September 28, 2010

Mr. Russell G. Golden Technical Director Financial Accounting Standards Board 301 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

VIA EMAIL: director@fasb.org

File Reference No. 1810-100

Re: Proposed Accounting Standards Update: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

Dear Mr. Golden:

Portfolio Recovery Associates appreciates the opportunity to comment on the aforementioned Exposure Draft. Our comment letter may be different than most you have received on this topic, due to the nature of our business. The primary business of Portfolio Recovery Associates, Inc. ("PRA") is the purchase of defaulted, charged-off consumer loans at deep discounts, and the subsequent collection of these accounts through a well-developed recovery process. Since the company's inception, the aggregate purchase price of these loans has averaged three cents on the dollar. We account for virtually all our finance receivables under the former AICPA Statement of Position No. 03-3 (now ASC 310-30). We evaluate for impairment and recognize income by aggregating assets purchased within a calendar quarter with common risk characteristics into pools. We currently own approximately 24 million accounts aggregated into 121 pools. The income from these receivables is the primary revenue source for our company. PRA is a publicly-traded company with approximately \$281 million in annual revenues and \$1 billion in market capitalization. The company's shares are traded on the NASDAQ Global Select Market under the symbol "PRAA." We are a leading company in our industry, and we support the Financial Accounting Standards Board in its objective of providing financial statement users with timely and representative depictions of an entity's involvement in financial instruments, while reducing complexity in accounting for those instruments.

Our finance receivables have typically been through multiple collection efforts prior to their charge-off and our subsequent purchase. Collection of cash payments on these accounts is directly related to, and highly dependent on, the work of our collections staff. We typically only collect payments on a small percentage of the accounts we purchase. Without a proactive collections process carried out by our well-trained collections staff, we would receive little to no payments from the debtors. As a result, we believe our finance receivables represent a different asset class from the loans that banks typically acquire.

Additionally, we are aware of the operational difficulties banks have experienced in applying SOP 03-3 to loans acquired at a discount due to credit quality; these loans often represent a small part of a bank's loan portfolio, yet, require significant amounts of accounting resources to apply the provisions of SOP 03-3. We are also aware of the difficulties banks would face in overhauling systems to implement the proposed accounting guidance on income recognition for loans. Furthermore, we believe that SOP 03-3 can be improved. Accordingly, in our comments we will offer alternatives to the proposed accounting for finance receivables. We present our comments in three parts: fair value, income recognition, and credit impairment. Following these sections are specific responses to questions posed in the Exposure Draft.

Fair Value

We do not agree with the proposal to expand the use of fair value accounting to all financial instruments. We believe that the accounting methods employed should reflect the entity's business model - fair value accounting for financial instruments that are held for sale or managed on a fair value basis, and amortized cost accounting for financial instruments held for collection or payment. We believe it would be confusing to financial statement users to record financial assets at fair value where it is the business strategy of the company to generate and collect the related cash flows. We are particularly concerned about the usefulness to financial statement users of fair value information derived from Level 3 inputs. By definition, Level 3 valuations are the least reliable in the fair value hierarchy. We do not believe recording these amounts on the balance sheets of companies would improve usefulness, transparency, and relevancy to financial statement users.

As an example, consider our finance receivables, which comprise approximately 85% of our company's total assets. We purchase consumer finance receivables that have been charged-off by the credit originator. We purchase these receivables at a substantial <u>discount</u> to face value. From the company's inception in 1996 through December 31, 2009, we acquired portfolios with a total face value of \$48 billion for a purchase price of \$1.4 billion, representing an average discount of approximately 97%. We purchase these portfolios through auctions and negotiated sales. The purchase prices for the portfolios are dependent upon a variety of factors, such as our return on investment criteria, the age and delinquency status of the portfolio, its geographic distribution, and other demographic information. Another purchaser may be willing to pay an entirely different amount in accordance with their return on investment criteria, cost structure, underwriting procedures, collection processes, and other factors.

