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January 14, 2025

Mr. Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2024-ED900

Dear Mr. Day:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (ASU), *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities* (proposed Update or proposal).

We support the Board's proposal and efforts in addressing the challenges entities are encountering when applying the guidance in Subtopic 326-20, *Financial Instruments - Credit Losses – Measured at Amortized Cost* (Subtopic 326-20) to certain current financial assets. We believe the proposed practical expedient and related accounting policy election provides entities a cost-effective and less complex approach for applying the provisions of Subtopic 326-20 while retaining the decision usefulness of the information.

For those reasons, we believe the proposed amendments should be expanded to apply to all entities (not just private companies and certain not-for-profit entities) and to a broader population of short-term receivables (not just current receivables and current contract assets resulting from transactions accounted for under Topic 606, *Revenue from Contracts with Customers*). In addition, we believe the proposed accounting policy election that would allow entities to consider collection activity after the balance sheet date for purposes of estimating expected credit losses should be permitted even if the entity does not elect the proposed practical expedient. However, if any final ASU allows an entity to elect any date after the balance sheet date to consider collections activity for purposes of estimating expected credit losses, we believe that date should be disclosed and consistently applied.

Our responses to the questions posed in the proposed Update are included in the remainder of this letter.

Responses to Questions for Respondents

Question 1: Should the amendments in this proposed Update be limited to private companies and not-for-profit entities, excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market? Should the proposed amendments be expanded to include public business entities, all not-for-profit entities, or other types of entities? Please explain your reasoning.

We believe the scope of any final ASU should include all reporting entities, including public business entities (PBEs) and all not-for-profit entities.

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We agree with the private companies and not-for-profit entities who indicated that identifying, analyzing and documenting macroeconomic data to develop reasonable and supportable forecasts can have a significant cost and generally does not materially affect the allowance for expected credit losses for short-term receivables. We also agree with stakeholders who noted that the ability to consider collection activity after the balance sheet date in estimating expected credit losses would significantly reduce complexity for preparers while still providing financial statement users with decision-useful information. However, we believe that these observations are true of all reporting entities, not just private companies and certain not-for-profit entities. Although PBEs generally have greater resources and controls to comply with the provisions of Subtopic 326-20, we believe the cost of compliance outweighs the benefits, if any, in these instances.

Question 2: Should the proposed amendments apply to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606?

Yes, the proposed amendments should apply to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

Question 3: Should the proposed amendments be extended to other assets or transactions and, if so, which ones and why? For example, should the proposed amendments apply to the initial estimate of expected credit losses on current accounts receivable and current contract assets acquired in a business combination accounted for under Topic 805, *Business Combinations*? Should the proposed amendments apply to transactions accounted for under Subtopic 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*, and, if so, what specific assets?

We believe the proposed amendments should be extended to other short-term receivables, whether originated or acquired in a business combination or asset acquisition.

For example, we believe insurance premium receivables and contributions receivable in employee benefit plans should also be in the scope of the proposed amendments. These short-term receivables are typically collected before the entity's financial statements are available to be issued. Losses from employee and employer contribution receivables generally do not occur, and collection risk is low in the insurance industry because past due premiums allow the insurance provider to cancel the customer policy. Allowing entities to apply the proposed practical expedient and accounting policy election would simplify application of Subtopic 326-20 to these assets without compromising the decision-usefulness of the information provided to financial statements users.

In addition, we believe that the proposed amendments should also apply to current accounts receivable and current contract assets acquired in a business combination accounted for under Topic 805, *Business Combinations*, as well as current accounts receivable arising from transactions accounted for under Subtopic 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*.

We believe extending the proposed practical expedient and accounting policy election for assets acquired in a business combination should be permitted, irrespective of whether the Board decides to pursue the proposed amendments under the separate project on *Financial Instruments – Credit Losses (Topic 326) - Purchased Financial Assets*.

