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Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116
director@fasb.org

**File Reference No. 2023-ED400**

Dear Ms. Salo:

RSM US LLP is pleased to provide feedback on the Financial Accounting Standards Board's (FASB or Board) proposed Accounting Standards Update (proposed ASU), *Financial Instruments—Credit Losses (Topic 326), Purchased Financial Assets*. We appreciate the FASB's efforts to improve the accounting for purchased financial assets.

Overall, we agree that the proposed amendments would provide users of financial statements with more decision-useful information by reducing the circumstances under which entities would be required to recognize day-one credit losses on purchased financial assets. However, we believe that there are opportunities to enhance the proposed ASU to help drive consistency across reporting entities.

In our letter, we have provided suggestions on how to clarify and improve the proposed seasoning criteria. In addition, we recommend that the Board provide additional guidance to address preparer questions about the application of the proposed accounting to credit cards and similar revolving credit arrangements. We also recommend that the Board address today's disparate methods for recognizing interest income on purchased credit deteriorated (PCD) versus non-PCD acquired assets. We believe the comparability of financial reporting could be further improved and simplified if a single method was required; however, we do not recommend deferring completion of this project to address this issue.

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

**Question 1:** The amendments in this proposed Update would expand the population of acquired financial assets accounted for under the gross-up approach, which currently applies only to PCD assets. Should certain classes of financial assets or specific transactions be included (for example, AFS debt securities) or excluded (for example, credit cards or similar revolving credit arrangements)? Please explain why or why not.

We believe the expanded population of acquired financial assets and transactions that would be subject to the "gross-up approach" is appropriate for the reasons stated in paragraphs BC14 to BC19 of the proposed ASU. We also agree with the Board's decision to exclude debt securities classified as available-for-sale. Expanding the population of acquired financial assets accounted for under the gross-up approach would address most stakeholders' concerns about the application of today's non-PCD accounting model, which results in the unintuitive recognition of day-one losses by double counting the credit risk embedded in the purchase price of the acquired financial assets.

**Question 2:** Would the proposed amendments enhance comparability and improve the decision usefulness of financial information? Are there specific disclosures related to these proposed amendments that would be useful to investors? Please explain why or why not.

By moving towards a single model for purchased financial assets and removing the distinction between purchased credit deteriorated (PCD) and non-PCD assets, we believe the proposed ASU would enhance comparability and improve the decision usefulness of financial information. We defer to users of financial statements as to whether additional or amended disclosures should be required to supplement the amended accounting requirements.

**Question 3:** Do you foresee operability or auditing concerns in applying the gross-up approach to certain classes of financial assets (for example, credit cards or other revolving arrangements), certain types of transactions (for example, business combinations, asset acquisitions, or the consolidation of a VIE that is not a business), or certain classes of financial assets in specific transactions (for example, credit cards or other revolving arrangements in an asset acquisition)? Please describe the nature of those concerns and the magnitude of associated costs, differentiating between one-time costs and recurring costs. Are there practical expedients or implementation guidance that would mitigate your concerns? Are there practical expedients or implementation guidance that would enhance comparability? For any proposed practical expedients suggested, please explain your reasoning.

Overall, we believe the gross-up approach is operable; however, we see opportunities to further clarify and enhance the proposed guidance.

If a group of financial assets are acquired in an asset acquisition or recognized through the consolidation of a variable interest entity that is not a business, substantially all of the financial assets in that group must meet the proposed criteria in paragraph 326-20-30-15(b) for all of the assets within that group to be considered seasoned. However, the proposed ASU is not clear as to whether the “substantially all” threshold applies to the number of financial assets comprising the group or the aggregate dollar amount of the assets within the group.