We do not sell our portfolios; instead, we hold them for collection. We have limited information on what price, if any, another buyer would be willing to pay for them. We do not use fair value in our internal reporting, and our investors almost never ask about fair value information on our financial instruments. There is no formal exchange over which these types of assets are traded. Additionally, because we are one of the largest companies in our industry, there is a very limited market of buyers who would be financially capable of purchasing our finance receivables. Consequently, if for example we attempted to sell all of our finance receivables, it would be extremely difficult to estimate the price, if any, that we could obtain. Due to these factors, the fair value information in our footnote disclosure is computed based upon Level 3 inputs.

We provide extensive supplemental information to the public with regard to our finance receivables, including:

- The dollar amount of portfolio purchases by year and by type
- The dollar amount of cash collections per year based on year of purchase, by major type of asset

- Face value of purchases by type of asset
- Geographical distribution of finance receivables
- Cash collections and estimated remaining collections by year of purchase, by major asset type
- Actual cash collections compared with original projections
- Quarterly cash collections to illustrate seasonality

This information, coupled with an amortized cost-basis classification and measurement system, provides financial statement users with high quality information on our finance receivables, in keeping with our normal business strategy of holding these assets for collection of the cash flows. We would be concerned over a requirement to switch to an estimated fair value accounting system, given the questions about the marketability of the assets and the usefulness of this information to our financial statement users.

In short, we believe financial statement users would be better served by recording these types of assets at amortized cost and providing high quality disclosure and analysis of pertinent data related to the assets. Compared to fair value accounting, this approach would better reflect how the assets will be used to generate cash flows. Additionally, it is important to note that footnote disclosures are already provided for those users who wish to obtain information on estimated fair values. Therefore, we do not support the proposed FV-OCI category for financial assets, especially the types of financial assets that we own.

Income Recognition

As discussed previously, the majority of our company's revenue is recorded based on the former SOP 03-3. The proposed interest recognition guidance in the exposure draft method appears to be consistent with our current practice under SOP 03-3, and, therefore, would not present major changes to our current practices. However, this accounting is operationally challenging, and will be so for the banking industry. We are also aware that the users of bank financial statements including bank regulators have long relied upon metrics such as interest margins calculated on the basis of contractual interest rates. Lastly, we observe that under both SOP 03-3 and the Exposure Draft, revenue may be recognized even when cash collections are zero. Accordingly, in an effort to reduce complexity and operational burden, while improving transparency, we suggest the following:

- 1. For financial assets originated, transferred or acquired in the normal course of business or business acquisition, recognize interest income based on contractual interest rates.
- 2. For charged-off acquired financial assets, or for financial assets acquired at a deep credit quality discount where income recognition based on contractual rates is impractical, follow a different accounting approach as follows:

<u>Alternative to Proposed Income Recognition Guidance for Charged-Off or Deeply Discounted Acquired</u> <u>Financial Assets</u>

- Cannot reasonably estimate cash flows expected to be collected:
 - o use cost recovery or cash basis method
- Can reasonably estimate cash flows expected to be collected:
 - Estimate cash flows expected to be collected.
 - Calculate the ratio of the recorded financial asset (at amortized cost) to the estimated future cash flows.
 - Apply actual cash flows received to principal and interest in the same proportion.

o Example:

Financial asset at amortized cost: \$500,000
Estimated future cash flows: \$800,000
Ratio: 62.5%
Cash receipts in first period: \$10,000
Amount applied to principal: \$6,250
Amount recorded as income: \$3,750

 Revise cash flow projections as necessary. The revised ratio will be applied on a prospective basis as a change in estimate.

The alternative method outlined above is similar to a percentage of completion or installment method of accounting. It reduces complexity, and results in income recognition only when cash collections are received, which we believe is appropriate for this asset class. Recall that our finance receivables would generate little to no cash without a skilled collection workforce employing effective, compliant collection procedures. We have been a publicly traded company since 2002; as a result, have held countless meetings with professional investors, and the topic of income recognition is always part of the discussion. We believe the type of change described above will provide significant clarity and transparency for the investment community. One of the most difficult challenges the investment community faces as it relates to companies in our industry is the fluctuations that can arise from using the interest method of accounting. Under that method, amortization rates (measured by payments applied to principal) can vary significantly due to the timing and amount of cash flow variances from those projected. We reiterate that for assets that transfer after they are charged-off, this "installment" or "percentage of completion" method will improve transparency for financial statement users.

