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Committee on Corporate Reporting

December 22, 2021

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2021-006

Dear Ms. Salo,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update (ASU), *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*.

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than $13 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

We commend the Board and staff for their outreach efforts and responsiveness to feedback as part of the Post-Implementation Review (PIR) of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. In our letter, we broadly support the proposed amendments related to troubled debt restructurings (TDRs) and vintage disclosures. We also provide several suggestions for the Board's consideration on the operability, scope, and transition requirements of the proposed amendments.

Troubled Debt Restructurings

We support the elimination of TDR recognition and measurement guidance. With the adoption of the current expected credit losses (CECL) model in Update 2016-13, lifetime expected credit losses are already captured for all loans, including TDRs. As such, we agree that TDR designation and disclosure may no longer be meaningful or justify the costs of compliance.[1] We appreciate the Board's effort to provide enhanced disclosures to users in conjunction with the elimination of TDRs, and in the following sections,

[1] Basis for Conclusions (BC) paragraphs BC12 through BC13 of the Exposure Draft

we have included suggestions for the Board's consideration around the operability, scope, and transition requirements of the proposed amendments related to TDRs.

Operability

We believe that applying the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to loans that were TDRs would be operable. To comply with the proposed disclosure requirements, entities would likely incur some initial costs to update systems to perform the assessments or calculations that are needed. Recurring costs to monitor loan modifications for subsequent performance disclosures would be incurred and could be significant if an entity has a large population of modifications.

Additionally, we believe there are opportunities to further mitigate upfront and recurring costs to adopt the proposed requirements and still provide the information needed by users. Specifically, we note that the proposed amendments would require disclosure of the pre-modification amortized cost basis of modified receivables,[2] which may require significant operational changes to provide, as this information is not typically used by management of companies and, therefore, is not available in most systems. In contrast, a period-end balance of modified receivables is more likely to be readily available to most entities, and we believe that requiring disclosure of such information instead of a pre-modification balance would not result in a loss of decision-useful information. We encourage the Board to conduct additional targeted outreach and field testing to better understand how the costs and benefits of requiring a period-end balance of modified receivables may compare to the disclosure requirements currently proposed.

Scope

We recommend that the Board consider excluding the following from the disclosure requirements in the proposed amendments:

- Lease modifications, which are subject to separate modification guidance
- Modifications that do not impact the payment terms, such as covenant relief
- Assets with a zero-loss assumption, such as government guaranteed loans

Transition Requirements

We support prospective application of the proposed amendments around TDRs and recommend that the proposed amendments be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We also support early adoption and encourage the Board to consider allowing entities the option to early adopt the elimination of TDR accounting separately from adoption of the new proposed disclosure requirements, some of which will take more time to implement. For example, the requirement to disclose the financial effects of modifications by type of modification,[3] which may include the incremental effect of principal forgiveness on the amortized cost basis of the modified receivables or the weighted-average reduction in interest rates, may require significant process, control,

[2] Paragraph 310-10-50-40(a)(1) of the Exposure Draft

[3] Paragraph 310-10-50-40(a)(2) of the Exposure Draft

and systems changes. Allowing entities to early adopt the elimination of TDR accounting separately from other proposed disclosure requirements would continue the relief provided in the CARES Act of 2020 and Consolidated Appropriations Act of 2021 that has allowed financial institutions to more effectively work with clients impacted by COVID-19 and is due to expire at the end of 2021. Furthermore, as noted by the Board, users have noted that TDR identification may not provide decision-useful information, yet stakeholders have indicated that the complexity and costs of compliance are significant.[4] For these reasons, we strongly urge the Board to consider a bifurcated adoption approach that would continue providing relief from TDR accounting while allowing enough time to implement new disclosure requirements.

Vintage Disclosures—Gross Writeoffs

We support the Board's decision to require gross writeoff information by year of origination. Such information has proven to be useful to many users, and we believe that the benefits to users will outweigh the costs to operationalize the new requirement. We appreciate the Board's responsiveness to feedback regarding the more significant costs of requiring either gross recoveries by year of origination or cumulative gross writeoff information and support the Board's decision to exclude these requirements from the proposed amendments. In the following sections, we have included additional feedback for the Board's consideration around the operability and transition requirements of the proposed gross writeoff disclosure requirement.

Operability

We believe that the proposed disclosure guidance in paragraph 326-20-50-6 is operable. To comply with the proposed guidance, we expect mostly one-time costs to update systems and to design, test, and implement new processes and controls. Recurring costs would likely be limited to those associated with incremental quarterly processes and controls. Overall, we expect the magnitude of these upfront and recurring costs to be much less than would be incurred to provide gross recoveries by year of origination or cumulative gross writeoff information, either of which could present significant operational hurdles. We note that similar feedback around the significant costs of providing recovery or cumulative gross writeoff information has been provided to the Board as part of the PIR process for CECL.[5]

Transition Requirements

Consistent with our recommendation for the proposed amendments around TDRs, we support prospective application and recommend that the proposed amendments for vintage disclosures be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Currently, not all entities have the information readily available to provide gross writeoff disclosure for reporting purposes,[6] and allowing time for entities to design, test, implement, and review processes and controls will be important before the proposed amendments become effective.

[4] Paragraphs BC16 and BC18 of the Exposure Draft
[5] Paragraphs BC30 through BC32 of the Exposure Draft
[6] Also noted in paragraph BC33 of the Exposure Draft

Conclusion

We appreciate this opportunity to provide input on the proposed amendments related to TDRs and vintage disclosures. We thank the Board for its consideration of our comments and welcome further discussion with the Board or staff at your convenience.

Sincerely,

Rudolf Bless

Rudolf Bless
Chair, Committee on Corporate Reporting
Financial Executives International