December 21, 2018

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


Dear FASB Board Members and Staff:

The PNC Financial Services Group, Inc. ("PNC" or "we") appreciates the opportunity to comment on the Proposed ASU which has been issued by the Financial Accounting Standards Board ("the Board") to address the codification improvements for financial instruments. We applaud the Board’s efforts to expeditiously address these implementation issues. In addition, we support the timely finalization of the proposed ASU since it focuses on matters meaningful to both preparers as well as users of financial statements. However, as discussed below and in Appendix A, we believe that the Board should make certain improvements to the proposed guidance before finalizing an Accounting Standards Update.

Accrued Interest Receivables ("AIR")

We support the Board’s efforts to address the operational concerns relating to AIR and support the practical expedients related to classification and measurement of allowance for credit losses on AIR. However, we believe additional amendments or clarifications are needed, as we have detailed in Appendix A, and summarized below.

We believe that the Board should clarify the application of practical expedients on measurement and reporting of AIR, as the current language is not clear as to the level of aggregation (i.e., at the segment, portfolio or total loans) to which the practical expedient would be applied. We also believe that an illustrative example for these requirements may assist entities in understanding the full extent of the relief the practical expedient may provide an entity.

We note that the ASU, as written, introduces some complexity in how it describes the term "write-off" being applicable to both a write-off through allowance or reversal through interest income. We believe a reversal from interest income, where a revenue item is adjusted, is fundamentally different than the concept of a "write-off" where the presentation as a loss is required, and therefore the Board should consider rewording this expedient.

We support the election to not record an allowance for credit loss on accrued interest when an entity applies a "timely" nonaccrual policy. However, we believe that the intended scope of application as well as a definition of the term "timely" must be provided by the Board to make the proposed changes operable and understood by all constituents.
Recoveries

We support the Board’s proposed changes for considering recovery expectations on charged off amounts, as entities must consider all available relevant information to inform the estimate of expected credit loss. We believe these proposed changes are necessary for entities to meet the overall objectives of ASU 2016-13.

Appendix A contains our detailed responses to the Questions for Respondents for this Proposed ASU.

We appreciate the opportunity to share our views with the Board. We welcome any questions or comments you may have on this letter. Please contact me (412.762.6543) with any questions about PNC’s comments.

Sincerely,

Michael Yenchek  
Director of Accounting Policy  
The PNC Financial Services Group, Inc.

cc:  Mr. John (JJ) Matthews  
Director of Finance Governance & Policy  
The PNC Financial Services Group, Inc.

Mr. Gregory H. Kozich  
Senior Vice President and Corporate Controller  
The PNC Financial Services Group, Inc.
Appendix A

Responses to Questions for Respondents

Topic 1: Codification Improvements Resulting from the June 11, 2018 Credit Losses TRG Meeting

Issue 1A: Accrued Interest

Question 1: Will the amendments in this proposed Update to (a) measure expected credit losses on accrued interest separately from other components of amortized cost basis, (b) make an accounting policy election to present accrued interest amounts separately from the related loan balance, and (c) elect a practical expedient to separately disclose the total amount of accrued interest included in amortized cost basis as a single balance to meet certain disclosure requirements simplify and reduce operational concerns when implementing the guidance in Update 2016-13 related to accrued interest? If not, please explain why you disagree and what changes should be made instead.

We support the change allowing an entity to measure “applicable accrued interest” separately from the other components of the amortized cost basis. However, we believe several additional amendments or clarifications are required to provide the intended relief to preparers relating to the presentation and measurement of AIR.

The accounting policy election provided in paragraph 326-20-45-5 is potentially inconsistent with our understanding of the intended disclosure relief for preparers. Paragraph 326-20-45-5 refers to “entire accrued interest”. We are unclear how an entity should apply the guidance, especially in scenarios where accrued interest is reported in the same financial statement line item for some financial assets but not all. We also believe that it is unclear how an entity would apply this practical expedient when accrued interest is capitalized into the principal balance. For example, we believe that this may be interpreted as precluding an entity from electing the practical expedient when a financial asset may have interest both capitalized into the loan balance as well as separately accrued on a daily basis as is commonly the case with credit cards. We believe that flexible interpretation should be allowed to enable the Board’s objective of not altering current practice and incurring additional costs. As such, we recommend the Board remove the word “entire” from paragraph 326-20-45-5.

