

KPMG LLP 757 Third Avenue New York, NY 10017 Telephone 212 909 5600 Fax 212 909 5699 Internet www.us.kpmg.com

December 10, 2010

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

RE: Proposed Accounting Standards Update, "Receivables (Topic 310), Clarifications to Accounting for Troubled Debt Restructurings by Creditors" (File Reference No. 1880-100)

Dear Technical Director:

We appreciate the opportunity to respond to the proposed Accounting Standards Update, "Receivables (Topic 310), Clarifications to Accounting for Troubled Debt Restructurings by Creditors" (the "proposed ASU"). We support the Board's efforts to address concerns raised by stakeholders about diversity in practice related to the identification of troubled debt restructurings. However, we have concerns about the operability of certain amendments within the proposed ASU. These concerns, along with other specific items that we believe require clarification, are set forth below.

Debtor's Ability to Access Funds at a Market Rate

ASC paragraph 310-40-15-8A, as contained within the proposed ASU, states that restructured debt should be accounted for as a troubled debt restructuring "if a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics..." This proposed amendment will require the creditor to evaluate the debtor's access to funding alternatives prior to reaching a conclusion as to whether the modification results in a troubled debt restructuring. This requirement may not be operational for several reasons, including the difficulty creditors may experience in obtaining sufficient knowledge of the debtor's access to other funding sources.

Additionally, depending of the facts and circumstances, there may be limited or no known funding alternatives for certain types of borrowings (e.g., if the creditor is the only substantial lender in a certain loan product or geographic location). A loan modification in these situations would appear to result in a troubled debt restructuring regardless of the interest rate at which the debt was restructured simply because the debtor does not otherwise have access to funds from an alternative source.



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Default is Probable in the Foreseeable Future

ASC paragraph 310-40-55-10A, as stated within the proposed ASU, indicates that the borrower may be experiencing financial difficulties "...if a creditor determines that payment default is probable in the foreseeable future" even if the debtor is not currently in default. This guidance may be interpreted in different ways and therefore should be clarified. Some may interpret the guidance as meaning that the loan is currently impaired because "payment default is probable," and that the borrower's actual default will be occurring in the foreseeable future. Others may interpret the guidance as meaning that the loan is currently not impaired, because it is not yet probable that the borrower will default (i.e., the probability threshold will be reached in the foreseeable future). To prevent any potential misinterpretations of this proposed amendment, we believe that the Board should clarify its intended meaning.

Insignificant Delay in Contractual Cash Flows

Pursuant to ASC paragraph 310-40-55-10C within the proposed ASU, insignificant delays in contractual cash flows may result in a troubled debt restructuring. The proposed guidance indicates that insignificant delays should be considered along with the other terms of a restructuring to determine whether a troubled debt restructuring exists. It is unclear from the proposed guidance when the "other terms" of the restructuring, in combination with an insignificant delay in contractual cash flows, would and would not represent "... a concession to the debtor that [the creditor] would not otherwise consider." To promote the consistent application of this proposed requirement, we believe it would be helpful for the Board to provide examples of situations where an insignificant delay in contractual cash flows and the other terms of the restructuring (1) result in a troubled debt restructuring and (2) do not result in a troubled debt restructuring.

Consideration of Cash Flow Forecasts

The proposed ASU indicates that a debtor may be experiencing financial difficulties if "based on estimates and projections that only encompass the current business capabilities, the debtor forecasts that the debtor's entity-specific cash flows will be insufficient to service the debt..." We believe that the Board should clarify how the phrase "current business capabilities" should be interpreted, as the application of this guidance is unclear in certain situations. For example, cash flows on a partially completed construction project may be determined based on the "as is" cash flows contained within an appraisal or "as completed" cash flows upon completion of the project, but without changes in the current economic environment or debtor's financial condition.



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Retrospective Application of Disclosure Requirements

The proposed ASU will require retrospective application of the provisions that affect financial statement disclosures of a troubled debt restructuring. Accordingly, restructurings that occurred on or after the beginning of the earliest period presented that meet the definition of a troubled debt restructuring under the revised guidance would be subject to the new troubled debt restructuring disclosure requirements. In its Background Information and Basis for Conclusions, the Board indicated that the proposed guidance will not require retrospective application for purposes of calculating impairment because the information needed to perform this calculation "...may be difficult to obtain." The information needed for purposes of assessing loan modifications made in previous periods to comply with the retrospective disclosure requirements under the proposed guidance may also likely be difficult to obtain and would present operational challenges, particularly for entities that have engaged in significant modification activities in recent periods.

Transition Adjustment

As currently drafted, the proposed ASU will be effective on a prospective basis for purposes of measuring the impairment of a receivable restructured in a troubled debt restructuring. Accordingly, a specific impairment allowance may be measured for a newly identified troubled debt restructurings because the entity changed the method of calculating impairment from the guidance in ASC Subtopic 450-20 to the guidance in ASC Section 310-10-35. The current transition guidance is unclear regarding how to account for the effect on the allowance for credit losses (i.e., the difference between the allowance calculated under ASC Subtopic 450-20 prior to a loan being considered a troubled debt restructuring and the allowance under ASC Section 310-10-35 subsequent to a loan being considered a troubled debt restructuring under the proposed guidance). The Board should clarify whether the increase or decrease in the allowance for credit losses due to the application of ASC Section 310-10-35 should be accounted for as (1) a cumulative effect adjustment to retained earnings at the beginning of the period of adoption, or (2) a provision (credit) for loan losses included in current earnings in the period of adoption. If the transition adjustment is recognized in the income statement, the Board should clarify whether the adjustment should be separately disclosed as part of the proposed disclosure requirements.

Interaction with FASB Financial Instruments Project and IFRS Convergence

We believe the Board should consider the implications of the proposed amendments with the requirements in IFRS as well as the interaction of these amendments with its project on financial instruments and address those considerations in the basis for conclusions.



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Placement of Guidance

We encourage the Board to consider positioning the guidance about the creditor's determination of whether the debtor is experiencing financial difficulties (contained within ASC paragraph 310-40-55-10A) in the same section as the guidance on the creditor's determination of whether a concession was granted (contained within ASC Section 310-40-15). We believe this change is consistent with the Board's objectives of maintaining consistently organized, less dispersed accounting guidance.

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We would be happy to further discuss these comments at the request of the Board or the staff. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419 or Enrique Tejerina at (212) 909-5530.

Sincerely,

KPMG LLP