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Hillary Salo
Technical Director
Financial Accounting Standards Board (FASB)
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2021-006

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update (ASU) titled Financial Instruments – Credit Losses (Topic 326), *Troubled Debt Restructurings and Vintage Disclosures*.

Overall, we support the Board's efforts to eliminate the recognition and measurement guidance specific to TDRs while enhancing a creditor's disclosures for modifications made to loans for which the borrowers are experiencing financial difficulty. We believe the Board should prioritize the issuance of a final ASU in order to expeditiously reduce the cost and complexity in a creditor's accounting for loan modifications.

Our responses to selected questions in the Proposed ASU follow.

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 agree with the Board's proposed removal of the TDR guidance for creditors. In our experience, there are two elements of accounting for TDRs that are particularly costly for creditors. First, creditors are required to evaluate if the modified effective interest rate approximates current market rates for debt instruments with similar terms

issued to nontroubled debtors. The second element is that the TDR guidance requires maintaining a separate accounting and disclosure framework for loans that are subject to TDR. For entities that have not adopted ASC 326, the guidance in ASC 310-40 generally requires the use of a discounted cash flow (DCF) loss estimation method, which may not be required for most, if not all, of a creditor's other receivables. Many entities that have adopted ASC 326 retained the use of the DCF methods previously employed under ASC 310-40 to ensure that the economic concessions granted in a TDR are captured (in accordance with the CECL Transition Resource Group (TRG) discussions). In addition, loans modified in a TDR retain their TDR characterization until they are settled, which means that they are subject to the separate accounting and disclosure requirements for their remaining life.

We believe the guidance in the proposed ASU will reduce costs borne by creditors in accounting for modifications made to loans whose borrowers are experiencing financial difficulty by not requiring a separate accounting model to measure credit losses on such loans and by only requiring incremental disclosures.

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.

Yes, we believe applying the guidance in ASC 310-20-35-9 through 35-11 is operable and well understood in practice.

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.

We believe that unique rules to account for TDRs are not necessary after an entity adopts ASC 326. Prior to adoption of ASC 326, the designation of a loan as a TDR would often be the trigger for recognizing lifetime expected credit losses (as opposed to only incurred losses). However, under ASC 326, a creditor will measure its allowance for credit losses based on an estimate of lifetime expected credit losses for all loans.

Accordingly, we believe, because the creditor will have already captured the lifetime expected credit losses for all loans, the application of the existing guidance in ASC 310-20-35-9 through 35-11 to all loan modifications, including modifications granted to borrowers experiencing financial difficulties, is appropriate as it will result in accounting that reflects whether any modified loan is, in-substance, a new loan or the continuation of an existing loan.

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.

Partial satisfaction accounting

While not directly related to the proposed disclosures, we believe that certain troubled debt restructuring guidance moved to ASC 310-20-35-12C in the proposed amendments does not clearly address how to account for an unamortized premium or discount in a partial satisfaction and concurrent modification of a loan receivable. That is, the proposed guidance states that upon the receipt of assets in partial satisfaction of a receivable with a concurrent modification to remaining terms, an entity first measures assets received at fair value less costs to sell and then reduces the amortized cost basis of the loan receivable by that amount. The guidance in ASC 310-20-35-9 through 35-11 is then applied, including comparing the difference between the present value of the cash flows under the terms of the new debt instrument, including the prepayment, and the present value of the remaining cash flows under the terms of the original debt instrument.

As currently drafted, the proposed guidance is silent with regard to whether a creditor should proportionately adjust any unamortized premium or discount balance when accounting for the partial satisfaction. This lack of specificity could result in diversity in practice now that the general modification model in ASC 310-20, rather than the TDR model, is applied to partial satisfactions with concurrent modifications. Diversity over this issue will have enhanced prominence under the proposed amendments, because it may factor significantly into whether a restructured loan is accounted for as a modification of a loan or an extinguishment, whereas under current GAAP, TDRs are always accounted for as modifications.

Loans fully satisfied by the receipt of assets

ASC 310-40-15-9, to be superseded under the proposed amendments, specifies that a troubled debt restructuring may include the full or partial satisfaction of a loan by the receipt of assets or a modification to the terms of the loan receivable. Accordingly, the current disclosure guidance in ASC 310-40-50 applies to loans whose restructuring resulted in the full satisfaction of the loan by the receipt of assets.

