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August 24, 2009

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

RE: 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 Technical Director:

We appreciate the opportunity to respond to the proposed Statement of Financial Accounting Standards, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" (the "proposed Statement"). We support the Board's efforts and additional standard setting to address constituent concerns that the existing disclosure requirements do not provide adequate information about the allowance for credit losses and the credit quality of financing receivables. We agree with the Board's stated objective to enhance disclosures to allow financial statement users to understand the nature of credit risk within an entity's portfolio, how the entity analyzes and assesses this risk in determining the appropriate allowance for credit losses, and the reasons for changes in the portfolio and the related allowance for credit losses. However, we do not believe that the extent and complexity of disclosures detailed within the proposed Statement is necessary to achieve the Board's objective. With respect to the proposed Statement, we provide our views on certain matters in the Appendix to this letter that the Board should consider in order to minimize complexities from implementing the standard and to ensure that the disclosures are operational for financial statement preparers and provide transparent, understandable, and useful information to the users of the financial statements.

The Appendix to this letter also includes further explanation of our views specific to the issues for which the Board requested comment in the Exposure Draft and provides certain drafting recommendations that the Board may wish to consider that could enhance clarity on the application of the proposed Statement.

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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

cc: James Kroeker, Acting Chief Accountant, Office of Chief Accountant, SEC

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Appendix

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)

As discussed in our attached letter, we support the Board's stated objective to enhance disclosures to allow financial statement users to understand the nature of credit risk within an entity's portfolio, how the entity analyzes and assesses this risk in determining the appropriate allowance for credit losses, and the reasons for changes in the portfolio and the related allowance for credit losses. However, we do not believe that the extent and complexity of disclosures detailed within the proposed Statement is necessary to achieve the Board's objective. This Appendix includes our views of certain clarifications and simplifications that should be made to the proposed Statement to minimize implementation complexities and to ensure that the information is understandable and useful to users of the financial statements.

Redundancy of Disclosures Required by the Securities and Exchange Commission (SEC)

Much of the information to be disclosed under the proposed Statement is redundant with information already required to be disclosed under the SEC's Securities Act Industry Guide 3. We urge the Board to coordinate its efforts to improve financial statement disclosures with the activities of the SEC to ensure that users of the financial statements are provided with sufficient information at the appropriate level of detail to support financial statement transparency, while avoiding redundant disclosure requirements.

Definition of a Financing Receivable

The proposed Statement states that financing receivables include loans defined as a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor's statement of financial position. We generally agree with the definition of financing receivables, however:

- The "on demand" notion included within the definition of financing receivables seems to be inconsistent with the scope exceptions for accounts receivable arising from the sale of goods or services and unconditional promises to give that are *due within one year or less*. Because loans due on demand may be due within one year, the Board should consider revising the definition of financing receivables to eliminate the apparent inconsistency or clarify the intent of the scope.
- Paragraph 3(d) of the proposed Statement specifically excludes from the scope unconditional promises to give that are assets of not-for-profit entities and that are due in one year or less, as discussed in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made* (included in the FASB *Accounting Standards Codification* (ASC) Topic 958). The guidance in Statement 116 (ASC Topic 958) applies to transactions that are not exchange transactions in which each party receives and sacrifices commensurate value, but

instead defines contributions as transfers of cash in a voluntary nonreciprocal transfer. We do not believe that non-exchange, nonreciprocal transfers meet the "loan" criterion in the definition of a financing receivable. Further, for contributions receivable through a series of payments over several years, the scope exception would exclude only amounts due within the first year, while amounts under the same contribution to be paid in subsequent years would be subject to the proposed Statement's disclosure requirements. The Board should consider whether contributions receivable accounted for under the guidance in Statement 116 (ASC Topic 958) should be within the scope of the proposed Statement, or alternatively consider amending the scope exception to apply only to contributions that are assets of not-for-profit entities accounted for under Statement 116 (ASC Topic 958) and are due entirely within one year.

