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December 22, 2021

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

File Reference No. 2021-006
Re: Proposed Accounting Standards Update, *Financial Instruments — Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*

Dear Ms. Salo:

Deloitte & Touche LLP appreciates the opportunity to provide feedback on the FASB's proposed Accounting Standards Update (ASU) *Financial Instruments — Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*.

We support the Board's effort to (1) eliminate the guidance on creditors' recognition and measurement of troubled debt restructurings (TDRs) and (2) enhance disclosure requirements related to modifications of receivables made for borrowers experiencing financial difficulty. However, as discussed in Appendix A, we believe that existing guidance on modifications of receivables should be amended to avoid the possibility that such modifications for borrowers experiencing financial difficulty could be accounted for as new loans. This approach would be consistent with the long-standing notion that modifications previously representing TDRs are not new loans.

We also support the Board's effort to require disclosure of gross writeoff information within vintage disclosures required for public business entities.

Appendix A contains our responses to the proposed ASU's questions for respondents. Additional comments outside the scope of these questions are provided in Appendix B.

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We appreciate the opportunity to comment on the proposed ASU and would be happy to share additional perspectives and suggestions with the Board and its staff on the matters discussed in our comment letter. If you have any questions concerning our comments, please contact Jon Howard at (203) 761-3235.

Yours truly,

Deloitte & Touche LLP

Deloitte & Touche LLP

cc: Robert Uhl
Jon Howard

Appendix A
Deloitte & Touche LLP
Responses to Proposed ASU's 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.*

Yes, we agree with the Board's decision to eliminate the designation of and accounting for TDRs by creditors. The high costs described by the Board in paragraph BC18 of the proposed ASU do not justify the limited benefit for entities that apply the current expected credit losses model since the incremental effect of a TDR on the allowance for credit losses is insignificant in most cases.

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 believe that the guidance in ASC 310-20-35-9 through 35-11 would be operable. However, we ask that the Board consider amending that guidance in such a way that modifications previously representing TDRs cannot be accounted for as new loans, as described in our response to Question 3.

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.*

The Board should consider amending the guidance in ASC 310-20-35-9 through 35-11 in such a way that modifications that previously would have been accounted for as TDRs are not accounted for as new loans once the amendments in the proposed ASU are effective. We believe that the financial reporting outcome that would result if certain loan modifications for borrowers experiencing financial difficulty could be accounted for as new loans under the Board's proposed amendments would be less meaningful to investors than that which would result from accounting for such modifications as continuations of existing loans.

As indicated in paragraph BC20 of the proposed ASU, the operation of the proposed amendments would, in most cases, cause loan modifications that would previously have been TDRs to be treated as continuations of existing loans. However, the possibility that certain loan modifications for borrowers experiencing financial difficulty would be accounted for as new loans is inconsistent with the long-standing notion described in ASC 310-40-35-10 that TDRs are not new loans. ASC 310-40-35-10 (which the amendments in the proposed ASU would supersede) states, in part, that a loan restructured in a TDR should "not be accounted for as a new loan because a [TDR] is part of a creditor's ongoing effort to recover its investment in the original loan."

We believe that the economics of this transaction are different from those of a transaction between two parties that are trying to negotiate new terms for reasons unrelated to the borrower's credit risk. Further, accounting for such modifications as a new loan would result in the acceleration of unamortized deferred fees and costs into earnings, which we do not believe would be appropriate. For example, an entity may lend a subprime unsecured consumer loan with a high up-front fee and, in a workout with the borrower, may provide significant principal forgiveness with terms similar to those of comparable loans to other customers with similar collection risk that are not restructuring. Recognizing this modification as a new loan would result in recognition of income from derecognized deferred fees that is incongruent with the economics of the transaction.

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 defer to the views of investors and other financial statements users, to whom this question is addressed.

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 defer to the views of investors and other financial statements users, to whom this question is addressed.

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.*

Differences between existing disclosure requirements and the requirements in the proposed ASU may create additional costs for certain entities. We are not aware that such costs would be extensive but defer to the views of financial statements preparers regarding this question. We do not foresee any auditing concerns, provided that financial statement preparers are able to produce the disclosures that the proposed amendments would require.

