March 8, 2019

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

RE: Proposed Accounting Standards Update, Targeted Transition Relief for Topic 326, Financial Instruments – Credit Losses (File Reference No 2019-100)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, Targeted Transition Relief for Topic 326, Financial Instruments – Credit Losses.

We support the Board’s decision to allow an entity, on adoption of Topic 326, to irrevocably elect the fair value option for certain financial assets. We believe the proposals will expand entities’ ability to use fair value measurement for financial assets, eliminate the need to apply dual measurement methodologies for entities that wish to transition to fair value accounting and, for some entities, reduce the cost of implementing Topic 326. We suggest specific clarifications that may enhance how entities understand and apply the guidance.

This proposal could significantly increase the amount of loans being measured at fair value. Subsequent to electing the fair option, entities may allocate a portion of a financial asset’s fair value gains and losses to a separate presentation of interest income, which is an important measure for investors in financial institutions. Fair value gains and losses related to loans could become more significant under this proposal thereby increasing the need for guidance about how to determine interest income for loans measured at fair value.

Currently, guidance on allocating a portion of a loan’s fair value gains and losses to interest income applies to certain industries only, such as investment companies.\(^1\) Therefore, we recommend that the Board provide additional guidance on determining the amounts that should be presented as interest income in the statement of earnings related to loans measured at fair value. We believe that the most significant issues to address relate to (1) amortizing premiums or discounts (e.g. those arising from either a purchase price or deferred fees and costs) and (2) calculating interest income amounts related to loans for which the entity does not expect to collect all of the contractual cash flows.

---

\(^1\) ASC paragraph 310-20-15-3c excludes loans carried at fair value from the scope of Subtopic 310-20. ASC paragraph 946-320-35-20 provides guidance on purchase premiums and discounts for investment companies.
We also recommend that the Board specify in the final ASU the date as of which an entity would be required to designate the specific assets subject to the fair value option. Guidance for the existing fair value option specifies the dates as of which an entity may elect the fair value option (e.g. the date that the entity first recognizes the eligible item). By specifying those dates, the Board has historically eliminated the potential for an entity to select the specified assets subject to the fair value option election after the earnings effect for that reporting period is already known. Because the Board’s proposal for targeted transition relief relates to existing financial assets, not newly recognized assets, we believe that the Board should clarify whether an entity is required to designate the financial assets for which it will elect the fair value option on or before the date of adoption (i.e. January 1, 2020).

* * * * * * * *

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, or Mark Northan at (212) 954-6927 or mnorthan@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP

2 ASC paragraph 825-10-25-4.