January 8, 2019

Via Electronic Mail

Mr. Russell Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update (“ASU”), Codification Improvements — Financial Instruments, File Reference No. 2018-300

Ladies and Gentlemen:

The Bank Policy Institute\(^1\) appreciates the opportunity to comment on the above-referenced Proposal. The Bank Policy Institute supports the efforts of the Financial Accounting Standards Board (“FASB” or the “Board”) to identify areas that require clarification and correction to its recently issued ASUs on Financial Instruments, namely,

- ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”), and

The implementation of these three ASUs constitutes a significant and ongoing effort and we appreciate the proposed additional guidance and clarification in areas that are unclear or inconsistent. As an overall matter, we support the proposal, subject to our suggestions for modifications noted below.

I. Executive Summary

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\(^1\) The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation’s leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation’s small business loans, and are an engine for financial innovation and economic growth.
➢ Held to maturity ("HTM") debt securities meet the definition of monetary assets under existing GAAP and should remain as such. The FASB should either delete from the proposal the suggestion that HTM debt securities are nonmonetary balance sheet items, or, if a change to the remeasurement of HTM debt securities was intended, the FASB should issue a separate proposal for consideration and deliberation on this issue, given the potential far-reaching impact of such a change.

➢ Partial-term fair value hedging should be permitted for all risks eligible for fair-value hedging.

➢ Existing bank regulatory guidance is a suitable basis for determining what constitutes a “timely manner” for writing off accrued interest.

➢ Accounting policy changes made as of the adoption date of ASU 2016-13 in connection with measuring the allowance for accrued interest receivables and/or relating to nonaccrual policies should be recorded as part of the transition adjustment.

➢ The proposed elections and expedients regarding accrued interest receivables should be extended to available-for-sale ("AFS") securities, as the same operational complexities and changes to existing practice that would have resulted for loans also apply for AFS securities, absent these elections and expedients.

➢ The guidance on transfers between classification or categories should be expanded to apply to all financial instruments within the scope of ASC 310 and ASU 2016-13; the FASB should provide an example to illustrate the intended accounting model for transfers from AFS to HTM.

➢ The final standard should clarify that the guidance on negative allowances also applies to AFS securities.

➢ In determining which line of credit arrangements that are converted to term loans should be disclosed in a separate column, the proposed guidance should eliminate the condition referring to when an entity makes “an additional credit decision” or “its most recent credit decision,” as these terms are not defined in the accounting literature; and the guidance should eliminate the reference to “major security type,” as the disclosures do not apply to HTM debt securities.

➢ The guidance on contractual extensions and renewals should be revised to eliminate the additional requirement for an entity to evaluate the likelihood of exercise of a contractual extension or renewal option that is included in the original or modified contract at the reporting date and that is not unconditionally cancellable by the entity.

II. HTM debt securities meet the definition of monetary assets under existing GAAP and should remain as such. The FASB should either delete from the proposal the suggestion that HTM debt securities are nonmonetary balance sheet items, or if a change to the remeasurement of HTM debt securities was intended, the FASB should issue a separate proposal for public consideration and deliberation on this issue, given the potential far-reaching impact of such a change.

Under current GAAP, HTM securities meet the definition of a monetary asset, in that they are fixed in terms of units of currency, by contract or otherwise; as such, they are subject to remeasurement at current exchange rates each period. The proposed edit to paragraph 830-10-45-18(a)(2) to eliminate the reference to debt securities not intended to be held to maturity does not, in and of itself, appear to change existing GAAP on this point.

However, the indication in paragraph 54 of the proposal, which summarizes the proposed amendments that follow, states in the last sentence that “debt securities intended to be held to maturity are required to follow paragraph 830-10-45-18.” If the Board’s intent is that HTM debt securities should be considered nonmonetary items, this would represent a significant change to existing GAAP that has not, in
our view, been sufficiently deliberated. Such a change would represent a significant shift in the application of the guidance in ASC 830 and would require significant modifications to existing systems.