Additionally, we note that the Exposure Draft does not offer guidance on the aggregation of financial assets with common risk characteristics into pools for purposes of applying the proposed income recognition and measurement methods, as is permitted now under SOP 03-3. We recommend that the guidance in SOP 03-3 be retained as it relates to aggregation, and we would appreciate clarification that this aggregation is permitted under the proposal.

Credit Impairment

The proposed credit impairment guidance is an improvement over the current requirements per ASC 310-30 (formerly SOP 03-3) in that a credit impairment would not be recognized as long as expected cash flows exceeded the original estimate. However, we are concerned with the lack of symmetry with this part of the proposal. Based on our understanding of the Exposure Draft, for purchased assets, unfavorable changes below the original expectations would result in immediate impairment expense, while favorable changes above the original expectation would be recognized in income over time as a yield adjustment. We also recognize the operational difficulties that could be faced by the banking industry in switching to a model based upon effective interest rates and expected future cash flows (e.g. an SOP 03-3-like approach). Accordingly, we offer the following alternative for our industry, which deals with purchases of defaulted, charged-off loans at deep discounts:

Alternative to Proposed Credit Impairment Guidance for Charged-Off Acquired Financial Assets
Record no credit impairment as long as the expected future cash flows exceed the amortized cost of the finance receivables. Changes in expectations would be accounted for as an adjustment of the effective interest rate. A reduction in expected future cash flows to levels below the carrying value would be recognized as credit impairment expense in net income. This approach is similar to the one prescribed in the former Practice Bulletin 6. We believe this alternative addresses the concerns over symmetry and

operational matters described above. Alternatively, should the Board pursue the income recognition and credit impairment guidance in the proposal, the Board should then consider permitting the recording of gains for favorable changes in expectations.

Use of Historical Loss Rates

While the proposed requirement to use adjusted historical loss rates to measure credit impairment may have merit for the banking industry, and while we should be able to work within its confines, it is not directly applicable to our industry, which deals with purchases at deep discounts of pools of defaulted, charged-off consumer debt accounted for under the former SOP 03-3. These finance receivables are ones in which the consumer has already defaulted; thus, the "loss" was previously incurred by the credit grantor. While we may incur credit impairment expense after acquisition of the assets, that expense is generally related to decreases in expected payments in comparison with the original estimates, rather than a concern over repayment of our "principal" balance. Under current accounting guidance, we record credit impairments when our cash flow expectations decrease. However, when we record such credit impairments, we primarily rely upon an evaluation of recent payment trends, current conditions, and current payment expectations.

Our comments on the specific questions posed in the Exposure Draft are included in Attachment 1. Thank you again for the opportunity to comment on this proposal.

Sincerely,

Neal A. Petrovich

Senior Vice President of Finance

Neal A. Derovice

Kevin P. Stevenson

Executive Vice President

Chief Financial and Administrative Officer

Attachment 1:

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments do you believe should be excluded or which financial instruments should be included that are proposed to be excluded?

Answer: Yes.

Question 4: The proposed guidance would require an entity to not only determine if they have significant influence over the investee as described currently in Topic 323 on accounting for equity method investments and joint ventures but also to determine if the operations of the investee are related to the entity's consolidated business to qualify for the equity method of accounting. Do you agree with this proposed change to the criteria for equity method of accounting? If not, why?

Answer: We have not evaluated this part of the proposal.

Question 8: Do you agree with the initial measurement principles for financial instruments? If not, why?

Answer: We agree with the proposed initial measurement requirement for financial assets included in the FV-NI category. We agree with using amortized cost as the "default" measurement requirement for other financial assets, but we do not support expansion of the FV-OCI category. If the Board decides to pursue expansion of the FV-OCI category, we agree with the transaction price as the initial measurement. However, the proposed requirement to evaluate each purchase of our finance receivables to determine whether the purchase price differed from "fair value" is not operational, and would yield little benefit to our investors, given the lack of market value information for our finance receivables, as discussed previously.

Question 9: For financial instruments for which qualifying changes in fair value are recognized in other comprehensive income, do you agree that a significant difference between the transaction price and the fair value on the transaction date should be recognized in net income if the significant difference relates to something other than fees or costs or because the market in which the transaction occurs is different from the market in which the reporting entity would transact? If not, why?