The proposed amendments to Example 11, beginning at paragraph 326-20-55-57, could be read to mean that the “substantially all” criteria should be assessed based on the number of financial assets within the group of acquired assets that meet the proposed criteria. However, we believe it would be more appropriate for the determination to be based on the total dollar amount of the assets within the group of acquired financial assets that meet the seasoned criteria. We recommend that the Board clarify its intent. Further, although the concept of “substantially all” already exists elsewhere in GAAP, we believe that adding application guidance or defining the term as meaning at least 90% (consistent with how the term is generally applied in practice today) in the final ASU would help drive further consistency across reporting entities.

In paragraph BC17 of the proposed ASU, the Board noted that most preparers believe that the gross-up approach should not be applied to credit cards and similar revolving arrangements if the borrower is able to use any unfunded available credit because of the lack of specific guidance in current GAAP related to these assets. Those preparers noted the lack of clarity about whether the unit of account at acquisition is the funded amount or the sum of funded and unfunded amounts. The Board acknowledged that operational complexities may exist when applying the gross-up approach to these types of assets, but also noted that reasonable approaches could be applied without specifying what those approaches might be.

We understand that the Board decided not to include a scope exception for credit cards and similar arrangements because doing so would have conflicted with this project’s objective of providing a uniform accounting approach for all acquired financial assets. However, if the Board decides to move forward with its proposal without providing guidance on how to apply the gross-up approach to these types of assets, we are concerned that diverse practices will continue, which will diminish the intended benefits this proposed ASU. Accordingly, we recommend that the Board address preparer concerns before finalizing this project.

**Question 4:** There are no proposed amendments to the gross-up approach as it is currently applied to PCD assets; rather, there are proposed amendments that would expand the population of financial assets that apply the gross-up approach at acquisition. Do you agree that no amendments are needed to the existing gross-up approach? Please explain why or why not.

Overall, we believe the proposed ASU represents an improvement over current GAAP and is largely responsive to the feedback the Board received as part of its post-implementation review process of ASU 2016-13. However, the proposed ASU does not address today's disparate methods for recognizing interest income on PCD versus non-PCD acquired assets – an issue that has also been raised by both investors and certain Board members.

We see merits in both current approaches for interest income recognition but believe the comparability of financial reporting could be further improved and simplified if a single method was required. Accordingly, we recommend that the Board perform additional outreach to determine which method would present the most decision-useful information to investors and have that method applied in all instances; however, we do not recommend deferring the completion of this project to address this issue.

**Question 5:** Do you agree with the proposed seasoning criteria in paragraph 326-20-30-15 and 30-16? If not, please explain why or why not and describe any potential alternatives for the Board's consideration.

We agree with the proposed seasoning concept to prevent entities from structuring transactions to achieve desired accounting outcomes. However, we question the appropriateness of the proposed 90-day time-based threshold for making the determination, including whether the "no involvement" criterion should be refined to focus on credit risk.

Proposed paragraph 326-20-30-15(b) indicates that a financial asset acquired more than 90 days after its origination date would be considered seasoned and accounted for a purchased financial asset (i.e., accounted for using the gross-up approach) if the acquirer did not have involvement with the origination of the acquired asset. As drafted, the proposed guidance would cause any acquired financial asset to be accounted for akin to an originated asset even if the acquirer had no credit risk exposure prior to the acquisition, nor any involvement with the financial asset's underwriting process and policies.

For example, assume that a conglomerate with retail operations markets in its stores a credit card program that is offered by a third-party financial institution. Other than marketing the program to its customers, the conglomerate has no involvement in the underwriting process or policies of the third-party financial institution, including ongoing monitoring, and has no loss-sharing arrangement with the financial institution. In exchange for providing the marketing service, the conglomerate would be charged a reduced processing fee by the financial institution if the customer utilizes the credit card to purchase goods or services from the conglomerate's stores. Assume further that one year after the origination of thousands of credit card contracts and millions of dollars of outstanding balances, the financing division of the conglomerate decides to acquire all or a portion of the outstanding receivables from the third-party financial institution (i.e., the originator). The acquisition price is based on the then fair value of the receivables. The transaction was not contemplated at the time the credit card accounts were opened.

