Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 North Wabash, Suite 3200
Chicago, IL 60611

January 15, 2025

Via email to director@fasb.org

Mr. Jackson M. Day, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities (File Reference No. 2024-ED900)

Dear Mr. Day:

We appreciate the opportunity to respond to the Board's exposure draft regarding measurement of credit losses. Overall, we support the Board's proposal to provide certain nonpublic entities with accounting elections when estimating expected credit losses for current accounts receivable and current contract assets arising from transactions accounted for under ASC 606.

We recommend expanding the scope of the proposed amendments to include all entities and would not object to expanding it to include all other short-term receivables subject to ASC 326. We also believe that entities should be permitted to elect an accounting policy of considering collection activity after the balance sheet date irrespective of whether the practical expedient is also elected, and vice versa.

We have described our reasoning and suggestions in our responses to the Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Angela Newell at (214) 689-5669 or Oran Asher at (214) 689-5662.
Very truly yours,

BDO USA, P.C.

BDO USA, P.C.

Appendix

Question 1*: Should the amendments in this proposed Update be limited to private companies and not-for-profit entities, excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market? Should the proposed amendments be expanded to include public business entities, all not-for-profit entities, or other types of entities? Please explain your reasoning.*

We do not expect a significant difference between the outcome of full application of the CECL model and the proposed amendments, given the short-term nature of the assets in scope. Therefore, while we acknowledge the Board's arguments in paragraph BC10 of the proposal for limiting the scope of the proposed amendments to certain nonpublic entities, we recommend that the scope be expanded to provide all entities with these accounting elections. For instance, we question whether there is any benefit in requiring entities undergoing an IPO to document how and why their allowance for credit losses is not materially different than the allowance determined as a private entity in accordance with this proposal in the historical periods.

We also believe that considering collection activity after the balance sheet date and before the financial statements are available to be issued when estimating expected credit losses is intuitive and better represents an entity's credit exposure to users of the financial statements. Further, paragraph BC20 of the proposal indicates that some Board members view the proposed practical expedient as a clarification of the CECL guidance for current receivables and contract assets. As such, providing the same accounting elections to all entities seems helpful and may remove confusion on how to document CECL analysis for current receivables and contract assets, reducing costs for all entities.

Question 2*: Should the proposed amendments apply to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606?*

Yes. Refer to our responses to Question 1 and Question 3.

Question 3*: Should the proposed amendments be extended to other assets or transactions and, if so, which ones and why? For example, should the proposed amendments apply to the initial estimate of expected credit losses on current accounts receivable and current contract assets acquired in a business combination accounted for under Topic 805, Business Combinations? Should the proposed amendments apply to transactions accounted for under Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and, if so, what specific assets?*

We note that the proposed amendments represent targeted improvements that address a specific issue raised by stakeholders with respect to assets arising from the ongoing activities of an entity. As such, other short-term financial assets with exposure to credit losses may be less prevalent and/or costly for many entities. However, we would not object to the Board expanding the scope of the proposal to include all short-term receivables to which ASC 326 applies, regardless of how they arise and the level of credit risk.

Question 4: *Will the proposed practical expedient improve the ability for entities to apply Topic 326 for current accounts receivable and current contract assets? Is it clear and operable? If not, what changes would you suggest?*

Consistent with our response to Question 1, we question whether applying the proposed practical expedient will result in a significantly different outcome compared to the existing CECL model. However, we agree that the proposed practical expedient would alleviate the need to prepare documentation supporting the impact that assumptions about future economic conditions may have (if any) on historical loss information, adjusted as necessary to reflect current conditions, thus simplifying the application of Topic 326 for short-term receivables. We also agree that the proposed amendment is clear and operable.

Question 5: *Will the proposed accounting policy election to consider subsequent collection activity improve the ability for entities to apply Topic 326 for current accounts receivable and current contract assets? Is it clear and operable? If not, what changes would you suggest?*

Yes. See our response to Question 1. The proposed amendment is clear and operable.

Question 6: *Should the proposed accounting policy election to consider subsequent collection activity be limited to entities that have elected the practical expedient? Please explain why or why not.*

No. We do not believe the accounting policy election and practical expedient should be linked in the proposed amendments considering that they relate to distinct concepts arising from different accounting standards: ASC 326 and ASC 855.

Question 7: *Should the proposed amendments include a specific requirement for entities to disclose that they are applying the proposed practical expedient and accounting policy election? Please explain why or why not.*

We acknowledge that accounting policy elections and practical expedients generally require disclosure. However, because these accounting elections are not expected to result in materially different outcomes compared to those under the existing CECL model for short-term receivables, we defer to users on the benefits of such a disclosure.

Question 8: *Do you agree with the proposed prospective transition requirements? Should entities be able to initially apply the practical expedient and accounting policy election in any period after the effective date without performing a preferability assessment under Topic 250, Accounting Changes and Error Corrections? Please explain why or why not.*

Yes. We agree with prospective application because it would be complex to apply the proposed amendments retrospectively without using hindsight. Additionally, the impact of applying the proposed amendments may be immaterial for many entities such that retrospective application may not provide benefit to users of the financial statements.

We also support providing entities with the ability to initially elect the practical expedient and accounting policy election (or separately, as discussed in our response to Question 6) in any period after the effective date without performing a preferability assessment. In this regard, we note that the existing proposed transition guidance in paragraph 326-10-65-6(c) does not explicitly state that entities can make the accounting elections at any period after the effective date. Therefore, we recommend revising the transition guidance to clarify this notion.

Question 9: *Should the proposed amendments be effective upon issuance of a final Accounting Standards Update? If not, how much time would be needed to implement the proposed amendments? Should early adoption be permitted for financial statements that are not yet available to be issued? Please explain why or why not.*

Yes. We do not think significant time is required to adopt the proposed amendments, as the proposed guidance is optional. Additionally, nonpublic entities have the ability to adopt the proposed amendments in any period after the effective date. However, if the Board decides to expand the scope of the proposed amendments to include all entities, we recommend a mandatory transition period for public business entities, with early adoption permitted.

Question 10: *Will the proposed amendments reduce costs without reducing the decision usefulness of information provided to investors and creditors? Please explain why or why not.*

We believe the proposed amendments will reduce costs associated with implementation and documentation of the CECL model without reducing the decision usefulness of the information provided in the financial statements.