We also believe that the Board should clarify the applicability of the practical expedient to discounted cash flow measurement. We would measure the expected credit loss of a financial asset using a discounted cash flow method as the difference between amortized cost basis and net present value as our allowance for credit losses. Therefore, a discounted cash flow calculation does not disaggregate the losses associated to each component of the amortized cost basis. However, our financial reporting systems may still report the related accrued interest in a separate financial statement line item (i.e., as other assets). We understand that the Board’s intent was to not alter current practice or require an entity to incur additional costs related to measuring and presenting accrued interest. Therefore, the Board should clarify that separately disclosing the amount of the allowance for credit losses measured on the applicable accrued interest is not required when measuring the expected credit loss using a discounted cash flow method. We believe this proposal would still provide financial statement users with a sufficient level of information to assess an entity’s credit losses.
We also believe that further clarification is required for paragraph 326-20-50-3B to ensure the intended disclosure relief is understood by preparers. Our understanding based on the August 29, 2018 Board meeting was that an entity may meet the AIR disclosure requirements by disclosing the total amount of AIR excluded from the amortized cost basis, without any disaggregation such as disclosure of excluded AIR by vintage origination year or class of financing receivable. The language could reasonably be interpreted to require this disclosure by the amount of amortized cost by class of financing receivables as presented in credit quality disclosures. Additionally, we understand that the intent of the Board was to provide the practical expedient for not only loans, but also for securities (both HTM and AFS). We believe that as written, the proposed ASU does not clarify the extent of relief provided by the Board. To this end, further discussion of the scope of the practical expedient, and an example similar to that found in paragraph 326-20-55-79 demonstrating how an entity may apply the practical expedient should be provided.

Question 2: Do you support the separate accounting policy elections that would allow an entity to choose to (a) write off accrued interest amounts by either reversing interest income or adjusting the allowance for credit losses and (b) elect not to measure an allowance for credit losses on accrued interest if the entity writes off uncollectible accrued interest amounts in a timely manner? If not, please explain why you disagree and what changes should be made instead.

Yes, we support these separate accounting policy elections; however, we do require further clarification on the scope of this application. The current wording of the Proposed ASU frames whether an entity may “write-off” accrued interest amounts by either reversing interest income or adjusting the allowance for credit losses as an “either-or” option in both the summary and in the basis for conclusions. This creates inconsistency with paragraph 326-20-35-8A, which states that an entity may use a combination of approaches. We believe that a “combination of both” phrase would be required to meet the objective of allowing entities to maintain their currently well-understood and disclosed practices on accrued interest.

Additionally, the decision to use “write-off” as an all-encompassing term that includes reversal through interest income in paragraph 326-20-30-5A should be revisited. A “write-off” is an expense, whereas a reversal of interest income is contra-revenue. We believe commingling the two terms may confuse the readers and preparers as to the policies applied by an entity. We also note that this could lead to unintended consequences. For example, preparers may view it as a precedent that allows an expense item to be recorded as an expense or as contra-revenue. Similarly, we suggest that paragraph 326-20-35-8A should be reworded to state “to recognize uncollectible interest by writing-off accrued interest, or reversing interest income, or a combination of both.”

Specific to paragraph 326-20-30-5A, we believe additional clarification between capitalized interest and accrued interest is required. We believe that it should be clarified that credit loss on accrued interest capitalized to principal balance should be reserved, rather than be available for the expedient. Clarifying that the practical expedient does not apply to capitalized interest will promote comparability between preparers and clarity to financial statement users.
Question 3: If you agree with the policy election not to measure an allowance for credit losses on accrued interest if the entity reverses or writes off uncollectible accrued interest amounts in a timely manner, what period would you consider to be timely?