Portfolio Segment Disclosures

We agree that the rollforward disclosures for the allowance for credit losses and financing receivables in the proposed Statement will assist financial statement users in better understanding credit quality. However, we do have certain recommendations that the Board should consider to enhance the clarity of the information that is required under paragraph 11 of the proposed Statement:

- Paragraph 11(c) of the proposed Statement requires a rollforward of the allowance for credit losses by portfolio segment, separated between the amounts determined under Statement No. 114, *Accounting by Creditors for Impairment of a Loan, an amendment of FASB Statements No. 5 and 15* (included in ASC Topic 310), and Statement No. 5, *Accounting for Contingencies* (included in ASC Topics 310 and 450). As discussed below, we believe that there are situations in which a portion of an allowance for credit losses related to collectively evaluated financing receivables is determined at a higher level than the portfolio segment level.

  Most regulated financial institutions follow the guidance in the December 2006 *Interagency Policy Statement on the Allowance for Loan and Lease Losses* in determining their allowance for credit losses. This guidance states that qualitative environmental adjustments to the allowance may or may not be allocated to specific segments of the loan portfolio (commonly referred to as "unallocated" reserves). This guidance further states that such adjustments are appropriate if they are determined in accordance with GAAP and properly supported. The concept that such a component of an allowance for credit losses may not be directly related to a specific group of loans is reiterated in the concurrently issued *Questions and Answers on Accounting for Loan and Lease Losses*, specifically in Question #13.

  Therefore, there are instances in which financial statement preparers determine a portion of their allowances for credit losses under Statement 5 (ASC Topics 310 and 450) that are not allocated to a particular portfolio segment. In these cases, it is unclear how such reserves are

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to be presented under the proposed Statement. The Board should consider allowing entities to disclose an aggregate presentation of such "unallocated" reserves determined under Statement 5 (ASC Topics 310 and 450) if such reserves are not determined at the portfolio segment level for purposes of determining their allowance for credit losses.

- Paragraph 11(d) of the proposed Statement requires a rollforward of the financing receivables "related to the allowance for credit losses". We assume that the "related to" concept is meant to exclude financing receivables that do not have an associated allowance for credit losses (e.g., receivables for which the fair value option has been applied, receivables carried at the lower of cost of fair value, leveraged leases). However, the Board should clarify that requirement. If receivables without an associated allowance for credit losses are not excluded from the rollforward, depending on the nature of the financing receivables and the measurement attribute (e.g., lower of cost or fair value, fair value option) elected or required to be applied, the disclosures within the segments may contain receivables that have varying methods for determining carrying value. Considering the differences that may arise within or across portfolio segments, users of the financial statements may have difficulty discerning the meaning of the disclosure. The Board should carefully consider the comments from financial statement users as to the usefulness of the proposed carrying value rollforwards.
- Depending upon system capabilities, it may be operationally difficult for preparers to aggregate certain of the rollforward components (such as deferred fees and costs and unamortized premiums or discounts) by portfolio segment. Additionally, the requirement to disclose significant changes (e.g., originations and repayments) in the carrying amount of a portfolio segment segregated between those financing receivables that are individually evaluated for impairment and those that are collectively evaluated for impairment may not be operational for preparers, because they generally do not record the activity within their financing receivable portfolios in such a manner. Finally, the application of this disclosure to leveraged leases may be operationally difficult due to the unique nature of a leveraged lease (e.g., interaction with tax impacts). The Board should carefully consider the comments from financial statement preparers as to the operational feasibility of the proposed carrying value rollforwards.
- The rollforward disclosures in paragraph 11(d) may be operationally difficult for financial statement preparers and not useful to users of the financial statements for revolving types of financing receivables (e.g., credit cards, overdrafts, lines of credit). As an alternative to gross presentation of originations and repayments in the carrying amount rollforward for revolving types of financing receivables, the Board should consider requiring disclosure of originations and repayments on a net basis.