It is not clear that this was in fact the Board’s intent: paragraph BC86 suggests that the purpose of the proposed amendment is to clarify only that equity securities without readily determinable fair values accounted for under the measurement alternative in accordance with paragraph 321-10-35-2 are required to follow paragraph 830-10-45-18, which requires those amounts to be remeasured at historical exchange rates. There is no mention of an intended change to the treatment of HTM debt securities. Therefore, if the Board did not intend to change the accounting for HTM debt securities with respect to foreign currency remeasurement, we recommend that the last sentence in paragraph 54 be deleted.

If the Board did in fact intend for HTM debt securities to be accounted for as nonmonetary items for foreign currency remeasurement purposes, this would constitute a significant change, as noted above. In our view, a change of this magnitude should be highlighted in a separate proposal for public consideration and deliberation, rather than included as part of a technical correction to the proposal. Accordingly, we recommend that the FASB eliminate the proposed change regarding the foreign currency remeasurement of HTM debt securities from the final standard and open a separate project to consider any change in this area, if such a change was intended.

III. Partial-term fair value hedging should be permitted for all risks eligible for fair value hedging.

We support the proposed amendment to clarify that an entity may designate and measure the change in fair value of a hedged item attributable to both interest rate risk and foreign exchange risk in a partial-term fair value hedge. We believe this is a useful improvement as these types of hedges are common in practice. In addition, we believe that the proposed standard should be amended when finalized to allow partial-term fair value hedging for all risks eligible for fair value hedge accounting.

At a minimum, the proposal should be amended when finalized to permit partial-term fair value hedging for foreign exchange risk in isolation as well as in combination with fair value hedges of interest rate risk. The foreign exchange risk designated solely in a partial term hedging relationship will meet the same fair value hedge accounting criteria that are set forth for designating either the interest rate risk alone or a combination of interest rate and foreign exchange risks. Therefore, the partial term hedge accounting should, at a minimum, be made equally available to hedging foreign exchange risk only.

IV. Existing bank regulatory guidance is a suitable basis for determining what constitutes a “timely manner” for writing off accrued interest.

We support the change proposed in paragraph 326-20-30-5A that would allow an entity to make an accounting policy election not to measure an allowance for credit losses on accrued interest receivables if the entity writes off the uncollectible accrued interest receivables in a timely manner.

We note that banking regulators have provided guidance for the classification and treatment of retail credit in financial institutions regarding when assets are to be placed on nonaccrual status.²

² See, for example, Federal Reserve Instructions for Preparation of Consolidated Financial Statements for Holding Companies Reporting Form FR Y-9C, Effective September 2018, Glossary: "Nonaccrual Status: General rule—Holding companies on an accrual basis of reporting shall not accrue interest or discount on (1) any asset which is maintained on a cash basis because of deterioration in the financial position of the borrower, (2) any asset for which payment in full of interest or principal is not expected, or (3) any asset upon which principal or interest has been in default for a period of 90 days or more unless it is both well secured and in the process of collection." Comparable guidance exists within the FFIEC’s Instructions for FFIEC 031 and FFIEC 041 (i.e., Call Reports). See also Basel Committee on Banking Supervision, International Convergence of Capital Measurement and Capital Standards, June 2006, paragraph 452, available at https://www.bis.org/publ/bcbs126.pdf
We believe this guidance would provide a suitable example for determining what constitutes a “timely manner” for writing off accrued interest receivables.

V. Accounting policy changes made as of the adoption date of ASU 2016-13 in connection with measuring the allowance for accrued interest receivables and/or relating to nonaccrual policies should be recorded as part of the transition adjustment.

We recommend that if an entity elects to change its existing policy with respect to measuring the allowance for credit losses on accrued interest receivables upon adoption of ASU 2016-13, or if it elects to change its nonaccrual policies in connection with a policy implementation of what constitutes a writeoff in a timely manner, either of these changes would constitute an accounting policy election that is made pursuant to the adoption of a new accounting standard. Therefore, we recommend that any amounts resulting from such a change in policy should be recognized as a part of the cumulative effect adjustment to retained earnings in the statement of financial position.

