December 22, 2021

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

RE: File Reference No. 2021-006

Dear Ms. Salo,

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. We commend the FASB for its continuing efforts to improve financial reporting based on its post implementation review of Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13).

We agree with the proposal to eliminate the designation of and accounting for troubled debt restructurings (TDRs) for creditors that have adopted ASU 2016-13. Under ASU 2016-13's lifetime expected credit loss model, the designation of a TDR captures economic concessions of modifications related to the timing of contractual payments or reductions of a loan's interest rate. We believe that capturing these concessions in the allowance for credit losses does not provide decision-useful information and the proposal will therefore eliminate unnecessary complexity from the estimate of credit losses.

While supporting the proposal, we have the following recommendations:

- We are concerned that if institutions are not permitted to consider the impact of extending a loan beyond its contractual maturity for expected modifications to loans with troubled borrowers conducted as part of the lender's credit risk management strategy, the allowance for credit losses will not reflect management's estimate of expected credit losses. If the proposed guidance is interpreted to require entities to estimate their allowance for credit losses on portfolios of assets (including performing loans) in a manner inconsistent with their credit risk management strategies, this could have a significant impact on current practice. For example, historical loss data, which is the basis for an entity's credit loss estimate, would generally not contain losses that an entity did not actually incur as a result of implementing credit risk management strategies such as restructuring loans with troubled borrowers. To clarify the guidance we recommend retaining paragraph 326-20-30-6(a) and amending its language to refer to a modification with a borrower that is experiencing financial difficulty instead of to a reasonably expected TDR.

- We agree with the Board's decision to retain the guidance on evaluating when a restructuring results in an insignificant delay in payment to provide an option to exclude such restructurings from the proposed disclosures. We believe that payment delays should only be aggregated when they are effectively part of a single larger restructuring. As a result, we suggest that this guidance be amended to require an entity to consider the cumulative effect of only those restructurings that affected cash flows otherwise due in the past twelve months when evaluating whether a delay in payment is insignificant. We

understand that similar to the debt modification guidance in ASC 470-50, which is also used for loan modifications under ASC 310-20, this provision was designed to ensure that multiple restructurings that may be individually insignificant, but collectively significant, are considered. The guidance in ASC 470-50 contains a similar twelve month "look back period" that practice has shown to effectively capture and aggregate multiple modifications that are related to the same event. We recommend that the Board modify this guidance for all entities regardless of whether they have adopted ASU 2016-13.

The appendix contains our responses to the Questions for Respondents and other comments and suggestions for the Board's consideration.

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If you have any questions regarding our comments, please contact Chip Currie at frederick.currie@pwc.com or Heather Horn at heather.horn@pwc.com.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix

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 removing the designation of and accounting for TDRs by creditors that have adopted ASU 2016-13. We also support the proposed disclosures for modifications of loans with troubled borrowers. See Question 3 for suggestions related to the measurement of credit losses for entities that have adopted ASU 2016-13.

We are concerned that some areas of the proposed guidance seem to suggest that subsequent to adoption of the proposed amendments, certain entities would continue to reflect the impact of certain types of TDRs in its allowance of credit losses. For example, we note the following in the basis for conclusions (emphasis added):

> BC22. For entities that continue to measure the allowance for credit losses using a discounted cash flow model after the adoption of the amendments in this proposed Update, **the Board acknowledges that the effect of those concessions that can be captured only through a discounted cash flow model would continue to be recognized. That is, if an entity continues utilizing a discounted cash flow model to determine its allowance for credit losses, an interest rate concession that is granted in a loan modification may have an effect on the estimate of the allowance for credit losses**. The Board decided that it would be inappropriate for an entity to disregard the modification if its model to estimate the allowance for credit losses would otherwise capture it because the entity adopted the amendments in this proposed Update.