Disclosures about Classes of Financing Receivables

We disagree with the proposed Statement's disclosure requirements related to credit quality information of classes of financing receivables as described below, and believe that the Board should remove the requirement to further disaggregate portfolio segments into classes. Additionally, we believe that the benefits of the disclosure of credit quality indicators by class will be outweighed by the operational issues in preparing such disclosures as further discussed below. Instead, the Board should consider requiring disclosure of delinquency and nonaccrual information at the portfolio segment level, rather than the class level as currently required by the proposed Statement. We believe that disclosure of delinquency information at the portfolio segment level is sufficient to enable financial statement users to assess the quantitative and qualitative risks arising from the credit quality of the financing receivables. Such information will be more easily understood by financial statement users, will allow for greater comparability between entities, and will be more operational for financial statement preparers. Our specific concerns with the proposed disclosures are based upon:

- Usefulness to investors and other users of the financial statements
  The proposed Statement requires the identification of portfolio segments, with further disaggregation into classes based upon the initial measurement attribute and certain other characteristics. Depending on the nature of a reporting entity's financing receivables, this could result in a large number of classes. Although the proposed Statement does require a reporting entity to strike the proper balance in determining the amount and precision of information to disclose, we believe that to meet the disclosure requirements based on the considerations listed in paragraph 6, the credit quality information by class may be so voluminous that its usefulness may be diminished.

  Additionally, based on the differences between reporting entities' financing receivables, it is likely that the determination of classes (and therefore the related credit quality information disclosures) will vary significantly. Therefore, there may be little comparability between the disclosures from one entity to another.

  Paragraph 13(b)(1) requires reporting entities to disclose internal risk ratings. The usefulness of this information may be limited, in that different reporting entities will have different internal structures for determining risk grades. Although the proposed Statement does require an explanation of how its risk ratings compare with the regulatory definitions, the wide spectrum of risk classification mechanisms will allow for little comparability from one reporting entity to another. Additionally, because there may be sensitivity by financial statement preparers with regard to disclosing this information, the Board should carefully consider comments received from financial statement preparers.

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- Implementation complexity

  As currently written, the class-level disclosures in the proposed Statement are burdensome and complex, and may result in unnecessary implementation complexities. Several examples of implementation complexities that may arise are listed below.

  Paragraph 6(b)(6) states that entities should consider FASB Staff Position SOP 94-6-1, *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk* (included in ASC Topic 825) when determining its classes of receivables. The terms outlined within that FSP are not mutually exclusive, and it is unclear how entities are to determine classes if a particular financing receivable has more than one of the characteristics noted in that FSP.

  The disclosure of credit quality indicators by class may be difficult operationally in a situation where different credit quality indicators are used within a class of financing receivables. For example, a given class may use FICO scores as the credit quality indicator for some receivables and use other credit risk scores for other receivables. In this case, the reporting entity must either determine a way to aggregate this information or otherwise disaggregate the receivables into yet another class.

  Paragraph 9 of the proposed Statement states that portfolio segments are disaggregated into classes based on the principles in paragraph 5(a) and 5(b). The intent of this paragraph is unclear, as there are no principles contained in the referenced paragraphs.

  Paragraph 13(b) requires disclosure of certain credit quality indicators to the extent they are "used by creditors." It is our understanding, particularly for consumer loans, that consumer credit scores are often used at the time of underwriting but are not frequently updated by the reporting entity as part of its determination of the allowance for credit losses. Because these consumer credit scores are "used" (albeit only at the time of underwriting), it is unclear whether entities would be required to obtain and disclose these credit risk scores at least annually, even if this results in more frequent updates than the entity believes necessary to determine its allowance. Additionally, the information to be disclosed related to consumer credit risk scores is unclear (e.g., high-low ranges, averages).

Disclosure of Delinquency Status

We agree that the disclosure related to the aging of financing receivables will assist financial statement users in determining the credit quality of the associated financing receivables. However, there are several concerns that the Board should consider:

- The disclosures in paragraphs 13(b), 13(c), 13(d) and 13(e) require an assessment of whether a financing receivable is impaired, and as such we do not believe that reporting entities will

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be able to apply these disclosure requirements to receivables that are collectively evaluated for impairment under Statement 5 (included in ASC Topics 310 and 450). Neither Statement 114 (included in ASC Topic 310) nor Statement 5 (included in ASC Topics 310 and 450) require an entity to perform an impairment analysis of an individual receivable within a large homogeneous portfolio of smaller-balance receivables. For receivables collectively evaluated for impairment under Statement 5 (included in ASC Topics 310 and 450), a reporting entity can easily determine aging status; however, without performing additional analysis that is not required under current GAAP, it could not determine whether a given receivable is impaired (for purposes of determining whether it should be included in the disclosure). If the intent is to include homogeneous populations of smaller-balance receivables reserved for under Statement 5 (included in ASC Topics 310 and 450) within this disclosure, the Board should clarify what considerations should be made (rather than whether a financing receivable is impaired) to determine whether such receivables are to be disclosed.