Nonaccrual policies often contain several nonaccrual triggers that are not solely delinquency-driven. We believe that “timely” should be assessed based on both delinquency and non-delinquency related indicators. We believe that a policy that requires nonaccrual upon a date certain measure (such as 90-day (or earlier) delinquent) or earlier based on available information about the borrower (e.g. death, bankruptcy) should be considered a “timely” nonaccrual policy. Generally, a 90-day time period would be considered timely, as it would align with the quarterly reporting time frame and still provide relief from measuring expected credit losses on majority of AIR balances that are reversed through income. A 90-day AIR would generally still not contain a material uncollectible accrued interest balance that could affect reported allowance or charge-off metrics.

As nonaccrual policies vary across asset classes and between industries, we believe that the Board should define “timely” to ensure that entities can apply the expedient consistently, rather than align it to regulatory guidance that is subject to interpretations and amendments by different regulators.

Issue 1B: Transfers between Classifications or Categories for Loans and Debt Securities

Question 4: Are the proposed amendments related to the transfer of loans and debt securities between classifications or categories operable? If not, please explain why you disagree and what changes should be made instead.

Yes, the proposed amendments related to the transfer of loans and debt securities between classifications of categories are operable.

Issue 1C: Recoveries

Question 5: Do the proposed amendments clarify that recoveries are inputs that should be considered when measuring the allowance for credit losses? If not, please explain why you disagree and what changes should be made instead.

Yes, the proposed amendments clarify that recoveries on charged off financial assets are inputs that should be considered when measuring the allowance for credit losses.

Question 6: Do the proposed amendments clarify that an entity may record a negative allowance when measuring the allowance for credit losses using the fair value of the underlying collateral in accordance with paragraphs 326-20-35-4 through 35-5?

Yes, the proposed amendments clarify that an entity may record a negative allowance when measuring the allowance for credit losses using the fair value of the underlying collateral.

As it pertains to ASC 326-20-35-4, we note that the guidance carries forward the original language from ASC 310-10-35-24 requiring that costs to sell are incorporated “on a discounted basis”. At the November 7, 2018 Board meeting, the Board agreed with the staff interpretation
Question 7: Should an entity be permitted to record a negative allowance when measuring the allowance for credit losses on available-for-sale debt securities? If yes, why?

Yes, an entity should be permitted to record a negative allowance when measuring the allowance for credit losses on available-for-sale (AFS) debt securities. We believe that permitting an entity to record a negative allowance on AFS debt securities, subject to a limitation to previously charged-off amounts, would be consistent with the guidance in ASC 326-30-35-6. This section requires an entity to consider the present value of cash flows expected to be collected when determining credit losses. We believe this expectation of cash flows should include expected recoveries on amounts previously written off. Incorporation of a negative allowance would allow an entity to reflect the change in expected credit loss in current period net income, a key improvement of ASU 2016-13 over Current GAAP. Moreover, it would clearly distinguish where fair value increases in accumulated other comprehensive income (AOCI) pertain to increases in fair value over the amortized cost basis vs. the amortized cost basis net of previous charge offs.

Topic 2: Codification Improvements to Update 2016-13

Question 8: Do the proposed amendments clarify the guidance in Update 2016-13? If not, please explain which proposed amendment(s) you disagree with and why.

Yes, the guidance in the proposed amendments clarifies the guidance in Update 2016-13. However, we recommend a few minor clarifications that we believe are in line with the Board’s intent. See response to question 9.

Question 9: Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification improvement projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvement project.

As it pertains to ASC 326-20-35-4, we note that the guidance carries forward the original language from ASC 310-10-35-24 requiring that costs to sell are incorporated “on a discounted basis”. At the November 7, 2018 Board meeting, the Board agreed with the staff interpretation that discounting to a date other than the reporting date would not be permissible under ASC Subtopic 326-20. We strive to use consistent assumptions between our collateral dependent and collective assessment models, and therefore would prefer if we were not required to consider discounting of costs to sell in our collateral dependent models while not being able to consider the same assumptions in our collective assessment model. We believe that the Board should consider removing the requirement to discount only the cost to sell in the measurement of loss under ASU 326-20-35-4 and 35-5.