We do not believe that it would be appropriate to create a framework that requires some methods of calculating the allowance for credit losses (such as a discounted cash flow approach) to capture aspects of legacy TDR guidance (such as interest rate concessions) while other methods would not. In the case of an entity that uses a discounted cash flow model to estimate credit losses, we understand that upon modification of the loan, the discount rate used should be updated to reflect the amended (or new) loan's effective interest rate (which would be updated as a result of the modification for the purposes of computing interest income). As a result, for all entities (regardless of whether a discounted or non-discounted method is used), interest concessions would not be reflected in the allowance for loan losses, but instead captured in the future interest yield on the loan.

As noted in our cover letter and as further discussed in Question 4, we believe that the guidance for identifying an insignificant delay in payment should be amended to require an entity to consider the cumulative effect of only those restructurings that affected cash flows otherwise due in the past twelve months in evaluating whether a delay in payment is insignificant. We recommend that the Board also modify this guidance for entities that have not adopted ASU 2016-13. We recognize that this would impact the measurement of credit losses for entities that have not adopted ASU 2016-13.

In addition, we note that paragraph 978-310-35-4 includes the words “downgrade” and “be charged against the allowance for uncollectibles” and suggests that guidance for these items is within Topic 310. Subsequent to the adoption of ASU 2016-13, we understand that the guidance relating to credit losses and charge-offs would be within Topic 326.

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 understand that in many cases, the elimination of accounting for TDRs by creditors may simplify estimating expected credit losses for entities that have adopted ASU 2016-13. Even so, we note that an entity may have to establish new or amend existing processes, procedures, and controls to analyze whether modifications of loans with troubled borrowers would result in a new loan or be considered a continuation of an existing loan. However, as discussed in Question 3, we agree with the Board’s observations that the analysis of most modifications of loans with troubled borrowers will result in a conclusion that the modified loan is a continuation of the existing loan.

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 the elimination of the designation of and accounting for TDRs for creditors that have adopted ASU 2016-13 will improve the decision usefulness of information. Under ASU 2016-13’s lifetime expected credit loss model, the designation of a TDR captures economic concessions of modifications related to the timing of contractual payments or reductions of a loan’s interest rate. We believe that capturing these concessions in the allowance for credit losses does not provide decision-useful information and the proposal will therefore eliminate unnecessary complexity from the estimate of credit losses. This is because in many cases, contractual payments are often already being deferred or delayed prior to a modification because of the borrower’s financial difficulty. With respect to interest concessions, in many cases the original contractual amounts of interest are not expected to be collected, in which case the current model requires entities to record losses related to interest payments the lender has not accrued or earned.

While supporting the proposed amendments, we are concerned that if institutions are not permitted to consider the impact of extending a loan beyond its contractual maturity for expected modifications with troubled borrowers as part of the lender’s credit risk management strategy, the allowance for credit losses will not reflect management’s estimate of expected credit losses. We are concerned that the proposed guidance could result in institutions estimating expected credit losses in a manner that is inconsistent with anticipated loss mitigation efforts. While the guidance in paragraph 326-20-30-6 references TDRs, our understanding of the intent of this guidance is to align the estimate of credit losses with a lender's planned credit risk management strategy. In

doing so, the estimate of credit losses would better reflect management's expectations of the losses they expect to actually incur.

As an example, assume a lender has a commercial real estate development loan that is scheduled to mature in three months. The borrower is experiencing delays in completing the real estate project due to supply chain issues and is experiencing financial difficulty due to a downturn in the market. The lender has been monitoring the borrower's situation and expects to modify this loan to extend its maturity to give the borrower time to complete the project and sell the property and thereby be in a position to repay the loan. If based on its interpretation of the guidance, the creditor thought it was precluded from considering the anticipated restructuring of the loan in its estimate of credit losses, it may assume that it will foreclose on the unfinished commercial real estate and incur a significant loss upon sale of the property. In this case, when the loan is actually restructured, the entity would likely release a significant portion of the allowance for credit losses previously established, which ignored its credit risk management strategy. Alternatively, the entity may assume that there are no credit losses on the remaining contractual term loan (because as a result of the anticipated restructuring there will be no realized credit losses in the next three months). In this case, when the loan is actually restructured, the entity would likely record an allowance for credit losses reflecting the credit risk of the loan.

