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Via email to director@fasb.org

Ms. Hillary H. Salo, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Purchased Financial Assets (File Reference No. 2023-ED400)

Dear Ms. Salo:

We are pleased to provide our comments on the Board's proposal to expand the population of acquired financial assets accounted for under the gross-up approach under ASC 326.

Overall, we support the Board's effort to reduce the complexity associated with accounting for acquired financial assets and improve comparability between PCD and non-PCD financial assets. However, we foresee operational issues for certain acquired financial assets and have some suggestions as detailed in our responses to the Questions for Respondents contained in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Tim Kviz at (703) 245-8685 or Brad Bird at (858) 401-8329.

Very truly yours,

BDO USA, P.A.

BDO USA, P.A.

Appendix

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 that Available-For-Sale (AFS) debt securities should continue to be excluded from the CECL model for PCD assets (i.e., the gross-up approach). The accounting for AFS debt securities is premised on the notion that the holder may realize the value of its investment either through collection of contractual cash flows or through the sale of the security at its fair value. Thus, estimation of expected credit losses over the entire life of the security does not provide decision-useful information because, unlike held-to-maturity debt securities, the investor could sell the investment at fair value if realization through cash collection would yield a lower amount. Accordingly, whether the AFS security was acquired with a more-than-insignificant amount of credit deterioration since origination should not impact how any credit losses on the security are determined and presented on the financial statements.

Please see our response to Question 3 addressing operational issues that may arise from applying the proposed amendments to credit cards and other revolving credit arrangements.

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.

We defer this question to investors and other users of the financial statements.

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.

We foresee operability issues and tracking complexity arising from application of the gross-up approach to credit cards and other revolving arrangements (collectively, lines of credit or “LOC”). First, the proposed guidance in ASC 326-20-30-15(b)(2) in the ED requires an acquirer to assess LOC assets “in a manner consistent with the entity’s policy for measuring expected credit losses on similar financial assets”. We note that this statement is ambiguous and recommend clarifying it to improve comparability between entities and promote information that is decision useful. We are also aware of existing diversity in practice on how to determine the estimated life for LOC under the existing PCD accounting guidance based on the TRG meeting memo no. 5 and memo no 5a. This effectively allows

any combination of payment allocation methodologies and methods. Accordingly, we believe it would be helpful if the Board addressed the following questions:

- Should an entity elect a single accounting policy for an entire LOC or can it apply a mixed accounting policy (i.e., some parts of the LOC subject to PCD and some not)?
- If it is the latter, how should subsequent collections of funds under the LOC be allocated between the PCD and non-PCD portions?

To promote comparability and reduce complexity, we would support application of a single accounting policy for an entire LOC arrangement (either everything is considered PCD and subject to the gross-up approach or none of it). We recommend that the Board clarify the types of accounting policies it contemplated in ASC 326-20-30-15(b)(2) and add an illustrative example to clarify the issue. If the Board wishes to allow entities to apply different models for separate parts of a LOC arrangement, we believe that additional guidance should be added to clarify how future collections should be attributed to the funded and unfunded portions of the LOC.

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.

Yes. While we understand the merits of the dissenting view presented in the Basis for Conclusions in the ED, we note that differences between pre-acquisition and post-acquisition income statements are frequent and are a key outcome of the fair value model applied in purchase accounting. Additionally, the gross-up approach results in an outcome that more closely matches the related cash flows. That being said, if lines of credit are retained within the scope of the PFA model, we believe that additional guidance will be required to address how this model is applied to such arrangements.

If a company uses a discounted cash flow approach to measuring their expected credit losses, the application of the PCD is operational; however, ASC 326 does not require use of a discounted cash flow model to measure expected credit losses. Companies that have chosen to use other methods of measuring credit losses face significant challenges in applying the PCD model to lines of credit (i.e., how to recognize interest income, how payment should be applied between the collection of principal and interest, etc.). Under the existing PCD model, these challenges have not been significant as the assets within scope of the PCD model are often troubled borrowers that may already be on non-accrual status where the recognition of interest income and application of payments received is not controversial. Under the proposed PFA model, the scope of this guidance would be expanded to include performing lines of credit, so these operational challenges will emerge. We believe additional application guidance would be necessary to ensure appropriate and consistent application between various companies.