- Paragraph 13(f) requires disclosure of financing receivables considered to be current that have been modified in the current year subsequent to being past due. That paragraph also lists examples of modifications of terms of a financing receivable that would require disclosure. The examples listed would all meet the definition of a troubled debt restructuring under FASB Statement 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings* (included in ASC Topic 310). The Board should consider stating that modifications that require disclosure are those that constitute a troubled debt restructuring under Statement 15 (included in ASC Topic 310), as this may simplify the determination of which types of modifications require disclosure.

- Paragraph 13(g) requires disclosure of "The total financing receivables disclosed in items (b), (c), and (d) above reconciled to the allowance for credit losses for collectively impaired financing receivables by portfolio segment." We do not understand the intent of this disclosure as to how receivables are to be reconciled to an allowance for credit losses. If the intent is to disclose the allocation of the allowance to receivable balances, the Board should consider re-phrasing this disclosure requirement. Further, we do not understand why this disclosure requirement applies only to those receivables that are collectively evaluated for impairment.

Fair Value Disclosures

The proposed Statement requires disclosure of the fair value of receivables by portfolio segment as well as the method(s) and significant assumptions used to estimate fair value. Without further explanation,

this disclosure may not enable financial statement users to better understand the credit quality for the associated financing receivables. The Board should reconsider the usefulness of the requirement to disclose fair values by portfolio segment. While credit risk is an important component to the fair value of a receivable, there are many other factors (e.g., interest rates, liquidity discounts) that also significantly impact fair value. As such, the disclosure of fair values of portfolio segments is not necessarily determinative in understanding a portfolio segment's credit risk.

Interim and Annual Disclosures

Subject to our concerns articulated previously, we believe that it is operational for entities to comply with the disclosure requirements of the proposed Statement for annual periods. However, for interim reporting periods, we believe that the volume of information to be disclosed may be overwhelming. Due to the frequency with which recent accounting standards have required interim disclosure, interim financial statements are becoming more complex and cumbersome, for both preparers and users alike. The Board should reconsider whether some or all of the disclosures required under this Statement are necessary for interim reporting periods.

Effective Date and Transition

As currently drafted, the proposed Statement would be effective for the first interim or annual period ending after December 15, 2009. Given the significant increase in the amount of disclosure, we believe that entities may face significant challenges in developing processes to gather, summarize, classify, and report the information necessary to comply with the proposed Statement. The Board should carefully consider responses from financial statement preparers to determine whether a deferral of the effective date for some or all of the new disclosure requirements is warranted. Further, the Board should clarify that separate fourth quarter information is not to be disclosed in the annual financial statements of calendar year-end entities.

Implementation Guidance

We believe that implementation guidance is critical to ensure that the disclosure provisions are properly applied. We agree with the statement in the example disclosures in Appendix A that the appendix is an integral part of the Statement. However, we are concerned that the Appendix A examples are not included within the Appendix C Amendments to the *FASB Accounting Standards Codification*. The Board should include the example disclosures in Appendix A in the Codification updates.

* * * * *

Following are minor editorial comments that the Board should consider to enhance the clarity of the proposed Statement.