VI. The proposed elections and expedients regarding accrued interest receivables should be extended to AFS securities, as the same operational complexities and changes to existing practice that would have resulted for loans also apply for AFS securities, absent these elections and expedients.

We support the proposed amendments regarding the accounting policy elections and practical expedients relating to accrued interest receivables as summarized in paragraph 4 on page 25 of the proposal. However, we note that the issues that gave rise to these amendments also apply to AFS securities, as was noted during the Transition Resource Group meeting of June 1, 2018. 3 Prior to ASU 2016-13, the ASC Glossary definition of amortized cost (which is utilized for AFS securities accounting in Subtopic 320-10) did not explicitly include “applicable accrued interest.” Accordingly, some financial institutions currently present accrued interest receivable in a financial statement line item separate from the associated AFS securities, similar to their presentation for accrued interest receivable on loans. Therefore, the same operational complexities and changes to existing practice that would have resulted for loans also apply to AFS securities, absent these expedients. Further, debt securities held in regulated entities are also subject to nonaccrual guidance. Therefore, we recommend that these elections and practical expedients be extended to AFS securities, and Subtopic 326-30 should be amended accordingly.

In addition, it is unclear whether the practical expedient described in paragraph 326-20-50-3B is also permitted for HTM debt securities, given that debt securities are excluded from the definition of financing receivable in ASC 310-10-55-15. We believe that it should apply equally to HTM debt securities and recommend the following revision (underlined language):

**326-20-50-3B** As a practical expedient, an entity may exclude the applicable accrued interest that is included in the amortized cost basis of financing receivables and held-to-maturity debt securities for the purposes of the disclosure requirements in paragraphs 326-20-50-4 through 50-22. If an entity elects this practical expedient, it shall disclose the total amount of accrued interest excluded from the disclosed amortized cost basis.

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VII. The guidance on transfers between classification or categories should be expanded to apply to all financial instruments within the scope of ASC 310 and ASU 2016-13; the FASB should provide an example to illustrate the intended accounting model for transfers from AFS to HTM.

We note that the amendments in this section (pages 28 and 29 of the proposal) refer only to nonmortgage loans and/or trade receivables. We believe the guidance discussed in paragraphs 310-10-35-47, 310-10-35-47A, 310-10-35-48, 310-10-35-48A, 310-10-35-48B, and 310-10-45-2 should be expanded to refer to all instruments that fall within the scope of ASC 310 and ASU 2016-13, as transfers from the “not held for sale” category to the “held for sale” category can occur for instruments other than nonmortgage loans, including trade receivables and lease receivables that can be factored or otherwise sold, and other financial instruments subject to ASC 310.

In addition, we believe an example would be helpful to illustrate the intended accounting model for transfers from AFS to HTM articulated in paragraph 320-10-35-10B. The example on pages 12 and 13 of the FASB’s CECL TRG Memo No. 10 of June 1, 20184 illustrates a transfer from AFS to HTM whereby the unrealized holding loss on the AFS security (which excludes amounts recognized via the allowance) is added to the amortized cost basis of the AFS security to arrive at the carrying value of the HTM security. If paragraph 320-10-35-10B is intended to be an articulation of the model underpinning the example in the June TRG Memo, we believe the following updates are required:

- The example in 320-10-55-24 should be updated (or a new example should be added) to illustrate the intended model;
- References to the term “fair value” in paragraphs 320-10-35-10B(d) and 320-10-55-24 should be removed and/or updated; and
- Guidance should be added to clarify how and whether the transfer impacts the amortized cost basis of the security (i.e., whether OCI amounts added to or subtracted from the previous amortized cost basis change only the carrying amount of the HTM security or also its amortized cost basis).