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.*

We believe that if assets within the scope of Topic 326, other than those excluded by proposed ASC 326-10-65-5, are modified for a borrower experiencing financial difficulty, disclosures about such assets under the proposed ASU would provide meaningful information to users of the financial statements. Further, we do not believe that the modification of any such assets would result in extensive operability challenges or costs for entities applying the amendments in the proposed ASU.

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

Yes, the proposed transition methods are appropriate. As discussed in our comment on ASC 310-40-15-18 regarding the application of restructuring that results in only an insignificant delay in payment, we believe that non–public business entities should be able to adopt our suggested amendments to that Codification paragraph before they adopt ASU 2016-13.[1]

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 are not aware of any specific private-company considerations that should be brought to the Board's attention.

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 defer to the views of financial statement preparers, to whom this question is addressed.

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 clearly and understandably reflect the proposed ASU's amended example in ASC 326-20-55-79.

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.*

Differences between existing disclosure requirements and the requirements in the proposed ASU may create additional costs for certain entities. We are not aware that such costs would

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[1] FASB Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

be extensive but defer to the views of financial statements preparers regarding this question. We do not foresee any auditing concerns, provided that financial statement preparers are able to produce the disclosures that the proposed amendments would require.

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 defer to the views of investors and other financial statements users, to whom this question is addressed.

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 are not aware that the incremental costs of providing gross recovery information would be extensive but defer to the views of financial statements preparers regarding this question. We do not foresee any auditing concerns, provided that financial statement preparers are able to produce such disclosures.

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.

We defer to the views of investors, other financial statement users, and financial statement preparers, to whom this question is addressed.

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 defer to the views of financial statement preparers, to whom this question is addressed.

Appendix B
Deloitte & Touche LLP
Additional Comments

Application of Restructuring That Results in Only an Insignificant Delay in Payment

The existing guidance in ASC 310-40-15-18 states:

> If the debt has been previously restructured, an entity shall consider the cumulative effect of the past restructurings when determining whether a delay in payment resulting from the most recent restructuring is insignificant.

This guidance is relevant to the determination of whether a restructuring of debt for a borrower experiencing financial difficulty before the effective date of the amendments in the proposed ASU might be considered a concession and therefore would be a TDR. While the proposed ASU would eliminate the recognition and measurement of TDRs, it would also provide for incremental disclosures related to modifications of receivables made for a borrower experiencing financial difficulty. Proposed ASC 310-10-50-44 states, in part:

> In the case of a restructuring that results in only a delay in payment that is insignificant, an entity may elect to not include the modification made to receivables for debtors experiencing financial difficulty in the disclosure requirements in paragraphs 310-10-50-36 and 310-10-50-40 through 50-42.

The proposed ASU would move the existing guidance in ASC 310-40-15-18 to proposed ASC 310-10-50-45. Therefore, the guidance currently in ASC 310-40-15-18 would remain relevant to the determination of whether certain modifications may be excluded from the enhanced and added disclosures upon adoption of the amendments in the proposed ASU.

We believe that the Board should consider whether the requirement to aggregate the cumulative effect of all past restructurings during the life of a loan is too punitive, especially in the current macroeconomic environment in which many lenders have provided borrowers with payment deferrals in response to the pandemic. If the existing guidance is not amended, any future payment delays in the remaining life of the loan that may have been considered insignificant would not qualify for relief. In the context of a 30-year residential mortgage, a borrower may live in an area that experiences natural disasters that are spaced many years apart. Even in the absence of the pandemic, providing insignificant payment delays many years ago may preclude a current similar insignificant payment delay from qualifying for relief.

We suggest incorporating the guidance in ASC 470-50-40-12(f) on modifications of debt into both ASC 310-40-15-18 and proposed ASC 310-10-50-44. If the amendments in the proposed ASU supersede Subtopic 310-40, the existing guidance in Subtopic 310-20 would be applicable to all loan modifications. ASC 310-20-35-11 makes specific reference to Topic 470 for purposes of determining whether a modification of a debt instrument should be considered more than minor. That Codification paragraph states:

> A modification of a debt instrument shall be considered more than minor under the preceding paragraph if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. 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. The guidance in Topic 470 shall be used to calculate the present value of the cash flows for purposes of applying the 10 percent test.