Answer: No. Recognizing immediate gains or losses would appear to be inconsistent with many transactions entered into by financial services companies for customer relationship and other reasons. Furthermore, this part of the Exposure Draft is not operational - see our response to Question 8.

Question 10: Do you believe that there should be a single initial measurement principle regardless of whether changes in fair value of a financial instrument are recognized in net income or other comprehensive income? If yes, should that principle require initial measurement at the transaction price or fair value? Why?

Answer: Yes, we believe that recording the initial measurement at the transaction price would provide appropriate simplification of the accounting for financial instruments. Subsequent measurement could then follow the business model of the entity.

Question 11: Do you agree that transaction fees and costs should be (1) expensed immediately for financial instruments measured at fair value with all changes in fair value recognized in net income and (2) deferred and amortized as an adjustment of the yield for financial instruments measured at fair value with qualifying changes in fair value recognized in other comprehensive income? If not, why?

Answer: We support consistent treatment of transaction fees and costs, to promote simplification.

Question 12: For financial instruments initially measured at the transaction price, do you believe that the proposed guidance is operational to determine whether there is a significant difference between the transaction price and fair value? If not, why?

Answer: No. See our response to Questions 8 and 9.

Question 13: The Board believes that both fair value information and amortized cost information should be provided for financial statement instruments an entity intends to hold for collection or payment(s) of contractual cash flows. Most Board members believe that this information should be provided in the totals on the face of the financial statements with changes in fair value recognized in reported stockholders' equity as a net increase (decrease) in net assets. Some Board members believe fair value should be presented parenthetically in the statement of financial position. The basis for conclusions and the alternative views describe the reasons for those views. Do you believe the default measurement attribute for financial instruments should be fair value? If not, why? Do you believe that certain financial instruments should be measured using a different measurement attribute? If so, why?

Answer: We believe amortized cost is a more appropriate measurement attribute for entities where the business strategy is to collect or pay the cash flows; for these instruments, footnote disclosure of estimated fair value is available. We are concerned with the accuracy and usefulness of using fair value as the measurement attribute for non-marketable financial instruments that management intends to hold for collection. Subsequent measurement at fair value would seem to make sense where it is the business strategy of the company to sell or settle the financial instrument, or otherwise manage it on a fair-value basis. Please also refer to our answer to Question 10.

Question 14: The proposed guidance would require that interest income or expense, credit impairments and reversals (for financial assets), and realized gains and losses be recognized in net income for financial instruments that meet the criteria for qualifying changes in fair value to be recognized in other comprehensive income. Do you believe that any other fair value changes should be recognized in net income for these financial instruments? If yes, which changes in fair value should be separately recognized in net income? Why?

Answer: No.

Question 15: Do you believe that the subsequent measurement principles should be the same for financial assets and financial liabilities? If not, why?

Answer: Yes, however, we believe that financial instruments held for collection or repayment should be recorded at amortized cost.

Question 16: The proposed guidance would require an entity to decide whether to measure a financial instrument at fair value with all changes in fair value recognized in net income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost (for certain financial liabilities) at initial recognition. The proposed guidance would prohibit an entity from subsequently changing that decision. Do you agree that reclassifications should be prohibited? If not, in which circumstances do you believe that reclassifications should be permitted or required? Why?

Answer: No. We believe that an entity should reclassify the financial instrument if there is a material change in the entity's business strategy or model.

Question 18: Do you agree that a financial liability should be permitted to be measured at amortized cost if it meets the criteria for recognizing qualifying changes in fair value in other comprehensive income and if measuring the liability at fair value would create or exacerbate a measurement attribute mismatch? If not, why?

Answer: Yes; however, we believe that financial liabilities should be measured at amortized cost unless it is the business strategy of the company to manage the financial liability on a fair-value basis.

Question 19: Do you believe that the correct financial instruments are captured by the criteria in the proposed guidance to qualify for measurement at the redemption amount for certain investments that can be redeemed only for a specified amount (such as an investment I the stock of the Federal Home Loan Bank or an investment in the Federal Reserve Bank)? If not, are there any financial instruments that should qualify but do not meet the criteria? Why?