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.

Consistent with our response to Question 3, we believe that applying the proposed seasoning criteria to credit cards and other revolving credit arrangements would present challenges and add complexity,

which ultimately may lead to inconsistent application. With revolving credit agreements, several issues have caused complexity in the application of accounting guidance, including lack of a maturity date, multiple units of account, the revolving nature of the account balance, and the different types of customer behavior (i.e., transactors that do not carry balances from month to month vs. revolvers that carry a balance from one month to the next). The proposed seasoning guidance will necessitate the determination of the age of a revolving credit agreement on the date of acquisition. The unique features of revolving credit agreements noted above make this determination difficult, and different companies could easily reach different conclusions. This issue was discussed in the Transition Resource Group for Credit Losses when discussing vintage disclosures, where ultimately revolving credit agreements were scoped out of the vintage disclosures. Historically, the accounting guidance has provided revolving credit agreements with scope exceptions or practical expedients to address the complexities created by these unique features. We believe that revolving credit agreements should continue to be afforded scope exceptions or practical expedients to address the operational complexities raised by their unique characteristics.

We also observed that ASC 360-20-30-15(b)(1) and Example 11 in the ED on identifying purchased financial assets require application of the seasoning criteria at the portfolio level in lieu of the financial asset level. We find it somewhat punitive to exclude financial assets that meet the seasoning criteria on an individual basis solely because “substantially all” the portfolio does not meet them. Accordingly, we believe that acquirers should have the option to apply the seasoning criteria for a group of acquired financial assets at the financial asset level, consistent with purchase accounting under ASC 805.

We further note that ASC 326-20-30-15(b)(1) requires consideration of “other relevant characteristics” of the portfolio of assets when evaluating involvement with the origination of a financial asset; however, it is not clear what those relevant characteristics are. We believe it would be helpful if the Board added examples of asset characteristics to consider as part of this evaluation. We further note that Example 11 only illustrates the application of the bright-line quantitative threshold set in ASC 326-20-30-15(b) and does not consider any qualitative considerations related to involvement with the origination of the asset. We recommend that the Board expand the guidance to include several examples illustrating such considerations, including examples where the analysis leads to opposing outcomes.

Finally, we believe the Board should clarify what would be considered “involvement with the origination of the asset” (ASC 360-20-30-15). For example, often an acquirer may be involved in marketing efforts related to loan portfolios or in soliciting offers for loans. If the Board considers such efforts as involvement with origination, we would suggest adding it as another indicator of acquirer’s involvement. With regards to the seasoning indicator in ASC 360-20-30-16(a), we observe that while an acquirer may be exposed to the economic risks and rewards of ownership before obtaining control of a financial asset, this is not necessarily indicative of involvement with the asset’s origination because an acquirer may become involved with the asset only shortly before the acquisition date. Accordingly, we would recommend clarifying this indicator or adding an example to illustrate such distinction.

In addition to our substantive comments, we also offer the following editorial suggestion:

- Paragraph 326-20-30-15(a) states: “...The financial asset is **part of a business** and is acquired through a business combination accounted for in accordance with Topic 805”. [Emphasis added]

We suggest deleting the bolded section above as it is intuitive that a financial asset acquired in a business combination is part of the acquired business.

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.

No. We do not support modified retrospective transition guidance, as we believe it will present a substantial operational burden for companies. Similar to the transition provisions of ASU 2016-13 - Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and the related ASUs that amended this guidance, we recommend prospective transition provisions. Further, we believe that early adoption should be permitted.

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 defer to preparers. However, we would not object to a one-year delay for entities other than PBEs.