Dear Mr. Golden and Ms. Cosper:

American Credit Acceptance is submitting this letter to request that the Financial Accounting Standards Board ("FASB") consider amending the transition guidance in ASU 2016-13, Measurement of Credit Losses on Financial Instruments ("ASC 326"), to allow for a one-time option in the period of adoption to retrospectively elect the fair value option ("FVO") in ASC 825, Financial Instruments, for financial instruments recognized and measured at amortized cost prior to adoption of ASC 326.

American Credit Acceptance is in the business of financing motor vehicle related lending products in the United States. Our company has partnerships with many car dealers across the U.S. that allow us to indirectly provide auto financing and loan servicing to U.S. consumers purchasing their vehicles. Financing is an important component of American Credit Acceptance's integrated business model since many of the company's U.S. consumers have limited ability to otherwise obtain financing to acquire a vehicle. American Credit Acceptance is a nonpublic business entity (non-PBE) as defined under U.S. GAAP.

Since American Credit Acceptance provides financing generally on the lower end of the credit spectrum, there is a significant difference between contractually required cash flows and the cash flows we expect to collect. Although our: (i) business’ cash flows; (ii) overall risk profile; and (iii) investor returns will not change at adoption of ASC 326, the asymmetry of recognizing upfront credit losses while deferring income and returns over time will have a profound effect on our industry that will effectively eliminate shareholder equity. This will cause a costly change in how we interact with and structure covenants with our creditors, while increasing the complexity of explaining our financial results to our investors that will result in increased use of non-GAAP measures to explain our business. While we acknowledge that the issue of asymmetry of income and expected credit loss recognition was addressed during the initial comment letters issued in exposure drafts of the standard, we do not believe the nature of subprime lending businesses was fully considered during the drafting of ASC 326. Given the nature of our business, users of our financial statements are most interested in our expected returns – the amount of cash flows we expect to collect in excess of the loans we finance. Although we considered aspects of ASC 326 that are models used to account for financial assets where expected cash flows are more relevant than contractual, specifically guidance that relates to purchase credit deteriorated assets and beneficial interests, we note that our lending relationships do not meet the scope requirements requisite to apply such guidance.
We believe applying ASC 326 to our financial instruments will result in financial reporting that does not serve the needs of our users because it will not clearly report our expected returns. Based on the current reporting models available under U.S. GAAP, we believe that accounting for our financial instruments under the FVO will provide more meaningful information to the users of our financial statements, as the fair value of our financial instruments will be based largely on expected cash flows discounted using a market participant’s expected rate of return.

As a result, we are reviewing the possibility of electing the FVO on new financial instruments upon and/or prior to the adoption of ASC 326. We are, however, concerned that electing the FVO for new financial instruments will result in a lack of comparability of our results to prior periods for our users as we transition our balance sheet to the FVO over time. Accordingly, in order to provide our users with comparable financial information upon the adoption of ASC 326, we recommend that the FASB amend the transition guidance in ASC 326 to allow for a one-time option at adoption to elect the FVO for financial instruments previously recognized and measured at amortized cost in the period of adoption, with appropriate disclosure.

We understand that this was an issue contemplated by the Transition Resource Group (“TRG”), and ultimately deferred to the attention of the FASB, and we would be happy to discuss this matter with you. Thank you for your consideration.

Sincerely,

Paul Allen Thompson  
Chief Accounting Officer  
American Credit Acceptance, LLC