Subtopic 470-50 provides guidance that a borrower would evaluate in determining whether the modification of its debt is substantial enough to support a conclusion that the original debt is extinguished and replaced by newly issued debt. ASC 470-50-40-10 states, in part:

> If the terms of a debt instrument are changed or modified and the cash flow effect on a present value basis is less than 10 percent, the debt instruments are [generally] not considered to be substantially different.

ASC 470-50-40-12 provides detailed guidance on calculating the present value of cash flows to apply the 10 percent cash flow test described in ASC 470-50-40-10. ASC 470-50-40-12(f) states:

> If within a year of the current transaction the debt has been exchanged or modified without being deemed to be substantially different, then the debt terms that existed a year ago shall be used to determine whether the current exchange or modification is substantially different.

We believe that a similar threshold should be applied in the evaluation of whether a delay in payment is insignificant. That is, we believe that ASC 310-40-15-18 (ASC 310-10-50-45 in the proposed ASU) should be modified as follows (added text is <u>underlined</u>, and deleted text is ~~struck out~~):

> If the debt has been ~~previously~~ restructured <u>within a year of the current transaction</u>, an entity shall consider the cumulative effect of the ~~past~~ restructurings <u>that occurred within a year of each other</u> when determining whether a delay in payment resulting from the most recent restructuring is insignificant.

We believe that the changes should be made to ASC 310-40-15-18 (ASC 310-10-50-45 in the proposed ASU) because entities that have not yet adopted ASU 2016-13 should be provided relief from the recognition and measurement of TDRs for insignificant delays in payment that occur between the date of adoption of the proposed ASU and the date of adoption of ASU 2016-13. We also believe that these entities should be given the option to early adopt any changes to ASC 310-40-15-18 before adopting ASU 2016-13.

<u>**Application of Expected Extensions in Estimating Expected Credit Losses Over the Contractual Term**</u>

The amendments in the proposed ASU would supersede the guidance in ASC 326-20-30-6(a). ASC 326-20-30-6 currently states, in part:

> An entity shall not extend the contractual term for expected extensions, renewals, and modifications unless either of the following applies:
>
> a. The entity has a reasonable expectation at the reporting date that it will execute a troubled debt restructuring with the borrower.
>
> b. [Omitted]

Removal of the guidance currently in ASC 326-20-30-6(a) would imply that when an entity expects to extend a contract for a borrower experiencing financial difficulty, the extension cannot be considered in the estimation of expected credit losses. We believe that in light of the application of ASC 310-20-35-9 through 35-11, an entity would have a reasonable expectation that the accounting treatment of an expected extension of a financial receivable for a borrower experiencing financial difficulty would take into consideration all loss mitigation activities and be consistent with historical loss data.

We believe that the above guidance in ASC 326-20-30-6(a) should be amended, instead of superseded, as follows (added text is underlined, and deleted text is ~~struck out~~):

> An entity shall not extend the contractual term for expected extensions, renewals, and modifications unless either of the following applies:
>
> a. The entity has a reasonable expectation at the reporting date that it will execute a restructuring with a borrower experiencing financial difficulties ~~troubled debt restructuring with the borrower~~.

Other Comments on Clarifying the Amendments in the Proposed ASU

1. Under the proposed ASU, the guidance currently in ASC 310-40-50-1 would be moved to proposed ASC 310-10-50-36 and amended as follows (added text is underlined, and deleted text is ~~struck out~~):

   > As of the date of each balance sheet presented, a creditor shall disclose, either in the body of the financial statements or in the accompanying notes, the amount of commitments, if any, to lend additional funds to debtors ~~owing~~ experiencing financial difficulties for which the creditor has modified the terms of the receivables in the current reporting period ~~whose terms have been modified in troubled debt restructurings~~.

   It is unclear whether the proposed amended disclosure requirement would be applicable (1) only if both (a) the debtor is currently experiencing financial difficulty and (b) the terms of the commitment have been modified in the current reporting period or (2) if the terms of the commitment were modified in the current reporting period because the debtor was experiencing financial difficulty.