In addition, if this guidance is interpreted to require entities to estimate their allowance for credit losses on portfolios of assets (including performing loans) in a manner inconsistent with their credit risk management strategies, it could have a significant impact on current practice. For example, historical loss data, which is the basis for an entity's credit loss estimate, would generally not contain losses that an entity did not actually incur as a result of implementing credit risk management strategies, such as restructuring loans with troubled borrowers. Requiring entities to estimate future credit losses in a manner that is inconsistent with its credit risk management strategy would likely make this estimation more difficult.

To avoid confusion, we recommend retaining paragraph 326-20-30-6(a) and amending its language as follows:

> *326-20-30-6(a) The entity has a reasonable expectation at the reporting date that it will execute a ~~troubled debt~~ restructuring with ~~the~~ a borrower that is experiencing financial difficulty.*

As a result of eliminating TDRs from the accounting literature, lenders will apply the guidance in section 310-20-35 to determine whether a modified loan should be accounted for as a new loan or as the continuation of an existing loan. Applying this guidance to modifications with troubled borrowers may require preparers to develop new or modify existing processes, procedures, and controls. We note two aspects of this guidance that will likely result in entities concluding that the modified loan is a continuation of the existing loan. The first is that a modified loan cannot be considered a new loan unless the modified loan has terms and conditions that are at least as favorable to the lender as terms for comparable customers with similar collection risks who are not restructuring their loan. This is sometimes referred to as the "market terms" or "market rate" test. Many modifications with borrowers that are experiencing financial difficulty result in the lender making concessions to the borrower such that the modified loan has terms (such as its interest rate) that are less favorable to the lender. The second is that in performing the "10% test" for prepayable loans to determine if the changes are quantitatively significant, the test is performed assuming the exercise and non-exercise of any prepayment option and the smallest change in cash flows is used.

Question 4: The proposed amendments would enhance disclosure requirements for loan modifications made to borrowers experiencing financial difficulty. For investors and other financial statement users, would those disclosures provide decision-useful information? If so, how would they be used and for what purpose? Please provide specific examples of what calculations would be done and when that information would influence investment and capital allocation decisions.

We note that the proposed disclosures are consistent with those commonly made by financial institutions regarding payment relief provided during the COVID-19 pandemic.

We agree with the Board's decision to retain the guidance on evaluating when a restructuring results in an insignificant delay in payment to provide an option to exclude such loans from the proposed disclosures. We believe that payment delays should only be aggregated when they are effectively part of a single larger restructuring. As a result, we suggest that this guidance be amended to require an entity to consider the cumulative effect of only those restructurings that affected cash flows otherwise due in the past twelve months when evaluating whether a delay in payment is insignificant. We understand that similar to the debt modification guidance in ASC 470-50, which is also used for loan modifications under ASC 310-20, this provision was designed to ensure that multiple restructurings that may be individually insignificant, but collectively significant, are considered. The guidance in ASC 470-50 contains a similar twelve month "look back period" that practice has shown to effectively capture and aggregate multiple modifications that are related to the same event.

As noted in our cover letter and in Question 1, we recommend that the Board modify the guidance for all entities, regardless of whether they have adopted ASU 2016-13.

We suggest the following edits to the example in paragraph 310-10-55-12A:

- "Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, Entity B modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, ~~the amortized cost basis of the asset is reduced by the amount of the concession if the effect of the concession exceeds the amount already incorporated into the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore,~~ that portion of the loan is written off to the extent it was not previously written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses."

- Replace the reference to "the amortized cost basis" of the loans with "unpaid principal balance" in the Principal Forgiveness table. This is more consistent with the terms used in contractual terms (which is what is forgiven) as opposed to amortized cost basis, which is an accounting concept.

- "Upon Entity B's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off."

Question 5: Are there any additional disclosures or enhancements to the proposed disclosures needed to understand the effect of modifications made by creditors? If so, please explain why and how that information would be used and for what purpose. Please provide specific examples of what calculations would be done and when that information would influence investment and capital allocation decisions.

We believe that this question is best addressed by investors and other financial statement users.

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 expect that the processes and controls our clients will establish to comply with the proposed disclosures related to loans with troubled borrowers that are restructured will produce information that will be auditable.

