

August 24, 2009

Russell G. Golden, CPA  
Technical Director  
FASB  
401 Merritt 7  
PO Box 5116  
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**Re: June 24, 2009 Proposed FASB Exposure Draft (ED) of a Proposed Statement of Financial Accounting Standards (SFAS), *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* [File Reference No. 1700-100]**

Dear Mr. Golden:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to act as an advocate for all local and regional firms and represent those firms' interests on professional issues, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

#### **GENERAL COMMENTS**

TIC believes the scope of this ED is excessively broad. Financial statement users for entities outside of the financial services industries do not need the proposed disclosures to make lending or investing decisions. Furthermore, the disclosures would be excessive and irrelevant for multi-year promises to give of not-for-profit entities (NFP's). Receivables arising from multi-year promises to give are not lending activities and should not be considered financing receivables. In addition, many of the proposed disclosures are tied to the reporting model in FASB *Accounting Standards Codification*<sup>TM</sup> (ASC) 310-10-35 (formerly FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*).



NFP's, however, do not apply the Statement No. 114 model to multi-year promises to give.

TIC disagrees with the Board's statement in paragraph B18 of the ED that the level of disaggregation required by the proposed disclosures is consistent with creditors' existing practices for monitoring credit quality and assessing the allowance for credit losses. The type of information needed to comply with the proposed disclosures is prepared primarily by entities in the financial services sector. Other entities will have to incur unnecessary costs to develop the information needed for these disclosures. TIC therefore recommends that the scope of the ED be limited to the financial services industries, including lessors with investments in direct financing/sales-type leases.

If the Board decides to retain the current scope, additional guidance should be provided and disclosure examples should be included in the final standard to help entities develop the disclosures for nonlending activities, such as retainages of construction contractors and multi-year promises to give of NFPs. Without such further guidance and illustrations, preparers and practitioners will not know how to provide the disclosures about these receivables.

TIC also requests a one-year deferral for all nonpublic entities that will be required to adopt the standard. Since many nonpublic entities do not already have the requested information readily available, they will need additional preparation time.

## **SPECIFIC COMMENTS ON QUESTIONS FOR RESPONDENTS**

### **Scope**

*Issue 1: This proposed Statement defines a financing receivable as both loans as defined by FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan and lessors' investment in leases other than operating leases that have been recorded as assets in accordance with FASB Statement No. 13, Accounting for Leases. Do you agree with the definition used to identify a financing receivable subject to the provisions of this proposed Statement? If not, why not?*

TIC believes that the definition used to identify a financing receivable subject to the provisions of this proposed Statement should be limited to long-term receivables within the financial services sector and lessors' investments in direct financing/sales-type leases. The extensive required disclosures mandated by this proposed Statement may be difficult to obtain and would add unnecessary costs for nonpublic entities that are not in the financial services/leasing sector.

As written, paragraph 3 of the ED would apply to multi-year promises to give of NFPs. TIC believes unconditional promises to give do not meet the definition of *financing receivables*. Unlike typical loans, such multi-year promises to give are nonreciprocal transactions. The NFP has not given up anything in exchange for the promise to give. Therefore, the nature of the transaction is inconsistent with a financing. Furthermore, TIC believes that current disclosure requirements relating to the liquidity of an organization's contributions receivable are sufficient for users' needs.

*Issue 2: This proposed Statement would apply to all creditors, including all public and nonpublic entities that prepare financial statements in accordance with generally accepted accounting principles. Do you agree with the scope of this proposed Statement? If not, why not?*

As discussed above, TIC believes this proposed Statement should not apply to nonpublic entities, except those nonpublic entities in the financial services sector and lessors with investments in direct financing/sales-type leases. Most nonpublic entities, except for nonpublic banks and other lending institutions, do not maintain all the information necessary to prepare the disclosures required in this proposed Statement. This proposed standard would therefore impose additional costs, without a commensurate user benefit, on entities that can least afford it, especially during an economic crisis.

The users of the financial statements of nonpublic entities will find these disclosures too lengthy and confusing. Users of nonpublic entity financial statements usually have easy access to information regarding the entity's credit quality of financing receivables and the allowance for credit losses. Therefore, they do not have a need for these disclosures in the financial statements; existing disclosures are adequate for their purposes.

## **Disclosures**

*Issue 3: This proposed Statement would require a rollforward schedule of the total allowance for credit losses in both interim and annual reporting periods by portfolio segment and in the aggregate. In addition, it also would require a rollforward schedule of financing receivables in both interim and annual reporting periods by portfolio segment and in the aggregate. Do you believe those disclosures will assist financial statement users in better understanding the financial information for the total allowance for credit losses as well as the associated financing receivables? If not, why not?*

TIC believes the rollforward schedule of the total allowance for credit losses would be

useful for financial statement users of entities in the financial services sector and of lessors with investments in direct financing/sales-type leases.

However, TIC does not support the proposed rollforward schedules of financing receivables for any nonpublic entity, including those with ongoing lending activities. TIC believes lenders and regulators would not find them useful to predict future cash flows. This information is not currently required by regulators in the quarterly regulatory reports. The additional costs that might be required to compile the proposed disclosures, such as the cost of system changes, will significantly outweigh the benefits to users, since the disclosures will not improve their understanding of the financial information.

