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December 23, 2021

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

File Reference No. 2021-006

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's proposed Accounting Standards Update (ASU), *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.* We appreciate the efforts the Board has put forth to remove some of the complexity associated with a creditor's accounting for troubled debt restructurings (TDRs) as well as clarify what is required for public business entities in the vintage disclosures for classes of financing receivables. Our sentiments on certain questions posed in the proposed ASU follow.

Responses to Questions for Respondents

Issue 1: Troubled Debt Restructurings by Creditors

> **Question 1:** Should the designation of and accounting for TDRs by creditors be eliminated? That is, do the benefits of designating and accounting for certain loan modifications as TDRs and providing specific disclosures about those modifications justify the costs of providing that information? Please explain why or why not.

We support the proposed amendments to eliminate the designation of and special accounting for TDRs by creditors. We agree with the stakeholder feedback noted in paragraph BC18 of the proposed ASU that the compliance costs and complexities of that model outweigh the benefits given the typically insignificant incremental effect a TDR has on an entity's allowance for credit losses.

> **Question 2:** If the accounting for TDRs by creditors was eliminated, an entity would have to apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether the modification results in a new loan or a continuation of an existing loan. Would applying the guidance in paragraphs 310-20-35-9 through 35-11 be operable? Please explain why or why not.

We generally believe the application of the guidance in paragraphs 310-20-35-9 through 35-11 would be operable. However, we recommend that the following sentence from paragraph 310-20-35-11 be removed because it seems to add unwarranted complexity and subjectivity to the analysis:

> If the difference between the present value of the cash flows under the terms of the new debt instrument and the present value of the remaining cash flows under the terms of the original debt instrument is less than 10 percent, a creditor shall evaluate whether the modification is more than minor based on the specific facts and circumstances (and other relevant considerations) surrounding the modification.

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Question 3: Would the amendments in this proposed Update result in financial reporting outcomes that are appropriate and meaningful for users of financial statements? That is, would the proposed amendments related to recognition and measurement changes on loan modifications produce meaningful information absent designation of certain modifications as TDRs? Is application of the modification guidance to loans previously accounted for as TDRs appropriate, or should the Board consider amending that guidance such that TDRs are more or less likely to be accounted for as new loans? Please explain why or why not.

In the absence of TDR accounting for creditors, it seems appropriate to apply the existing loan refinancing or restructuring guidance in paragraphs 310-20-35-9 through 35-11(with the modification we suggest in our response to Question 2). Consistent with the Board's observations noted in paragraph BC20 of the proposed ASU, we believe that the application of this guidance will generally result in a conclusion that loan modifications to borrowers that are experiencing financial difficulty are continuations of the existing loans.

Question 6: Do you foresee any operability or auditing concerns in providing the disclosures in the proposed amendments? Please describe the nature and magnitude of costs and any operability or auditing concerns, differentiating between one-time costs and recurring costs.

We are not aware of any significant operability or auditing concerns associated with the proposed disclosures.

Reporting entities may need to make changes in processes and controls to comply with the proposed disclosure requirements and incur costs to determine if a loan restructuring should be treated like a new loan or the modification of an existing loan. However, these costs should be somewhat offset with the elimination of the need to consider whether an economic concession has been granted to a borrower.

Question 8: Are the proposed transition methods appropriate? Please explain why or why not.

We are in agreement with the proposed transition methods.

Issue 2: Vintage Disclosures—Gross Writeoffs

Question 11: Are the proposed amendments that would require that a public business entity disclose the current-period amount of gross writeoffs by origination year for financing receivables and net investment in leases clear and understandable? Please explain why or why not.

We believe the proposed amendments are clearly articulated and understandable.

Question 14: In developing these proposed amendments, the Board considered, but decided not to require, gross recoveries by year of origination. If the Board decided to consider requiring gross recovery information, please describe the nature and magnitude of costs and any operability or auditing concerns about providing that information, differentiating between one-time costs and recurring costs. For financial statement users, is gross recovery information by year of origination necessary and, if so, how you would use that information?

We agree that, for the reasons noted in paragraph BC30 of the proposed ASU, providing gross recovery information by year of origination could be more challenging than providing gross writeoff information by

year of origination and would disproportionately increase costs for entities that need to implement new systems or processes to compile this information, including related auditing costs. Feedback from reporting entities on the magnitude of these costs should be carefully weighed against feedback from financial statement users on whether such information is necessary and how it would be used.

We appreciate the efforts the Board has put forth to remove some of the complexity associated with a creditor's accounting for TDRs as well as clarify what is required for public business entities in the vintage disclosures for financing receivables. We would be pleased to respond to any questions the Board or its staff may have concerning our comments and ask that questions be directed to Mike Lundberg at 612.455.9488 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

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