VIII. The final standard should clarify that the guidance on negative allowances also applies to AFS securities.

It is unclear whether the proposal was intended to require an entity to apply the recovery and negative allowance guidance to AFS securities. For example, the proposal amends ASC 326-30-35-13 (on page 38) to cross-reference the writeoff and recovery guidance in ASC 326-30 (implying that the guidance applies), but Question 7 (on page 19) asks whether an entity should be permitted to record a negative allowance on AFS debt securities.

If the Board’s intent was to require the guidance on negative allowances to be applied to AFS securities, we believe updates are required to clarify the interaction of this guidance with the fair value floor guidance in paragraphs 326-30-35-2 and 35-6 and other guidance in paragraph 326-30-35-12. If the negative allowance guidance is required to be applied to AFS securities, we recommend amending certain paragraphs as below:

326-30-35-12 An entity shall reassess the credit losses each reporting period when there is an allowance for credit losses. An entity shall record subsequent changes in the allowance for credit losses on available-for-sale debt securities with a corresponding adjustment recorded in the credit loss expense on available-for-sale debt securities. An entity shall not reverse a previously recorded

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allowance for credit losses to an amount below zero (except to the extent a negative allowance is required in accordance with paragraph 326-30-35-13).

326-30-35-13 An entity shall recognize writeoffs and recoveries of available-for-sale debt securities in accordance with paragraphs 326-20-30-1 and 326-20-35-8 through 35-9. While the guidance in paragraphs 326-30-35-2 and 35-6 limits the amount of positive allowance that may be recorded, that guidance does not impact the amount of any negative allowance required to be recorded in accordance with this paragraph (if applicable).

IX. In determining which line of credit arrangements that are converted to term loans should be disclosed in a separate column, the proposed guidance should eliminate the condition referring to when an entity makes "an additional credit decision" or "its most recent credit decision," as these terms are not defined in the accounting literature; and the guidance should eliminate the reference to "major security type," as the disclosures do not apply to HTM debt securities.

The proposed amendments in paragraph 326-20-50-6A would require an entity to present the amortized cost basis of line of credit arrangements that are converted to term loans within each credit quality indicator in the origination year that corresponds with the period in which an entity made "its most recent credit decision after the original credit decision"; line of credit arrangements that are converted to a term loan "without an additional credit decision after an entity made its original credit decision" or through a troubled debt restructuring would be presented in a separate column. We are concerned that this provision introduces a new requirement, that of determining when an entity has made its most recent credit decision, that is not defined in the proposal. We recommend this term be eliminated, as it may be subject to different interpretations by different institutions.

In addition, we note that the vintage disclosures in ASC 326-20-50-6 apply only to financing receivables and net investment in leases (except for reinsurance receivables and funded or unfunded amounts of line-of-credit arrangements, such as credit cards). Because debt securities are explicitly excluded from the definition of financing receivable (per the ASC Master Glossary and ASC 310-10-55-15), the vintage disclosures do not apply to HTM debt securities. Accordingly, we recommend that the reference to "major security type" in the last line of this paragraph be eliminated, to avoid implying that this disclosure requirement applies to HTM debt securities.

Therefore, we recommend that the proposal be revised as follows:

326-20-50-6A For the purpose of the disclosure requirement in paragraph 326-20-50-6, an entity shall present the amortized cost basis of line of credit arrangements that are converted to term loans within each credit quality indicator in the origination year that corresponds with the period in which the entity made its most recent credit decision. For amounts of line-of-credit arrangements that are converted to term loans in accordance with the original contractual terms of the loan without an additional credit decision after an entity made the original credit decision or that are converted to term loans because of a troubled debt restructuring, the entity shall disclose the amortized cost basis in a separate column (see Example 15). An entity shall disclose each reporting period, by class of financing receivable or major security type, the amount of line-of-credit arrangements that are converted to term loans each reporting period.