However, as currently drafted, the proposed amendments in ASC 310-10-50-36 through 50-42, including the associated headers, only refer to loan modifications. While ASC 310-10-50-39A clarifies that the proposed disclosure requirements are applicable regardless of whether a modification of a loan receivable made to a borrower experiencing financial difficulty results in a new loan or the continuation of an existing loan, we believe it is unclear whether the proposed disclosure requirements apply to loans fully satisfied by the receipt of assets.

Editorial suggestions

To improve the understandability of the new disclosure requirements, we suggest that the Board clarify the following proposed amendments:

1. Clarify what is meant by the “degree of success of the modifications in mitigating potential credit losses” in ASC 310-10-50-38 in the proposed ASU, which seems to tie to the requirement in ASC 310-10-50-40(a)(3) to disclose receivable performance in the trailing 12 months following a modification of a receivable made to a debtor experiencing financial difficulty. We believe the proposed ASU should clarify that “degree of success” does not require creditors to disclose information about what would have hypothetically occurred or been realized absent the modification, perhaps by replacing “degree of success” with language similar to what is included in ASC 310-10-50-40(a)(3) that requires information about actual receivable performance following the modification.
2. Clarify the proposed amendment in ASC 310-10-50-38 that states an entity “shall consider” providing information about modifications caused by a major credit event that otherwise would not fall within the scope of the disclosure requirements in paragraphs ASC 310-10-50-40 through 50-42. It is our understanding that the intent of the proposed amendment is to encourage, rather than require, entities to disclose information about broad/sweeping modifications made to loan receivables as a result of major credit events if relevant for financial statement users, despite such modifications not generally qualifying as modifications or concessions granted to borrowers experiencing financial difficulty and, therefore, not within the scope of the proposed disclosures. However, the use of the word “shall” may be misleading, since a reader could reasonably interpret that the disclosure of such information is a requirement. In addition, if the wording is not clarified, providing assurance that an entity complied with the requirement to *consider* such disclosures could be practically challenging.

Therefore, we suggest changing the proposed amendments to “may consider” or another iteration that does not suggest providing disclosures about modifications made as a result of major credit events is required. Alternatively, if the FASB wants to expand the disclosure requirements to modifications made as a result of a major credit event, then we suggest removing the word “consider,” clarifying the intent of the proposed amendments.

3. Clarify that insignificant delays in payments, assessed for significance in accordance with ASC 310-10-50-44 through 50-46, are not required to be disclosed in accordance with ASC 310-10-50-40 through 50-42. As currently drafted, use of the statement “...a delay in payment that is insignificant is not required to be disclosed on the basis of the requirements in paragraphs 310-10-50-40 through 50-42” in ASC 310-10-55-12B, 55-12F, and 55-12I seems to incorrectly refer to the proposed disclosure requirements rather than the guidance to determine if delays in payments are, in fact, insignificant.
4. Clarify the guidance in ASC 310-20-35-12C, which requires a creditor to measure assets received at their fair value less costs to sell and adjust the amortized cost of the loan before applying ASC 310-20-35-9 through 35-11, by not referring to the guidance on the receipt of assets from a debtor in full

satisfaction of a receivable in ASC 310-20-40-2 through 40-4. Besides accounting for assets received in the same manner, the partial satisfaction guidance and the full satisfaction guidance is otherwise not aligned (that is, ASC 310-20-35-9 through 35-11 is applied to partial satisfactions but is not applied to full satisfactions). Therefore, we think cross-referencing between the two sets of guidance could be misleading.

Beyond the clarifications suggested in this comment letter, we do not foresee any new operability or auditing concerns in providing the proposed disclosures, as entities already have processes in place to identify borrowers experiencing financial difficulty and capture the modifications or concessions granted to such borrowers.

Question 7: Are there certain assets within the scope of Topic 326 that if modified with a borrower experiencing financial difficulty should not be required to provide the information required by the disclosures in the proposed amendments? Are there certain modification types that should not be included in the disclosures in the proposed amendments? Please explain why or why not.

ASC 326-20-15-2 states that net investments in leases recognized by a lessor in accordance with ASC 842 are within the scope of ASC 326. Therefore, we presume that the proposed disclosure requirements would apply to modifications made to the underlying lease contract if the lessee is experiencing financial difficulty, assuming the net investment in the lease remains on the lessor's balance sheet both before and after the modification (that is, the lease remains classified as either a sales-type or a direct financing lease by the lessor). However, we think the Board should clarify the applicability of the proposed disclosure requirements to lease modifications for which the lessor has recognized a net investment in the lease given that:

- ASC 310-40-15-11(a) previously specified that lease modifications were not considered to be troubled debt restructurings. Therefore, we understand that lease modifications were not previously subject to the TDR recognition and measurement guidance.
- ASC 310-10-50-31, superseded by the proposed amendments, states that for purposes of the disclosure guidance in ASC 310-10, a creditor's modification of a lease receivable that meets the definition of a troubled debt restructuring is subject to such disclosure requirements. Therefore, we understand that even though not recognized nor measured as a TDR, modifications of a lease receivable that otherwise meet the definition of a TDR previously were scoped into the disclosure requirements in ASC 310-10-50.