Answer: Yes, however, we would encourage the Board to clarify that this proposal does not apply to redemption amounts of redeemable non-controlling interests.

Question 20: Do you agree that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income in combination with other deferred tax assets of the entity (rather than segregated and analyzed separately)? If not, why?

Answer: We cannot appropriately answer this question without additional information, guidance, or examples.

Question 21: The proposed Implementation Guidance section of this proposed Update provides an example to illustrate the application of the subsequent measurement guidance to convertible debt (Example 10). The Board currently has a project on its technical agenda on financial instruments with characteristics of equity. That project will determine the classification for convertible debt from the issuer's perspective and whether convertible debt should continue to be classified as a liability in its entirety or whether the Board should require bifurcation into a liability component and an equity component. However, based on existing U.S. GAAP, the Board believes that convertible debt would not meet the criterion for a debt instrument under paragraph 21(a)(1) to qualify for changes in fair value to be recognized in other comprehensive income because the principal will not be returned to the creditor (investor) at maturity or other settlement. Do you agree with the Board's application of the proposed subsequent measurement guidance to convertible debt? If not, why?

Answer: We do not agree that all convertible debt should be automatically accounted for at fair value with changes recorded through net income. It would seem that these instruments may often be settled in a manner which returns the principal to the creditor. We reiterate our disagreement with accounting for all debt instruments at fair value.

Question 28: Do you believe that the proposed criteria for recognizing qualifying changes in fair value in other comprehensive income are operational? If not, why?

Answer: Aspects of the proposed criteria appear to be operational; however, we are concerned with the operational impact of instances such as a subsequent business decision to sell a portion of a pool of financial assets. We reiterate that we do not support a separate classification category for financial instruments measured at fair value with changes in fair value recognized in other comprehensive income, and believe that amortized cost is the appropriate measurement basis for financial instruments held for collection or payment.

Question 29: Do you believe that measuring financial liabilities at fair value is operational? If not, why?

Answer: We are concerned about the work required to measure financial liabilities at fair value and about the ability of non-rated companies to compute a reliable value change related to its own credit standing. We question whether this part of the proposal is operational from a cost/benefit standpoint. As stated previously, we do not support fair value as the default measurement attribute for all financial liabilities.

Question 30: Do you believe that the proposed criteria are operational to qualify for measuring a financial liability at amortized cost? If not, why?

Answer: Yes; however, as stated previously, we believe that amortized cost should be the default measurement base for financial liabilities.

Question 32: For financial liabilities measured at fair value with all changes in fair value recognized in net income, do you agree that separate presentation of changes in an entity's credit standing

(excluding changes in the price of credit) is appropriate, or do you believe that it is more appropriate to recognize the changes in an entity's own credit standing (with or without changes in the price of credit) in other comprehensive income, which would be consistent with the IASB's tentative decisions on financial liabilities measured at fair value under the fair value option? Why?

Answer: As stated previously, we believe that amortized cost is the most relevant measurement basis for financial liabilities. Should the Board pursue fair value accounting for financial liabilities, we suggest that a FV-OCI approach would be more appropriate than recognizing changes in a company's own credit standing through net income.

Question 33: Appendix B describes two possible methods for determining the change in fair value of a financial liability attributable to a change in the entity's credit standing (excluding the changes in the price of credit). What are the strengths and weaknesses of each method? Would it be appropriate to use either method as long as it was done consistently, or would it be better to use Method 2 for all entities given that some entities are not rated? Alternatively, are there better methods for determining the change in fair value attributable to a change in the entity's credit standing, excluding the price of credit? If so, please explain why those methods would better measure that change.

Answer: We reiterate our disagreement with the use of fair value accounting for financial liabilities held for repayment. Our concerns with both Method 1 and Method 2 are the ability of non-rated companies to obtain market information on companies within its industry with a similar credit risk profile. For example, we compete against many other companies in our industry, but very few of them are public companies. Should the Board pursue fair value accounting for financial liabilities held for repayment, we would suggest that either approach be permitted, with disclosure as to the approach used and significant assumptions made.