X. The guidance on contractual extensions and renewals should be revised to eliminate the additional requirement for an entity to evaluate the likelihood of exercise of a contractual extension or renewal option that is included in the original or modified contract at the reporting date and that is not unconditionally cancellable by the entity.
The proposal provides in relevant part that an entity shall not extend the contractual term of a financial asset for expected extensions, renewals, and modifications unless the extension or renewal options (excluding those that are accounted for as derivatives in accordance with Topic 815) are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity. We agree with this approach. However, the proposal would then add another requirement that, in determining the contractual term, the entity shall evaluate the likelihood that the contractual extension or renewal option will be exercised. In contrast, we believe that the most salient fact is whether the extension or renewal option is outside the control of the lender. An explicit additional requirement to evaluate the likelihood of the option’s exercise is not in accordance with paragraph 326-20-55-7 of ASU 2016-13, which states that “[b]ecause of the subjective nature of the estimate, this Subtopic does not require specific approaches when developing the estimate of expected credit losses. Rather, an entity should use judgment to develop estimation techniques that are applied consistently over time and should faithfully estimate the collectability of the financial assets by applying the principles in this Subtopic.” Accordingly, we recommend this additional condition be eliminated, as follows:

326-20-30-6 An entity shall estimate expected credit losses over the contractual term of the financial asset(s) when using the methods in accordance with paragraph 326-20-30-5. An entity shall consider prepayments as a separate input in the method or prepayments may be embedded in the credit loss information in accordance with paragraph 326-20-30-5. An entity shall consider estimated prepayments in the future principal and interest cash flows when utilizing a method in accordance with paragraph 326-20-30-4. An entity shall not extend the contractual term for expected extensions, renewals, and modifications unless either:

a. The entity has a reasonable expectation at the reporting date that it will execute a troubled debt restructuring with the borrower; or

b. The extension or renewal options (excluding those that are accounted for as derivatives in accordance with Topic 815) are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity. In determining the contractual term, the entity shall evaluate the likelihood that the contractual extension or renewal option will be exercised.

Additional recommended clarifications to the proposal for your consideration are included in the Appendix to this letter.

The Bank Policy Institute appreciates the opportunity to comment on the proposal. If you have any questions, please contact the undersigned by phone at 646-736-3958 or by email at David.Wagner@bpi.com.

Respectfully submitted,

[Signature]

David Wagner
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cc: Ms. Susan M. Cosper
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Mr. Wesley Bricker
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Appendix

We recommend the following guidance be corrected and clarified as indicated below (text recommended for deletion is crossed-out and additional text recommended for inclusion is underlined):

A. Issue 1A, Accrued Interest Receivable.

1. We recommend revising paragraph 326-20-45-5 and 326-20-50-3A (page 27 of the proposal) as indicated below to:

   a) Eliminate the reference to “entire” accrued interest receivable balance within paragraph 45-5 as we believe the presentation was not intended to require consistent application across all financial instruments within the scope, but was meant to provide flexibility across classes of financing receivables or major security type, consistent with paragraph 326-20-30-5A;

   b) Delete the cross-reference to the disclosure requirements within paragraph 45-5 as it seems unnecessary to tie the accounting policy election to meeting disclosure requirements (as disclosure requirements would need to be met if the accounting policy election were elected); and

   c) Clarify in paragraph 50-3A that an entity’s policy for presenting accrued interest receivable balances within the statement of financial position should be disclosed irrespective of the approach selected to ensure clarity as to where related amounts are presented across an entity’s products.

   **326-20-45-5** For financial assets measured at amortized cost and net investments in leases within the scope of this Subtopic, an entity may elect to separately present on the statement of financial position or within another statement of financial position line item the entire accrued interest receivable balance net of the allowance for credit losses (if any) if the entity meets the disclosure requirements in paragraph 326-20-50-3A.

   **Disclosure**

   **326-20-50-3A** An entity shall disclose its policy for presenting accrued interest receivable balances within the statement of financial position. For example, an entity that chooses to present the accrued interest receivable balance within another statement of financial position line item as described in paragraph 326-20-45-5 shall disclose the total amount of accrued interest presented separately from the amortized cost basis and shall disclose in which line item on the balance sheet that amount is presented. An entity also shall disclose the amount of the allowance for credit losses measured on the applicable accrued interest, if any.