*Issue 4: This proposed Statement would require interim and annual credit quality disclosures about a portfolio by class of financing receivable, including quantitative and qualitative information about the credit quality of financing receivables. Do you believe those disclosures will assist financial statement users to better understand the credit quality for the associated financing receivables? If not, why not?*

TIC does not support credit quality disclosures by class of financing receivable within each portfolio segment for nonpublic entities. The disclosure requirements are excessive for users of nonpublic entities' financial statements. Users are not requesting this level of detail in conjunction with credit decisions and are likely to view most of the credit quality disclosures as unnecessary disclosure overload. Excessive disclosure volume tends to obscure other, more relevant disclosures.

NFPs, in particular, will not understand how to apply the credit quality disclosures to their multi-year promises to give because the discussion in paragraph 13 is geared toward entities with traditional lending activities and does not reflect the manner in which NFPs evaluate the collectability of multi-year promises to give. If NFPs are included in the scope of the final standard (which TIC opposes), then guidance should be included that is more relevant to this industry. The guidance should be supplemented by a disclosure example.

*Issue 5: This proposed Statement would require an analysis of the age of financing receivables that are past due, but not impaired, at the end of the reporting period separately for each class of financial instruments. Do you believe these disclosures will assist financial statements users in better understanding the credit quality for the associated financing receivables? If not, why not?*

Financial institutions already provide this analysis in their regulatory reports, which are readily available to their financial statement users. However, TIC believes that users other

than regulators will not have a need for an aging analysis by class, since this level of detail is not relevant to the financial statement users' understanding of credit quality. Therefore, preparers should not be asked to repeat the disclosure in the general purpose financial statements. TIC suggests that disclosure should be limited to the portfolio segment level for nonpublic entities that are scoped into this standard, especially considering the fact that users have not requested any additional disclosures for entities within TIC's constituency.

*Issue 6: This proposed Statement would require the fair value of loans at the end of the reporting period by portfolio segment. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?*

TIC believes that requiring the disclosure of the fair value of loans at the end of the reporting period by portfolio segment would not be useful information for the typical financial statement user of nonpublic entities. TIC believes lenders and other creditors will ignore fair values in lieu of other information that will help them predict future cash flows. In addition, this information would be costly for nonpublic entities to obtain.

However, if the Board decides to adopt these fair value disclosures in the final standard, then they should at least be optional for nonpublic entities that do not hold derivatives and have under \$100 million in total assets on the date of the financial statements, consistent with the scope exception in FASB ASC 825-10-50-3.

*Issue 7: Do you believe it is operational for entities to disclose all of the proposed requirements for interim and annual reporting periods? Why or why not?*

TIC does not believe it is operational for nonpublic entities to disclose all of the proposed requirements for interim, as well as annual, reporting periods. FASB ASC, paragraph 270-10-50-1, "Interim Reporting," states that companies report summarized information at periodic interim dates in considerably less detail than that provided in annual financial statements to provide more timely information. TIC believes that with the new enhanced disclosure requirements, nonpublic entities may find it difficult and costly to obtain all the required information for interim reporting periods. TIC requests an exemption from proactively updating the disclosures for nonpublic entities at each interim period unless a triggering event occurs that would require disclosure. This alternative would represent a practical solution that would meet the needs of financial statement users of nonpublic entities.

## **Effective Date and Transition**

*Issue 8: The final Statement is expected to be issued in the third quarter of 2009. The Board concluded that this proposed Statement would be effective for financial statements beginning with the first interim or annual reporting period ending after December 15, 2009. Do you agree with the Board's decision on the effective date? If not, what would be a reasonable period of time to implement the provisions of this proposed Statement? If you do not agree, please provide a description of the process changes necessary to implement this proposed Statement that would require additional time.*

TIC does not believe it is operational for nonpublic entities to implement the proposed Statement for financial statements beginning with the first interim or annual reporting period ending after December 15, 2009, if the final Statement is not issued until the third quarter of 2009. Unlike public companies, most nonpublic entities will not have this information readily available, and it may be operationally difficult for many of them (including nonpublic banks) to obtain and compile some of the required disclosures on a timely basis.

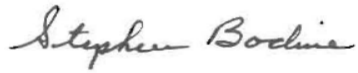
Nonpublic entities will not have sufficient time to understand what is required by the proposed Statement to adopt and implement the new proposed requirements. The required disclosures may be cumbersome and expensive to apply for nonpublic entities, since these entities may not normally compile this information internally. For example, some entities (such as small nonpublic community banks) do not analyze their loans to this level of detail. Others (such as private leasing companies) have never performed this type of analysis.

The proposed effective date is particularly bad timing for nonpublic banks, since they are also implementing FASB Statement Nos. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*, and 167, *Amendments to FASB Interpretation No. 46(R)*, at the beginning of 2010. The new standard on credit loss disclosures would be imposing additional burdens at the same time, when most entities are already suffering through the effects of the economic downturn.

Therefore, TIC believes an accelerated effective date would have negative implications for preparers and would not provide added value for financial statement users since it would not give financial statement preparers sufficient time to prepare for these extensive new disclosures. If the Board does not elect to provide the scope exemptions requested above for nonpublic entities, TIC recommends a one-year transition period such that the statement would be effective for nonpublic entities and lessors beginning with the annual reporting period ending after December 15, 2010. As discussed above, TIC believes the proposed disclosures should only be effective for nonpublic entities for interim periods if a triggering event occurs.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Stephen Bodine, Chair  
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committee