Question 34: The methods described in Appendix B for determining the change in fair value of a financial liability attributable to a change in an entity's credit standing (excluding the changes in the price of credit) assume that the entity would look to the cost of debt of other entities in its industry to estimate the change in credit standing, excluding the change in the price of credit. Is it appropriate to look to other entities within an entity's industry, or should some other index, such as all entities in the market of a similar size or all entities in the industry of a similar size, be used? If so, please explain why another index would better measure the change in the price of credit.

Answer: To our knowledge, no index exists that would accurately allow us to measure the change in value related to our own credit standing. That being the case, assuming the Board continues to pursue fair value accounting for financial liabilities held for repayment, we would suggest that many companies would have to expand their research to industries beyond their primary industry, to attempt to obtain the information necessary to prepare this estimate. Therefore, we would suggest that an entity be permitted to consider all relevant information.

Question 37: Do you believe the objective of the credit impairment model in this proposed Update is clear? If not, what objective would you propose and why?

Answer: Yes.

Question 38: The proposed guidance would require an entity to recognize a credit impairment immediately in net income when the entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial assets(s).

The IASB Exposure Draft, Financial Instruments: Amortised Cost and Impairment (Exposure Draft on Impairment), would require an entity to forecast credit losses upon acquisition and allocate a portion of the initially expected credit losses to each reporting period as a reduction in interest income by using the effective interest rate method. Thus, initially expected credit losses would be recorded over the life of the financial asset as a reduction in interest income. If an entity revises its estimate of cash flows, the entity would adjust the carrying amount (amortized cost) of the financial asset and immediately recognize the amount of the adjustment in net income as an impairment gain or loss.

Do you believe that an entity should immediately recognize a credit impairment in net income when an entity does not expect to collect all contractual amounts due for originated financial asset(s) and all amounts originally expected to be collected for purchased financial asset(s) as proposed in this Update, or do you believe that an entity should recognize initially expected credit losses over the life of the financial instrument as a reduction in interest income, as proposed in the IASB Exposure Draft on impairment?

Answer: Recognizing a credit impairment immediately in net income for a financial asset, or a pool of financial assets, that are intended to be held for collection over time does not seem to be appropriate. Commingling interest income with credit impairment also does not seem to be appropriate or useful to financial statement users.

As stated previously, we follow SOP 03-3 accounting for the majority of our financial assets. The proposed guidance is an improvement over the current (SOP 03-3) requirements in that, under the proposal, a credit impairment would not be recognized as long as expected cash flows exceed the original estimate. However, we believe that a better approach would be to record no credit impairment as long as the expected future cash flows exceed the amortized cost of the finance receivables. Changes in expectations would be accounted for as a yield adjustment. Reductions in expectations of amounts to be collected to levels below the current carrying value should be recognized as a credit impairment in net income. If immediate recognition of lifetime credit impairment is pursued, then it would seem that entities should record gains for favorable changes in expectations of future cash flows.

Additionally, we believe that two changes are necessary to make the Exposure Draft internally consistent with regard to financial assets acquired at an amount that includes a discount related to credit quality. Those recommended changes are the underlined portions of the following sections:

- Paragraph 41: the second sentence should be revised as follows:
 - o If an entity's expectation of the amount of cash flows expected to be collected decreases, a financial asset shall be considered to be impaired (except for certain instances for a financial asset acquired at an amount that includes a discount related to credit quality, as discussed in paragraph 79).
- Paragraph 53: the first sentence should be revised as follows:
 - An entity shall recognize any unfavorable change in cash flows expected t be collected
 as a credit impairment during the reporting period in net income and shall establish or
 increase the allowance for credit losses related to the financial asset (presented as a
 contra-asset account) by an equal amount (except as discussed in paragraph 79).

Question 39: Do you agree that a credit impairment should not result from a decline in cash flows expected to be collected due to changes in foreign exchange rates, changes in expected prepayments, or changes in a variable interest rate? If not, why?

Answer: Yes.

Question 40: For a financial asset evaluated in a pool, the proposed guidance does not specify a particular methodology to be applied by individual entities for determining historical loss rates. Should a specific method be prescribed for determining historical loss rates? If yes, what specific method would you recommend and why?