B. Issue 1B, Transfers between Classifications or Categories for Loans and Debt Securities.

1. We recommend replacing the term “not held for sale” with the term “held for investment” in the following paragraphs on pages 28-29 of the proposal:

   **Nonmortgage Loans and Trade Receivables Not Held for Sale Held for Investment**

   **310-10-35-48A** For a nonmortgage loan that is transferred into the held-for-sale classification from the nonmortgage loan not held for sale held for investment classification, an entity shall reverse in earnings any allowance for credit losses previously recorded on the nonmortgage loan not held for sale held for investment at the transfer date. An entity shall then reclassify and transfer the nonmortgage loan into the held-for-sale classification at its amortized cost basis (which is reduced by any previous writeoffs but excludes any allowance for credit losses). An entity shall then determine if a valuation allowance is necessary by following the guidance in Subtopic 310-10.
2. Paragraph 320-10-35-10B (page 31 of the proposal) should be corrected as follows:

For a debt security that is transferred into the held-to-maturity category from the available-for-sale category, an entity shall:

b. Reclassify and transfer the debt security to the available-for-sale held-to-maturity category at its amortized cost basis (which is reduced by any previous writeoffs but excludes any allowance for credit losses) plus or minus the amount of any remaining unrealized holding gain or loss reported in accumulated other comprehensive income.

C. Issue 1C, Recoveries.

1. We recommend revising the proposed amendments regarding the accounting for recoveries in paragraph 326-20-30-1 (page 35 of the proposal) as follows:

326-20-30-1 The allowance for credit losses is a valuation account that is deducted from, or added to, the amortized cost basis of the financial asset(s) to present the net amount expected to be collected on the financial asset. Recoverable amounts included in the valuation account shall not exceed the aggregate of amounts previously written off and expected to be written off by the entity. At the reporting date, an entity shall record an allowance for credit losses on financial assets within the scope of this Subtopic. An entity shall report in net income (as a credit loss expense) the amount necessary to adjust the allowance for credit losses for management’s current estimate of expected credit losses on financial asset(s). Recoverable amounts included in the valuation account shall not exceed the aggregate of amounts previously written off and expected to be written off by the entity. In certain cases, the allowance for credit losses can become negative, that is, have a debit balance.

2. We recommend revising paragraphs 326-20-35-4 and 35-5 (page 35 of the proposal) as follows:

326-20-35-4 Regardless of the initial measurement method, an entity shall measure expected credit losses based on the fair value of the collateral at the reporting date, when the entity determines that foreclosure is probable. When an entity determines that foreclosure is probable, the entity shall remeasure the financial asset at the fair value of the collateral at the reporting date so that the reporting of a credit loss is not delayed until actual foreclosure. An entity also shall consider any credit enhancements that meet the criteria in paragraph 326-20-30-12 that are applicable to the financial asset when recording the allowance for credit losses. When the fair value (less costs to sell, if applicable) of the collateral at the reporting date exceeds the amortized cost basis of the financial asset, an entity shall adjust the allowance for credit losses to present the net amount expected to be collected on the financial asset equal to the fair value (less costs to sell, if applicable) of the collateral. An allowance for credit losses, that is added to the amortized cost basis of the financial asset(s), shall not exceed amounts previously written off.