2. The proposed ASU would add ASC 310-10-50-38 to provide guidance stating, in part:

   > In addition to those disclosures in paragraphs 310-10-50-40 through 50-42, an entity shall consider providing information that helps financial statement users understand significant changes in the type or magnitude of modifications, including those modifications that, for example, were caused by a major credit event, even if the modifications otherwise would not require the disclosures in paragraphs 310-10-50-40 through 50-42.

   It is unclear what the objective of this portion of the paragraph is because the paragraph, as written, does not require the financial statement preparer to make disclosures in response to a major credit event.

3. The proposed ASU would add ASC 310-10-50-40 to provide guidance stating, in part:

   > For each period for which a statement of income is presented, an entity shall disclose the following information related to modifications of receivables made to debtors experiencing financial difficulty during the reporting period:

> a. By class of financing receivable, qualitative and quantitative information about:
>   1. [Omitted]
>   2. The financial effect of the modification by type of modification, which shall provide information about the changes to the contractual terms as a result of the modification, and may include . . . the weighted-average reduction in interest rates (versus a range) for interest rate reductions.
>   3. Receivable performance in the trailing 12 months following a modification of a receivable made to a debtor experiencing financial difficulty.
>
> b. [Omitted]

It is unclear whether (1) interest rate reductions may only be presented by using a weighted average or (2) a range is acceptable. We understand that a range would be much easier to provide and believe that it should be acceptable. It is also unclear whether (1) "[r]eceivable performance" constitutes past-due status similar to that described in the disclosure requirements of Subtopic 326-20 (as the example in proposed ASC 310-10-55-12A suggests) or (2) another metric can be used.

4. The proposed ASU would add ASC 310-10-50-42 to provide guidance stating, in part:

> For each period for which a statement of income is presented, an entity shall disclose the following information about financing receivables that had a payment default during the period and had been modified within the previous 12 months preceding the payment default because the debtor was experiencing financial difficulty:
>
> a. By class of financing receivable, qualitative and quantitative information about those defaulted financing receivables, including the following:
>   1. [Omitted]
>   2. [Omitted]
>   3. The amount of financing receivables that defaulted, including the amortized cost basis at the time of default for receivables that defaulted.
>
> b. [Omitted]

Proposed ASC 310-10-50-42(a)(3) would require disclosure of the amortized cost basis at the time of default for applicable receivables. However, it is unclear whether the applicable amounts in the example in proposed ASC 310-10-55-12A conform to this proposed requirement. The example states, in part:

> The following table provides the amortized cost basis of financing receivables modified in the last 12 months to borrowers experiencing financial difficulty that subsequently defaulted (numbers in thousands):
>
> **Amortized Cost Basis of Modified Financing Receivables That Subsequently Defaulted**
>
> [Table omitted]

5. The proposed ASU would add ASC 310-10-50-40(b) and ASC 310-10-50-42(b) to require qualitative information about how certain modifications and defaults, respectively, are factored into an entity's determination of the allowance for credit losses. It is unclear what qualitative information is expected to be disclosed and how this information would be differentiated from existing accounting policies on estimating current expected credit losses. In practice, many financial statement preparers incorporate an expectation of the debtor's subsequent performance after restructurings when estimating expected credit losses, and an expectation of redefaults when estimating expected credit losses for restructured receivables, since the current expected credit losses model is forward-looking.

6. The example in proposed ASC 310-10-55-12A states, in part:

> 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, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

   In this example, it is unclear why the amount of the concession up to the amount already incorporated into the allowance for credit losses is not also written off, reducing the amortized cost basis of the asset, if the amount of the total principal forgiveness is deemed to be uncollectible.

7. Certain terms are not used consistently throughout the proposed ASU. For example, whereas proposed ASC 310-10-50-40 refers to "interest rate reductions," the example in proposed ASC 310-10-55-12A uses the term "Interest Rate Concessions." Further, whereas the terms "restructured" and "restructurings" are used in some of the amendments in the proposed ASU (e.g., in proposed ASC 310-10-50-45), the terms "modified" and "modifications" are used elsewhere in the proposed ASU.

8. Proposed ASC 310-10-50-36 and 50-37 contain stand-alone disclosure requirements related to borrowers experiencing financial difficulty. We believe that the proposed ASU would be more easily read if these paragraphs were placed after proposed ASC 310-10-50-42 (i.e., after the more significant disclosure requirements related to borrowers experiencing financial difficulty).