credit quality at the end of the reporting period shall be disclosed separately by measurement attribute.

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Paragraph 13.f. – We recommend including the guidance related to loan modifications currently in paragraph 15, in this paragraph so that the requirements are in one place.

Paragraph 13.f. - We observe this requirement is similar to the requirements in the Call Report (Schedule RC-C, Memoranda 1), the Thrift Financial Report (Schedule VA, Other Items) and the NCUA's Call Report (Schedule A, Item 12). This is a specialized disclosure for financial institutions and such information may not be accumulated by other types of entities. In addition, other types of entities may not have the systems in place to comply with this requirement. Therefore, we recommend the Board consider field testing this requirement.

### **Codification**

We recommend the following revisions to be made in the proposed changes to the Codification as follows:

As currently drafted, there are several sections that refer to both financing receivables and trade receivables. We observe that financing receivables include trade receivables (account receivables) with contractual maturities greater than one year. As such, guidance which pertains to both financing receivables and trade receivable may be confusing since both contain a shared subset. In general, we believe it would be helpful to readers to completely separate the guidance on trade receivables from financing receivables.

- 310-10-20 Glossary – Carrying Amount of Financing Receivable – As previously mentioned, we believe this term should be clarified to state that the carrying amount does not include any valuation allowance (see suggested wording changes previously provided). We also recommend that the Board change the definition of carrying amount in the Master Glossary of the Codification to be consistent (see suggested wording changes previously provided). The Board may also wish to delete the term recorded investment from the Master Glossary if it is indeed redundant with the term carrying amount.
- 310-10-20 Glossary – Financing Receivable - As previously mentioned, we believe that either the term account receivable or trade receivable should be used consistently rather than interchangeably.
- 310-10-50-1 – We recommend the subsection list mirror the titles. For example, 310-10-50-1e (Doubtful accounts) does not match the title for 50-9 and 50-10 (Accounting Policies for Doubtful accounts)
- 310-10-50-6 – This section appears to apply to both financing and trade receivables but the term trade receivable was removed in item b. If it was intentional, this would be a change in U.S. GAAP for trade receivables unless the guidance is required elsewhere.

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- 310-10-50-8 - We believe this should refer to trade receivables rather than financing receivables. The origination of this guidance was from SOP 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*, and was to address situations which are common with trade receivable where interest does not accrue until a certain period of time (e.g. 30 days). We do not believe this particular guidance would be applicable to financing receivables but continues to be relevant for trade receivables.

Please contact James A. Dolinar or Sydney K. Garmong, should you have any questions.

Very truly yours,

A handwritten signature in cursive script that reads "Crowe Horwath LLP".

Crowe Horwath LLP