In addition, a modification could be made to a lease agreement if a lessee is experiencing financial difficulty and, as a result, a lease classified as a sales-type or a direct financing lease pre-modification could be classified as an operating lease post-modification. As a result, and in accordance with the modification guidance in ASC 842, the net investment in the lease would be reclassified to property, plant, and equipment. We think it is unclear if such a modification would be within the proposed disclosure requirements, since presumably the pre-modification net investment in the

lease is within scope but the post-modification operating lease is not within the scope of ASC 326. This concern ties to our broader comment in Question 6, which is requesting that the Board clarify whether the proposed disclosure requirements apply to modifications that also result in settlement or full satisfaction of a finance receivable, including a net investment a lease.

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

We believe that a prospective transition method is appropriate for the new disclosure requirements, given that users of financial statements should already have the necessary information for modifications made to borrowers experiencing financial difficulty in prior periods, such that retrospective application is not necessary.

We also support the flexibility provided to creditors in allowing for an optional adjusting entry to opening retained earnings upon transition to reflect any change in the allowance for credit losses that had been recorded for loans modified or reasonably expected to be modified in a troubled debt restructuring before the adoption of the new guidance that eliminates the recognition and measurement guidance for TDRs.

Question 9: The proposed amendments would affect all entities that have adopted Update 2016-13. Are there any specific private company considerations, in the context of applying the Private Company Decision-Making Framework, that should be brought to the Board's attention?

Given that the proposed disclosures would assist users in assessing future cash flows and collection of outstanding loan receivables, we believe that disclosure alternatives for private companies would not be warranted.

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.

Yes, the proposed amendments are clear and understandable.

Question 12: Do you foresee any operability or auditing concerns or constraints in complying with the proposed amendments in paragraph 326-20-50-6? Please describe the nature and magnitude of costs and any operability or auditing concerns about providing this information, differentiating between one-time costs and recurring costs.

The proposed requirement to disclose the current-period amount of gross writeoffs by origination year does not raise any significant auditing concerns, given that attesting to such information generally does not require the audit of significant professional judgments or management estimates.

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?

Requiring the disclosure of gross recoveries by year of origination could create additional audit complexities in attributing gross recoveries to a particular year of origination in certain circumstances. For example, if a lender disposes of troubled loans in a bulk sale, the lender would know the total carrying amount and the total sale proceeds for the bundle of loans sold. However, it could be challenging for a lender to allocate such sale proceeds to each loan to determine the year of origination to which the proceeds relate. Any allocation methodology would need to be assessed for reasonableness as part of an audit, which could add additional ongoing costs and complexities to auditing the disclosure of gross recoveries by year of origination.

Question 15: In developing these proposed amendments, the Board considered, but decided not to require, disclosure of cumulative gross writeoffs by year of origination.

- a. For financial statement users, would cumulative writeoff information provide information that is more decision useful than current-period writeoff information? Please explain why or why not and, if so, the importance of that information to your analysis and how it would be used. If cumulative information should be required, please provide specific examples of what calculations would be done and when that information would influence investment and capital allocation decisions.**
- b. For financial statement preparers, please describe the nature and magnitude of costs of providing cumulative writeoff information and any operability or auditing concerns. Please differentiate between one-time costs and recurring costs.**

Similar to our response to Question 12, we do not expect the disclosure of cumulative gross writeoffs by year of origination to result in additional significant audit complexities or costs, given that the disclosure is primarily additional information about events that occurred during the period, and disclosing the information does not require significant management judgments or estimates that would require additional audit procedures.

We would be pleased to discuss our comments with you. If you have any questions, please contact Graham Dyer, Partner, Accounting Principles Group, at 312.602.8107 / Graham.Dyer@us.gt.com, Rahul Gupta, Partner, Accounting Principles Group, at 312.602.8084 / Rahul.Gupta@us.gt.com or Andrea Willette, Director, Accounting Principles Group, at Andrea.Willette@us.gt.com / 212.624.5956.

Sincerely,

/s/ Grant Thornton LLP