In the proposed amendments to ASC 326-20-30-4A and 326-20-30-7A, we believe that it should be clarified that the proposal to allow use of prepay adjusted effective interest rates only pertains to use of a discounted cash flow method under ASC 326-20 and 326-30, respectively.
Question 10: The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?

N/A, as PNC is a public business entity.

Question 11: Should an entity be required to use a prepayment-adjusted effective interest rate if it uses projections of interest rate environments in estimating expected cash flows, including expected prepayments and defaults?

We do not believe an entity should be required to use a prepayment-adjusted effective interest rate for discounting if it elects to project changes in the prepayment factor when determining expected cash flows. We note that the impact of using a prepayment adjusted discount rate is likely to be immaterial for most entities while adding complexity. We believe that the appropriateness of adjusting the discount rate for prepayments in determining credit losses should be based on an entity’s specific facts and circumstances.

Question 12: How much time would be needed to implement the proposed amendments for an entity that has already adopted Update 2016-13 before these proposed amendments are finalized? What transition method and transition disclosures should be required when adopting these proposed amendments and why?

N/A, as PNC has not yet adopted Update 2016-13.

Question 13: Should the effective date and transition requirements for the amendments in this proposed Update align with that of Update 2016-13 for entities that have not yet adopted Update 2016-13 before these proposed amendments are finalized? What transition disclosures should be required when adopting the proposed amendments and why?

Yes, the effective date and transition requirements for the amendments in this proposed Update should align with that of Update 2016-13 for entities that have not yet adopted Update 2016-13. Given that the transition date and requirements would be aligned, no additional disclosures would be needed.

**Topic 3: Codification Improvements to Update 2017-12 and Other Hedging Items**

Question 14: Do the proposed amendments clarify the guidance in Topic 815? If not, please explain which proposed amendment(s) you disagree with and why.

Yes, we believe that the proposed amendments clarify the guidance in Topic 815. We do not disagree with any of the proposed amendments within this proposed Update.

Question 15: Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the proposed Codification improvements related to (a) the change in hedged risk guidance for cash flow hedges discussed at the March 28, 2018 Board meeting and (b) use of the word prepayable in the
shortcut method guidance discussed at the February 14, 2018 Board meeting will be included in a future proposed Update.

We do not believe that any additional direct or indirect changes should be made to the proposed amendments.

Question 16: The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?

N/A, as PNC is a public business entity.

Question 17: Should partial-term fair value hedging be expanded to all risks eligible for hedge accounting?

We believe that entities should have the option of applying partial-term fair value hedging for all risks eligible for hedge accounting, as long as the required documentation specifications are met.

Question 18: Do you agree with the specific considerations for transition and the effective date for the proposed amendments to Topic 815? Please explain why or why not.

We agree with the specific considerations for transition and effective date and that entities should have the option of retrospective or prospective application after consideration of the proposed exceptions.

Question 19: Should the proposed amendments to Topic 815 be effective as of the earlier of the beginning of the first quarterly period (if applicable) or the first annual period after the issuance date of a final Update? Would this provide entities with sufficient time to implement these amendments?

We believe that the amendments should be effective beginning the first annual period after the issuance of a final Update, with the option to early adopt at any time after issuance. This would provide sufficient time for entities to analyze the respective hedge portfolios and implement any elected or required changes as a result of this proposed Update.

**Topic 4: Codification Improvements to Update 2016-01**

Question 20: Do the proposed amendments clarify the guidance in Update 2016-01? If not, please explain which proposed amendment(s) you disagree with and why.

We believe that the proposed amendments clarify the guidance in Update 2016-01. We do not disagree with any of the proposed amendments.

Question 21: Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification improvement projects on a periodic basis and additional changes may be postponed to a subsequent Codification improvement project.
We do not believe that any additional direct or indirect changes should be made to the proposed amendments.

However, the introductory paragraph to the proposed amendment to Subtopic 830-10 under Issue 4D alludes that the Board is changing the “monetary” designation for held-to-maturity securities, while the amendment does not. We suggest that this language is corrected.