In the scenario described above, a literal application of the proposed guidance would require the conglomerate to account for the acquired financial assets (i.e., the credit card receivables) as originated assets because the conglomerate was previously involved with the marketing of the credit card program. It is not clear whether that is the intended outcome of the Board when the purchaser had no credit risk and no involvement with the underwriting process and policies prior to the acquisition. Accordingly, we recommend that the Board clarify its intent. We believe that a criterion focused on credit risk would be more appropriate.

We believe that any financial asset acquired from third parties at fair value should be accounted for using the “gross-up approach” if the acquirer did not have some form of credit exposure before gaining control of the asset. Rather than incorporating an arbitrary time-based criterion to the proposed guidance, the Board can incorporate a principle for making the determination of whether a financial asset is considered seasoned. If the Board believes some time-based threshold is needed to capture circumstances that cannot adequately be addressed through use of a principle and application guidance, we recommend a shorter period be used (e.g., 30 days) to reduce the number of instances in which use of the non-PCD model would be required.

Overall, we believe the examples of involvement with the origination of acquired financial assets included in paragraph 326-20-30-16 of the proposed ASU would be helpful. To further clarify the type of involvement that would preclude an acquirer from applying the purchased financial asset accounting model, we recommend adding the following guidance after the examples listed in paragraph 326-20-30-16:

> An acquirer is considered to be involved with the origination of the acquired financial asset if the originator was acting solely as the acquirer’s agent. This may be the case if the originator had:
>
> - No discretion in establishing the terms of the financial asset with the obligor (i.e., the terms of the financial asset were determined based on the underwriting standards established or approved by the acquirer); and
> - No credit risk prior to the sale of the financial asset (i.e., the originator is made whole for any credit losses, except for losses due to fraud or negligence).

Lastly, we observe that the term “origination” is not defined in the proposed ASU. For the purposes of applying the proposed guidance in paragraphs 326-20-30-15 and 30-16, the Board should clarify whether an acquirer’s involvement extends to modifications of financial assets after the origination date, and whether the treatment of that modification (i.e., continuation of the original loan by the borrower or new loan treatment) effects the determination.

See our response to Question 3 for other comments related to the seasoning criteria.

**Question 6:** Do you agree with the modified retrospective transition guidance in this proposed Update? Should early adoption be permitted? Please explain why or why not.

We understand that the proposed modified retrospective transition guidance is intended to best respond to stakeholders’ feedback for a uniform accounting approach for all acquired financial assets (except for those purchased financial assets that are economically similar to originated assets). Although retrospective application would improve the comparability of information for each of the periods presented, the cost of applying that transition method can be costly and may outweigh the benefits for certain entities. As a result, we would also support allowing non-public business entities the option of applying the proposed guidance prospectively (that is, to acquired financial assets and other specified transactions occurring after the effective date of the proposed ASU). If permitted, entities electing to apply the proposed ASU prospectively should also be required to disclose the nature of and reason for the change in accounting principle and provide a qualitative description of the impact of the change in accounting on the entity’s financial position and operating results for each of the periods impacted by the change.

We believe early adoption of the proposed ASU should be permitted for all entities because we see no significant detriments by allowing entities to do so.

**Question 7:** How much time would be needed to implement the proposed amendments? Is additional time needed for entities other than public business entities? Please explain your response.

We generally defer to the preparers of financial statements regarding the time needed to implement the Board's proposals. However, in our experience, providing nonpublic business entities with additional time to learn from the transition experiences and interpretations of public business entities is helpful for those entities.

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We appreciate the Board's efforts to improve the accounting for purchased financial assets in accordance with Topic 326. We would be pleased to respond to any questions the Board or its staff may have about our comments and ask that questions be directed to Michael Gaiso at 212.372.1709 or Joseph Cascio at 212.372.1139.

Sincerely,

RSM US LLP

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