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Proposed Statement of Financial Accounting Standards  
Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses  
File Reference No. 1700-100

Dear Mr. Golden:

We appreciate the opportunity to comment on the Financial Accounting Standards Board (FASB or the Board) Proposed Statement of Financial Accounting Standards, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (the Exposure Draft). We support the Board’s overall objective to require incremental disclosure information that enables users to better understand the credit quality of financing receivables and the allowance for credit losses.

We believe that financial statement preparers should have access to the information necessary to comply with the enhanced disclosure requirements in the Exposure Draft. However, the additional disclosures may require information that is not currently centralized or maintained in preparers’ financial reporting systems. This may therefore necessitate significant changes in preparers’ processes and internal control over financial reporting. We encourage the Board to consider the comments received from preparers regarding the time and effort required to modify existing processes and internal controls to compile the requisite information relative to the effective date of the Exposure Draft.

Preparers’ observations regarding the time and effort necessary to comply with the requirements of the Exposure Draft should also be considered in the context of other Board projects, such as the FASB and the International Accounting Standards Board (IASB) joint project, *Accounting for Financial Instruments*, which is reconsidering the recognition and measurement of financial instruments, including financing receivables as defined in the Exposure Draft. We understand that an exposure draft on this joint project is expected in the first half of 2010. The joint project is expected to consider a fair value measurement model. This could result in a change to the measurement model on financing receivables, and corresponding changes in the proposed disclosure requirements, as early as financial statements issued in 2011.
As such, we believe the Board should consider whether a later effective date may be more appropriate given the efforts required to conform to this Exposure Draft and the impact other Board projects may have on these required disclosures.

Additional comments about the Exposure Draft are provided below.

**Disclosures required by paragraph 11(c) of the Exposure Draft**

Paragraph 11(c) would require entities to disclose the activity in the allowance for credit losses by portfolio segment. However, the Exposure Draft does not recognize the fact that many preparers have amounts recorded in the allowance for loan losses for incurred losses based on qualitative factors that may not be aligned with their portfolio segments. The December 2006 Interagency Policy Statement on the Allowance for Loan and Lease Losses (the Interagency Policy Statement) suggests that the portion of the allowance for loan losses determined pursuant to FASB Statement No. 5, Accounting for Contingencies (ASC 450) may include “an overall adjustment to a portion of the allowance for loan and lease losses that is not attributed to specific segments of the portfolio.” The Interagency Policy Statement further states that this adjustment “should consider those current qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the group’s historical loss experience.” We believe the disclosure framework in the Exposure Draft should acknowledge this aspect of the allowance for credit losses.

**Disclosures required by paragraph 13(b) of the Exposure Draft**

Paragraph 13(b) would require disclosure of the carrying amount by credit quality indicator for certain financing receivables. Entities with financing receivables may have a large number of financing receivables that are not publicly rated. These entities may use internal risk ratings or other credit quality indicators to monitor the credit risk of the financing receivable portfolios. As such, we observe that the example provided on page 11 in Appendix A of the Exposure Draft representing the credit risk profile of a hypothetical entity's corporate credit exposure by external credit rating will not be applicable to most entities. Further, we observe that the example provided representing the consumer credit exposure by internal risk rating may not align with the current practices of many entities. For example, most insured depository institutions do not assign internal risk ratings to individual consumer loans. Large groups of smaller-balance homogeneous loans with similar risk characteristics may be monitored as a pool based on many factors, including delinquency status and historical loss rates of the underlying consumer loans in the pool.

We recognize that the Board has partially addressed this concern as paragraph 13(b)(1) would require regulated entities to provide an explanation of how their internal risk ratings compare with federal regulatory ratings. However, because most entities use internally developed risk ratings, the proposed credit quality indicator disclosure requirement under paragraph 13(b) may present comparability issues for financial statement users due to inconsistencies in how entities develop and use internal risk ratings. The Board should consider the need for all preparers to provide information describing their internal risk ratings system, including a definition of each distinct risk rating.
The Exposure Draft currently excludes past due financing receivables from the disclosures required by paragraphs 13(b) and 13(c). However, these financing receivables are a component of the calculation of the allowance for collectively evaluated receivables. Financial statement users may compare the trends with respect to the distribution of credit risk within the internal risk rating to the level of the corresponding allowance for credit losses. Excluding past due financing receivables from this analysis might result in an incomplete analysis.

We also observe that the examples in Appendix A on page 11 include a line titled “Total by exposure” for both corporate and consumer financing receivables. It is unclear in the Exposure Draft whether this line is referencing outstanding receivable balances or total committed exposure. We believe it is meant to represent the outstanding receivable balances. However, if the Board intended it to represent the total committed exposure, the corresponding liability for unfunded commitments should be added to the required disclosures. Additionally, referring to the same tables, it is unclear what the “Total” line represents for both the corporate and consumer financing receivables.

**Definition of portfolio segment and class of financing receivable**

Paragraph 5 of the Exposure Draft defines portfolio segment as “the level at which a creditor develops and documents a systematic methodology to determine its allowance for credit losses.” Paragraph 6(b) explains that classes “must be disaggregated to the level that management utilizes when assessing and monitoring risk and performance of the portfolio.” Entities subject to the Securities and Exchange Commission’s Securities Act Industry Guide 3, Statistical Disclosure by Bank Holding Companies (Guide 3) currently prepare and present information on credit risk and the allowance for credit losses. However, the approach utilized in developing those disclosures may not conform to the defined terms in the Exposure Draft. The Board should consider preparers’ comments in this area and conform, to the extent possible, to the current guidance in Guide 3.

Paragraph 6(a) of the Exposure Draft states that classes “must segregate financing receivables on the basis of the initial measurement attribute.” The Exposure Draft does not address the unique considerations associated with loans acquired in a business combination (ASC 805) and loans acquired with deteriorated credit quality (ASC 310-30). Loans acquired in these circumstances would initially be recorded at fair value or present value of amounts to be received. In the Exposure Draft, these loans would be included in a fair value or present value of amounts to be received class of financing receivable pursuant to paragraph 6(a). These loans, however, are subject to an ASC 450 reserve upon subsequent measurement and would be included in portfolio segment disclosures. We believe the Board should consider expanding the disclosure guidance in the Exposure Draft to address financing receivables with different initial and subsequent measurement attributes.

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We appreciate the opportunity to provide our comments and observations on the Exposure Draft and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Very truly yours,

Ernst & Young LLP