Answer: No. While we believe we can operate within the proposed framework, and while the proposed requirement to use adjusted historical loss rates to measure credit impairment may have merit for the banking industry, it is not as applicable to our industry, which deals with purchases at deep discounts of defaulted, charged-off consumer debt. These finance receivables are ones in which the consumer has already defaulted; thus, the "loss" was incurred by the credit grantor. Under current accounting guidance, we record credit impairments when our cash flow expectations decrease. However, when we record credit impairments, we primarily rely upon an evaluation of recent payment trends, current conditions, and current payment expectations. Therefore, for our industry, historical loss rates are not necessarily applicable or representative of cash flows not expected to be collected. For our business and industry, an assessment of recent payment trends and current and future conditions is likely to be more important in estimating future losses.

Question 41: Do you agree that if an entity subsequently expects to collect more cash flows than originally expected to be collected for a purchased financial asset, the entity should recognize no immediate gain in net income but should adjust the effective interest rate so that the additional cash flows are recognized as an increase in interest income over the remaining life of the financial asset? If not, why.

Answer: We suggest that there be consistent treatment of negative and positive adjustments in expected cash flows. Please see our answer to Question 38 and the main body of our comments.

Question 42: If a financial asset that is evaluated for impairment on an individual basis has no indicators of being individually impaired, the proposed guidance would require an entity to determine whether assessing the financial asset together with other financial assets that have similar characteristics indicates that a credit impairment exists. The amount of the credit impairment, if any, would be measured by applying the historical loss rate (adjusted for existing economic factors and conditions) applicable to the group of similar financial assets to the individual asset. Do you agree with this requirement? If not, why?

Answer: We agree that an entity should *consider* assessing the asset together with other financial assets for aggregate impairment, but we disagree with *requiring* that the asset be assessed with other assets. Additionally, see our comments on the use of adjusted historical loss rates to measure credit impairment for our industry contained within our responses to Questions 38, 40, and 47.

Question 46: The proposed guidance would require that in determining whether a credit impairment exists, an entity consider all available information relating to past events and existing conditions and their implications for the collectability of the cash flows attributable to the financial asset(s) at the date of the financial statements. An entity would assume that the economic conditions existing at the end of the reporting period would remain unchanged for the remaining life of the financial asset(s) and would not forecast future events or economic conditions that did not exist at the reporting date. In contrast, the IASB Exposure Draft on Impairment proposes an expected loss approach and would require an entity to estimate credit losses on basis of probability-weighted possible outcomes.

Do you agree that an entity should assume that economic conditions existing at the reporting date would remain unchanged in determining whether a credit impairment exists, or do you believe that an expected loss approach that would include forecasting future events or economic conditions that did not exist at the end of the reporting period would be more appropriate? Are both methods operational? If not, why?

Answer: We believe that an expected loss approach that would include reasonable consideration of future events or economic conditions that did not exist at the end of the reporting period would be more appropriate, and more consistent with the underwriting approach we use prior to purchase of the finance receivables.

Question 47: The proposed guidance would require that an appropriate historical loss rate (adjusted for existing economic factors and conditions) be determined for each individual pool of similar financial assets. Historical loss rates would reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool. Would such an approach result in a significant change in practice (that is, do historical loss rates typically reflect cash flows that the entity does not expect to collect over the life of the financial assets in the pool or some shorter period)?

Answer: This would result in a change in practice for our company which purchases defaulted consumer debt at significant discounts (generally greater than 90%) to the unpaid balance. These finance receivables are ones in which the consumer has already defaulted; thus, the charge-off was incurred by the credit grantor. During instances when we subsequently lower our expectations of future cash flows, the resulting credit impairments are generally recorded based upon recent payment trends, current conditions, and current payment expectations. These impairments have more to do with a decrease in our future cash flow expectations. They infrequently involve instances where we do not expect to obtain repayment of our recorded "principal" balance. Therefore, for our business, historical loss rates are not necessarily representative of cash flows not expected to be collected. However, while an allowance methodology that uses historical loss rates as a starting point is not entirely applicable to our industry, it is one which we could employ.

Question 48: The proposed guidance would require interest income to be calculated for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income by applying the effective interest rate to the amortized cost balance net of any allowance for credit losses. Do you believe that the recognition of interest income should be affected by the recognition or reversal of credit impairments? If not, why?