Lastly, we recommend that the FASB clarify whether the proposed amendments would apply to current accounts receivable after they have been acquired by an investor through a transfer of financial assets subject to the guidance in Topic 860, *Transfers and Servicing*. Clarification of the Board's intentions (even if limited to the basis for conclusions) would avoid confusion and possible future diversity in practice.

Question 4: Will the proposed practical expedient improve the ability for entities to apply Topic 326 for current accounts receivable and current contract assets? Is it clear and operable? If not, what changes would you suggest?

We believe the proposed practical expedient would improve the ability for entities to apply the provisions of Subtopic 326-20 to current accounts receivable and current contract assets. Allowing entities to assume that current conditions as of the balance sheet date will persist throughout the life of the financial asset subject to the proposed amendments would reduce the complexity of applying the provisions of Subtopic 326-20 while still providing financial statement users with decision-useful information. We believe the proposed practical expedient is clear and operable.

Question 5: Will the proposed accounting policy election to consider subsequent collection activity improve the ability for entities to apply Topic 326 for current accounts receivable and current contract assets? Is it clear and operable? If not, what changes would you suggest?

We believe the proposed accounting policy election to consider subsequent collection activity will improve the ability for entities to apply the provisions of Subtopic 326-20 to current accounts receivable and current contract assets while providing financial statement users with more decision-useful information. We also believe the accounting policy election is clear and operable.

However, if any final ASU allows an entity to elect any date after the balance sheet date (but before the financial statements are available to be issued) to consider collections activity for purposes of estimating expected credit losses, we believe that date should be disclosed and consistently applied to avoid managing performance results. Alternatively, we believe the date used should be consistent with the guidance in Topic 855, *Subsequent Events*, and be the date the entity's financial statements are available to be issued.

Question 6: Should the proposed accounting policy election to consider subsequent collection activity be limited to entities that have elected the practical expedient? Please explain why or why not.

We do not believe that the proposed accounting policy election to consider subsequent collection activity should be limited to entities that have elected the proposed practical expedient. We believe that entities should be able to elect either or both. While we believe most entities would likely adopt both if given the option, it seems unnecessary to require an entity to elect the practical expedient to be able to consider subsequent collection activity.

Question 7: Should the proposed amendments include a specific requirement for entities to disclose that they are applying the proposed practical expedient and accounting policy election? Please explain why or why not.

We believe any final ASU should include a specific requirement for entities to disclose when they are applying the proposed practical expedient and accounting policy election. The disclosure would help financial statements users better understand the information considered by management to determine the allowance for expected credit losses and assist users in comparing reserving policies across reporting entities.

Question 8: Do you agree with the proposed prospective transition requirements? Should entities be able to initially apply the practical expedient and accounting policy election in any period after the effective date without performing a preferability assessment under Topic 250, *Accounting Changes and Error Corrections*? Please explain why or why not.

We agree with the proposed prospective transition requirements. We also agree with allowing entities to initially apply the practical expedient and accounting policy election in any period after the effective date without performing a preferability assessment under Topic 250, *Accounting Changes and Error Corrections*.

Question 9: Should the proposed amendments be effective upon issuance of a final Accounting Standards Update? If not, how much time would be needed to implement the proposed amendments? Should early adoption be permitted for financial statements that are not yet available to be issued? Please explain why or why not.

Assuming entities would be able to adopt the proposed amendments in any period after the effective date of a final ASU without performing a preferability assessment under Topic 250, we see no significant detriment to making the proposed guidance effective upon issuance. Otherwise, we would defer to financial statement preparers as to how much time would be needed to implement the proposed amendments; however, we believe early adoption should be permitted.

Question 10: Will the proposed amendments reduce costs without reducing the decision usefulness of information provided to investors and creditors? Please explain why or why not.

We defer to financial statement preparers and users as to whether the proposed amendments will reduce costs without reducing the decision usefulness of the information provided. However, we believe the proposed amendments to simplify the process of estimating the allowance for expected credit losses for current accounts receivable and current contract assets would reduce the overall compliance costs for preparers, including audit related costs.

We appreciate this opportunity to provide feedback on the proposed Update and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Mike Gaiso at 212.372.1709 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

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