- Throughout the proposed Statement, the term "collectively evaluated impaired financing receivables" is used. The Board should consider rewording to say "financing receivables collectively evaluated for impairment" to be consistent with wording in paragraph 6 of Statement 114 (included in ASC Topic 310).
- The proposed Statement appears repetitive as it relates to accounts receivable. Paragraph 3 specifically includes accounts receivable with terms exceeding one year within the scope of the proposed Statement, and paragraph 3(a) excludes from its scope accounts receivable with contractual maturities of one year or less. The Board should consider removing this repetition to clarify the scope.
- Paragraph 4 defines the carrying amount. The fact that the carrying amount does not include the allowance for credit losses is apparent in paragraph B8, but the Board should consider further clarifying the paragraph 4 definition of carrying amount to state that this amount excludes the effect of any related allowance.
- Paragraph 4 contains an example of the carrying amount for financing receivables held for the foreseeable future or until maturity or payoff. This example would not be accurate if the fair value option had been elected, and as such the Board should revise the example to reflect scenarios in which the carrying amount may be different from that stated. This observation applies to paragraph B8 and the definition of carrying amount noted in the Glossary in Appendix C (310-10-20) as well.
- In the paragraph 4 definition of carrying amount, there is no mention of the adjustments due to AICPA Statement of Position 03-3 (included in ASC Topic 310) or FASB Statement 141(R), *Business Combinations* (included in ASC Topic 805). The Board should consider inclusion of other components of the carrying amount in its illustration.
- Paragraph 11(c) lists the components of the activity (rollforward) of the allowance. Entities occasionally transfer loans from held in portfolio to held for sale classification, and in these cases they generally remove the associated allowance at the time of transfer. In addition, circumstances for a given financing receivable may change, resulting in the receivable being individually evaluated for impairment in one period and collectively evaluated for impairment in another. The Board should include a reference to reductions in the allowance for credit losses due to portfolio transfers in the rollforward components. Further, the Board may wish to include a discussion of the potential for transfers of the allowance for credit losses between individually-evaluated and collectively-evaluated financing receivables.

- Paragraphs 13(b) and (c) require disclosures of receivables that are neither past due nor impaired. The example disclosure in Appendix A notes that the disclosure excludes impaired receivables, but the Board should revise the example to note that the table also excludes past due receivables.
- Paragraph 13(c) requires quantitative disclosures of credit quality information for financing receivables carried at a measurement other than amortized cost. However, the illustrative examples in Appendix A show no such credit quality information for receivables at fair value or lower of cost or fair value. The Board should revise the example to illustrate how credit quality information for such receivables is to be disclosed.
- Paragraph 13(f) requires disclosure of financing receivables modified in the current year subsequent to being past due that are now considered current. The Appendix A example shows receivables "Considered Current that have been Modified in Previous Year." The Board should revise the example such that the heading is consistent with the paragraph 13(f) requirement.
- Paragraph 14 requires certain disclosures of impaired financing receivables, and paragraph 15 lists certain exceptions to the disclosure requirements for certain troubled debt restructurings. Paragraph 15 states that the exception shall be applied consistently for paragraph 11(a) and 11(c) for all receivables that meet the conditions in paragraph 15. The link between the troubled debt restructuring disclosure exceptions in paragraph 15 and paragraphs 11(a) and 11(c) is not apparent. The Board should clarify the interrelation between paragraph 11 and paragraph 15.
- Paragraph 16(b) requires disclosure of the carrying amount of all nonaccrual receivables. Given that nonaccrual receivables may have different measurement attributes (e.g., amortized cost, fair value, lower of cost or fair value), an aggregate of the carrying amount may not be useful. The Board should consider requiring disclosure of carrying amount by measurement attribute.
- In the Appendix A example for the paragraph 13(b) and 13(c) disclosures, one of the tables shows a disclosure of consumer credit risk by risk grade. In practice, many entities do not risk rate their homogeneous consumer credit portfolios. The Board should consider revising the example to reflect a scenario that is more common in practice.
- In the heading of the Appendix A example for the paragraph 13(d) through 13(g) disclosure requirements, for clarity the Board should consider stating that these disclosures apply only to financing receivables that are not considered impaired.

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- Paragraph B8 and the Appendix C Glossary (310-10-20) contain an example of the types of adjustments that would be included in the carrying amount of a financing receivable. The definition in paragraph 4 refers to hedge accounting adjustments in a fair value hedge. The Board should consider updating paragraph B8 and the Appendix C Glossary for consistency.

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