The proposed method is consistent with our current practice under the former SOP 03-3, and, therefore, would not present major changes for our company. We do, however, recognize the operational difficulties associated with the banking industry in making this change, and we also recognize the importance of metrics such as interest yields and interest margins in the banking industry. Therefore, the Board may consider making the proposed method effective only for purchases of financial assets at a discount due to credit quality, or for the type of asset class that our company deals with (charged-off, defaulted loans acquired at deep discounts due to credit quality). Please refer to the "Income Recognition" section in the main body of our comments for a suggested alternative approach to recording interest income for assets in this class.

Additionally, we note that the Exposure Draft does not offer guidance on the aggregation of financial assets with common risk characteristics into pools for purposes of applying the proposed income recognition and measurement methods, as is permitted now under SOP 03-3. We would appreciate clarification that this aggregation is permitted under the proposal.

Question 50: The proposed guidance would permit, but would not require, separate presentation of interest income on the statement of comprehensive income for financial assets measured at fair value with all changes in fair value recognized in net income. If an entity chooses to present separately interest income for those financial assets, the proposed guidance does not specify a particular method for determining the amount of interest income to be recognized on the face of the statement of comprehensive income. Do you believe that the interest income recognition guidance should be the same for all financial assets?

Answer: It seems to us that consistent methods for calculating interest income would be desirable, and that the default approach would be one based on contractual rates, with alternative methods employed for acquired, charged-off debt as described in the main body of our comments.

Question 51: Do you believe the implementation guidance and illustrative examples included in this proposed Update are sufficient to understand the proposed credit impairment and interest income models? If not, what additional guidance or examples are needed?

Answer: Yes, subject to our aforementioned comments on the proposed credit impairment model. We also note that the purchase discount in example 21 is approximately 28%, while our company acquires all of its loans at much greater discounts.

Question 56: Do you believe that modifying the effectiveness threshold from *highly effective* to reasonably effective is appropriate? Why or why not?

Answer: Yes.

Question 57: Should no effectiveness evaluation be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected term? Why or why not?

Answer: We believe the Board's proposal to require entities to reassess effectiveness after inception of the hedging relationship only if changes in circumstances suggest that the hedging relationship may no longer be reasonably effective, is reasonable.

Question 61: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for cash flow hedging relationships? If yes, what constraints do you foresee and how would you alleviate them?

Answer: No.

Question 62: Do you foresee any significant operational concerns or constraints in creating processes that will determine when changes in circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness at each reporting period? If yes, what constraints do you foresee and how would you alleviate them?

Answer: No.

Question 65: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement do you believe should not be required and why?

Answer: As stated previously, we do not support the use of fair value as the default measurement attribute for all financial instruments. As such, we believe that footnote disclosure of fair value data is appropriate and available for those users who desire to obtain this information. Regarding the proposed requirement to disclose significant changes in fair value attributable to changes in the entity's own credit standing, we are concerned about the ability of non-rated reporting entities to calculate such data; please refer to our responses to Questions 33 and 34. Additionally, we would not be in favor of disclosure requirements that would force companies to provide confidential information to the public, such as proprietary details on its underwriting and pricing methodology for asset purchases.

Question 68: Do you agree with the transition provision in this proposed Update? If not, why?

Answer: We are unclear as to whether the Exposure Draft is proposing that the changes be made through retained earnings or through other comprehensive income for FV-OCI items. Additionally, the proposal would result in a change (vs. SOP 03-3) in the way credit impairments are measured when expectations of cash flows decrease but are still above the initial estimate. We would appreciate clarification as to the transition related to this proposed change.

Question 69: Do you agree with the proposed delayed effective date for certain aspects of the proposed guidance for nonpublic entities with less than \$1 billion in total consolidated assets? If not, why?

Answer: No. We would expect the effective date to be consistent for all entities.

Question 70: How much time do you believe is needed to implement the proposed guidance?

Answer: It is not possible for us to adequately answer this question by the comment period deadline.

Question 71: Do you believe the proposed transition provision is operational? If not, why?

Answer: See our response to Question 68.