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August 21, 2009

Technical Director ([director@fasb.org](mailto:director@fasb.org))  
Financial Accounting Standards Board

**File Reference No. 1700-100**

Re: Proposed Statement of Financial Accounting Standards *Disclosures about Credit Quality of Financing Receivables and the Allowance for Credit Losses*

The Accounting Principles and Auditing Standards Committee (the Committee) of the California Society of Certified Public Accountants (CalCPA) has discussed the above-referenced exposure draft and is pleased to have the opportunity to provide comments on it.

The Committee is a senior technical committee of CalCPA. CalCPA has approximately 32,000 members. The Committee is composed of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry, and 5 percent are in academia.

Our comments are presented as responses to the questions posed in the exposure draft.

*Issue 1:* This proposed Statement defines a *financing receivable* as both loans as defined by FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, and lessors' investment in leases other than operating leases that have been recorded as assets in accordance with FASB Statement No. 13, *Accounting for Leases*. Do you agree with the definition used to identify a financing receivable subject to the provisions of this proposed Statement? If not, why not?

Yes, we agree with the definition.

*Issue 2:* This proposed Statement would apply to all creditors, including all public and nonpublic entities that prepare financial statements in accordance with generally accepted accounting principles. Do you agree with the scope of this proposed Statement? If not, why not?

We do not believe the proposed statement should be applied to all entities.

- The proposed statement should not be applied to nonpublic entities due to the cost to obtain and present the information. Users of financial statements of nonpublic companies generally have the ability to request specific analyses or disclosures if they believe it is beneficial to have this information.
- If the information were to be required for nonpublic entities, it should be limited to financial institutions or entities significantly involved in the business of financing.
- The Committee questions the usefulness of the proposed required information for public entities which are not financial institutions (such as manufactures that only provide financing for the sales of its own products) unless financing receivables exceed a certain threshold, such as 20 percent of total assets.

The Committee believes that the proposed disclosures might better be presented as "required supplementary information." It does not seem essential to a fair presentation of financial position or results of operations, and an entity that is unable to or chooses not to present some or all of the disclosures should not be burdened with a GAAP exception on its basic financial statements.

*Issue 3:* This proposed Statement would require a rollforward schedule of the total allowance for credit losses in both interim and annual reporting periods by portfolio segment and in the aggregate. In addition, it also would require a rollforward schedule of financing receivables in both interim and annual reporting periods by portfolio segment and in the aggregate. Do you believe those disclosures will assist financial statement users in better understanding the financial information for the total allowance for credit losses as well as the associated financing receivables? If not, why not?

The Committee does not believe the information should be required for interim reporting periods.

- The Committee believes it will be unduly burdensome for smaller entities to prepare the required disclosure information on a quarterly basis.
- The Committee questions whether public entities of any size will be capable of deriving the information in time to meet Form 10-Q filing requirements.

The Statement does not describe how entities would present rollforward information of the any portion of the total allowance which has not been specifically identified with a portfolio segment. For example, we believe that smaller institutions may often provide an additional allowance because of general economic conditions in the local region, and management will not specifically identify this additional amount with any portfolio segment.

*Issue 4:* This proposed Statement would require interim and annual credit quality disclosures about a portfolio by class of financing receivable, including quantitative and qualitative information about the credit quality of financing receivables. Do you believe those disclosures will assist financial statement users to better understand the credit quality for the associated financing receivables? If not, why not?

We suggest the quantitative information be required only for annual reporting periods.

Although the Committee supports the concept of requiring additional quantitative and qualitative information, the amount of information proposed by this statement is so extensive that it may be overwhelming to the typical reader such that important qualitative factors are obscured. Accordingly, some of the tabular information may be more appropriately considered as required supplementary information.

Some members of the Committee were concerned that the definition of class may result in inappropriate aggregation of certain loans. For example, all real estate loans might be aggregated in a single class by a lender instead of separate classes for various types of real estate loans (i.e. commercial real estate development loans, loans secured by a first trust deed on commercial property, loans secured by first trust deeds on single family residences, loans secured by junior liens, etc.). A further discussion of requirements for aggregation could alleviate this concern.

*Issue 5:* This proposed Statement would require an analysis of the age of financing receivables that are past due, but not impaired, at the end of the reporting period separately for each class of financial instruments. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

We suggest the quantitative information be required only for annual reporting periods.

*Issue 6:* This proposed Statement would require the fair value of loans at the end of the reporting period by portfolio segment. Do you believe those disclosures will assist financial statement users in better understanding the credit quality for the associated financing receivables? If not, why not?

The Committee does not believe that the disclosure of fair value of loans by portfolio segment will foster a significantly better understanding of credit quality in view of the extensive proposed disclosures otherwise required in the exposure draft.

*Issue 7:* Do you believe it is operational for entities to disclose all of the proposed requirements for interim and annual reporting periods? Why or why not?

No. See our discussion of Issues 3 through 5.

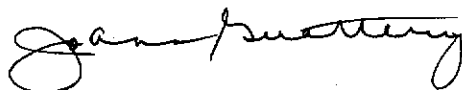
*Issue 8:* The final Statement is expected to be issued in the third quarter of 2009. The Board concluded that this proposed Statement would be effective for financial statements beginning with the first interim or annual reporting period ending after December 15, 2009. Do you agree with the Board's decision on the effective date? If not, what would be a reasonable period of time to implement the provisions of this proposed Statement? If you do not agree, please provide a description of the process changes necessary to implement this proposed Statement that would require additional time.

Issue 1:

The proposed effective date would required the disclosures to be included in December 31, 2009 financial statements. The Committee believes that this requirement would be extremely burdensome for most small and/or nonpublic entities. We recommend that an additional year be provided for all nonpublic entities and public companies whose assets are less than a certain threshold (e.g. \$1,000,000,000).

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,



JoAnn Guattery, Chair  
Accounting Principles and Auditing Standards Committee  
California Society of Certified Public Accountants