326-20-35-5 An entity may use, as a practical expedient, the fair value of the collateral at the reporting date when recording the net carrying amount of the asset and determining the allowance for credit losses for a financial asset for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty based on the entity’s assessment as of the reporting date (collateral-dependent financial asset). If an entity uses the practical expedient on a collateral-dependent financial asset and repayment or satisfaction of the asset depends on the sale of the collateral, the fair value of the collateral shall be adjusted for estimated costs to sell (on a discounted basis). However, the entity shall not incorporate in the net carrying amount of the financial asset the estimated costs to sell the collateral if repayment or satisfaction of the financial asset depends only on the operation,
rather than on the sale, of the collateral. When the fair value (less costs to sell, if applicable) of the collateral at the reporting date exceeds the amortized cost basis of the financial asset, an entity shall adjust the allowance for credit losses to present the net amount expected to be collected on the financial asset to equal to the fair value (less costs to sell, if applicable) of the collateral. An allowance for credit losses, that is added to the amortized cost basis of the financial asset(s), shall not exceed amounts previously written off. If the fair value of the collateral is less than the amortized cost basis of the financial asset for which the practical expedient has been elected, an entity shall recognize an allowance for credit losses on the collateral-dependent financial asset, which is measured as the difference between the fair value of the collateral, less costs to sell (if applicable), at the reporting date and the amortized cost basis of the financial asset. An entity also shall consider any credit enhancements that meet the criteria in paragraph 326-20-30-12 that are applicable to the financial asset when recording the allowance for credit losses. When the fair value (less costs to sell, if applicable) of the collateral at the reporting date exceeds the amortized cost basis of the financial asset, an entity shall adjust the allowance for credit losses to present the net amount expected to be collected on the financial asset equal to the fair value (less costs to sell, if applicable) of the collateral. An allowance for credit losses, that is added to the amortized cost basis of the financial asset(s) shall not exceed amounts previously written off.

3. The header to paragraph 326-20-35-8 (page 35 of the proposal) should delete the word “Recoveries”, since this paragraph will no longer address recoveries.

D. Issue 2E, Consideration of Prepayments in Determining the Effective Interest Rate.

1. We recommend amending the proposed changes regarding the ability to make an accounting policy election to adjust the effective interest rate used to discount expected cash flows to consider the timing of expected cash flows resulting from expected prepayment to clarify that this election would not affect the effective interest rate used to recognize interest income in accordance with Topic 310, as stated in paragraph BC40:

326-20-30-4A As an accounting policy election for each class of financing receivable or major security type, an entity may adjust the effective interest rate used to discount expected cash flows to consider the timing (and changes in timing) of expected cash flows resulting from expected prepayments. However, if the asset is restructured in a troubled debt restructuring, the effective interest rate used to discount expected cash flows should not be adjusted because of subsequent changes in expected timing of cash flows. However, the use of a prepayment-adjusted effective interest rate is not required and would not affect the effective interest rate used to recognize interest income in accordance with Topic 310.

326-30-35-7A As an accounting policy election for each major security type of debt securities classified as available-for-sale securities, an entity may adjust the effective interest rate used to discount expected cash flows to consider the timing (and changes in the timing) of expected cash flows resulting from expected prepayments. However, the use of a prepayment-adjusted effective interest rate is not required and would not affect the effective interest rate used to recognize interest income in accordance with Topic 310.

E. Issue 4D, Remeasurement of Equity Securities at Historical Exchange Rates.

1. The proposed guidance in 830-10-45-18 (a) (page 70 of the proposal) strikes the more generic reference to securities carried at cost and replaces it with the term “[equity securities without readily determinable fair values accounted for under paragraph 321-10-35-2].” We believe that there may still be securities accounted for at cost, such as Federal Reserve and FHBL stock and required exchange memberships, that should be considered non-monetary assets. Accordingly, we recommend that the reference to cost method securities be retained as indicated below:
830-10-45-18 All of the following are common nonmonetary balance sheet items and related revenue, expense, gain, and loss accounts that shall be remeasured using historical rates to produce the same result in terms of the functional currency that would have occurred if those items had been initially recorded in the functional currency:

a. **Securities carried at cost, including:** Equity securities without readily determinable fair values accounted for under paragraph 321-10-35-2. The historical rate to be used should be the exchange rate as of the acquisition date or the most recent date on which the equity security was adjusted to fair value in accordance with paragraphs 321-10-35-2 through 35-3, if applicable.