**Question 22:** The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?

N/A, as PNC is a public business entity.

**Question 23:** How much time would be needed to implement the proposed amendments for an entity that has already adopted Update 2016-01 before these proposed amendments are finalized? What transition method and transition disclosures should be required when adopting the proposed amendments and why?

We believe that the proposed amendments should be effective for public business entities as of the first annual period after the issuance of this Update, with the option to early adopt. We also believe that public business entities should have the option to apply the amendments on a retrospective or prospective basis, and that the current required disclosures are already sufficient for the users of the financial statements (i.e. no incremental disclosures are required).

**Question 24:** Should the effective date and transition requirements for the proposed amendments align with that of Update 2016-01 for entities that have not yet adopted Update 2016-01 before these proposed amendments are finalized? What transition disclosures should be required when adopting the proposed amendments and why?

N/A, as PNC is a public business entity and has adopted ASU 2016-01 as of January 1, 2018.

**Topic 5: Codification Improvements Resulting from the November 1, 2018 Credit Losses TRG Meeting**

**Question 25:** Do the proposed amendments clarify how an entity should present line-of-credit arrangements that convert to term loans within the vintage disclosure table requirement in paragraph 326-20-50-6? If not, please explain which proposed amendment(s) you disagree with and why.

While we are supportive of the Board’s efforts to clarify the above issue, we do not believe the proposed amendments clarify how an entity should present line-of-credit arrangements that convert to term loans within the vintage disclosure table requirement. We note that the term “credit decision” is not currently described within the Accounting Standards Codification or ASU 2016-13. We believe that more discussion is needed around the definition of “credit decision” as it is unclear how the definition differs from the framework provided within ASC 326-20-50-7 of ASU 2016-13. We believe this clarification is necessary for entities to apply the guidance and make the proposed disclosure requirement operable.
We believe the key question that would need to be addressed is whether the credit decision should be simply any credit decision that is not pre-determined based on contractual embedded option, or whether certain kind of credit decisions, such as those involving minor modifications, would also require that the loans are reported in the “revolver to term” column. However, we believe that the objective should be clarified that for any reporting period, revolver loans that are converted to term in that reporting period are either reported in 1) the most recent vintage year or 2) the revolver to term column. For example, if the Board determines that a “major” vs. “minor” determination is appropriate, then in each reporting period, minor modifications should be reported in the revolver to term column, whereas major modifications are reported in most recent vintage. Similarly, if the concept of “credit decision” is retained, revolvers converted to term in a given reporting period pursuant to a credit decision (excluding troubled debt restructurings (TDRs)) should be reported in the most recent vintage column, whereas TDRs and contractual options included in the original contract that are not unconditionally cancellable by the lenders should be reported in the revolver to term column. We do not believe any outcome that would require that revolvers are separated into vintage years based on the year the revolving facility is granted is decision-useful, due to the nature of revolving facilities.

We do not support adding a separate disclosure for TDRs nor do we support disclosing the amount of revolving loans that are converted to term by class of financing receivable each period. We believe that separately disclosing the cumulative balances of revolvers that converted to term through original contractual terms or TDRs by class of financing receivables as of each reporting period should provide sufficient information to investors to understand and assess an entity’s financing receivables’ credit quality. We already provide sufficient decision useful disclosures related to TDRs, and the changes to cumulative balance of loans converted to term should provide any additional information sought by the users.

**Question 26: Do the proposed amendments clarify how an entity should consider extension or renewal options (excluding those that are accounted for as derivatives in accordance with Topic 815) that are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity? If not, please explain which proposed amendment(s) you disagree with and why.**

Yes, the proposed amendments clarify how an entity should consider extension or renewal options that are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity. We support the Board’s decision to align the concept with the “unconditionally cancellable” concept for off-balance sheet exposure. However, we would like further clarification that these are not considered off-balance sheet credit exposure items. The original loan on which the extension option would be exercised is an on-balance sheet item. Therefore, any resulting allowance for credit loss related to the extension options would not be recorded to allowance for credit losses for off-balance sheet exposure.