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.

As noted in our cover letter and as further discussed in Question 4, we believe that the guidance determining what is considered an insignificant delay in payment should be amended to only require an entity to consider the cumulative effect of restructurings if they impacted cash flows otherwise due in the past twelve months in evaluating whether a delay in payment is insignificant. We recommend that the Board also modify this guidance for entities that have not adopted ASU 2016-13. We recognize that this would impact the measurement of credit losses for entities that have not adopted ASU 2016-13.

We understand that eliminating the requirement to assess whether a modification to a troubled borrower involved a concession was designed to simplify the application of the guidance. This may require changes in existing policies, procedures, and controls to identify modifications to troubled borrowers when the lender did not make a concession to the borrower so that such loans can be included in the proposed disclosures. We encourage the FASB to engage with users to determine whether the inclusion of modifications when no concession was given in these disclosures would be decision-useful information.

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

We support the proposed transition guidance.

We note that paragraph 326-10-65-5(b)(1) states "An entity may elect to early adopt the pending content that links to this paragraph individually by Topic. That is, for example, an entity may early adopt the pending content that links to this paragraph on vintage disclosures, and an entity may elect not to early adopt the pending content that links to this paragraph on troubled debt restructurings for creditors." The reference to "Topic" may cause confusion as this term is

generally used in standards to refer to codification Topics. We recommend this language be amended to say "An entity may elect to early adopt the pending content that links to this paragraph individually on vintage disclosures, or the pending content that links to this paragraph on troubled debt restructurings for creditors or both."

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?

We believe that this question is best addressed by financial statement preparers; however, we are not aware of any specific factors that would require additional time for private companies.

Question 10: For entities that have adopted Update 2016-13, what is the earliest period that you would be able to provide the recognition and measurement changes and disclosure requirements in the proposed amendments (for example, fiscal years beginning after December 15, 2021, including interim periods within those fiscal years)? Please explain your reasoning.

We believe that this question is best addressed by financial statement preparers. We understand that in order to adopt this guidance, preparers may have to develop new or modify existing processes, procedures, and controls, including those related to the disclosure requirements.

We support the FASB's decisions to allow entities to early adopt the recognition and measurement changes and the disclosure requirements, and adopt the changes related to TDRs separate from the changes to the vintage disclosures.

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 that 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.

We expect that the processes and controls our clients will establish to comply with any amendments to the vintage disclosures will result in outputs that are auditable.

We understand that many entities will have to establish new policies, processes, procedures, and controls to provide charge-off data by vintage as it is not currently utilized by entities for credit or risk management purposes.

Question 13: The proposed amendments 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. For investors and other financial statement users, would those disclosures provide decision-useful information? If so, how would it be used and for what purpose? Please provide specific examples of what calculations would be done and when that information would influence investment and capital allocation decisions.

We believe that this question is best addressed by investors and other financial statement users.

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 believe that this question is best addressed by investors and other financial statement users.

We understand that gathering information on recoveries may be more challenging than for write-offs. Write-offs tend to occur at discrete times based on established policies and regulatory guidance, when applicable. In contrast, recoveries of amounts previously written off are frequently received on an unpredictable basis, may be received in small amounts over long periods of time, and may be received on loans that have been fully charged off.

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.

We believe that this question is best addressed by financial statement users.

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.

We believe that this question is best addressed by financial statement preparers.

Question 16: For public business entities, what is the earliest period that you would be able to provide the disclosure requirements in the proposed amendments to paragraph 326-20-50-6 that would require that gross writeoffs be presented in the vintage disclosure table (for example, fiscal years beginning after December 15, 2021, including interim periods within those fiscal years)? Please explain your reasoning.

We believe that this question is best addressed by financial statement preparers. We understand that in order to adopt this guidance, preparers will likely have to develop new processes, procedures, and controls as many are not currently designed to capture write off information by vintage. We support the FASB's decisions to allow entities to early adopt the recognition and measurement changes and the disclosure requirements, and adopt the changes related to TDRs separate from the changes to the vintage disclosures.