

March 8, 2019

Technical Director
Director@fasb.org

File Reference No. 2019-100

Proposed Accounting Standards Update: *Targeted Transition Relief for Topic 326, Financial Instruments—Credit Losses*

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee has the following replies to the Questions for Respondents.

Question 1: Do you agree with the amendments in this proposed Update to provide entities with an option to irrevocably elect the fair value option in Subtopic 825-10 for eligible instruments that are within the scope of Subtopic 326-20, except for held-to-maturity debt securities, upon adoption? If not, please explain your reasoning.

The Committee agrees with the amendments in this proposed Update to provide entities with an option to irrevocably elect the fair value option in Subtopic 825-10 for eligible instruments that are within the scope of Subtopic 326-20 except for held-to-maturity debt securities.

The Committee has a significant reservation as to whether the goals of the proposal can be achieved. The principal proponents of the change in the proposed ASU are apparently in the auto finance industry, and with lease financing common in the auto industry, these companies likely hold finance leases as lessors. These leases are not eligible for the fair value option, so they will be carried at amortized cost net of expected credit losses, and thereby leaving these entities with the dual measurement methodology that the proposal seeks to avoid. This issue may have broad impact on the finance industry.

The Committee suggests that the Board reconsider the fair value option by lessors for finance lease contracts. This may be a separate project and not part of the scope of this proposed ASU. They were excluded from SFAS 159 Statement of Financial Accounting Standards No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* because the Board believed that lease accounting provisions should not be changed by the fair value option project

without a comprehensive reconsideration of the accounting for lease contracts. This has now happened with ASU 2016-02 *Leases*, so a reconsideration of the fair value option for leases would be timely.

Question 2: Do you agree with the proposed amendment that would require that the irrevocable election of the fair value option be applied on an instrument-by-instrument basis? If not, please explain your reasoning and provide an alternative.

For the limited purposes of this proposed ASU, and to maintain consistency with existent GAAP under ASC 825, the Committee generally agrees that the irrevocable election of the fair value option be applied on an instrument-by-instrument approach. However, the Committee would prefer that an entity's accounting policies be applied consistently to all similar transactions by the entity. It understands the reasons in 2007 when SFAS No. 159 was issued for applying the fair value option on an instrument-by-instrument basis but questions their validity twelve years later in 2019. Its use introduces non-comparable financial information in financial statements, the very matter that the Board is attempting to avoid with the proposed.

Question 3: For entities that have not adopted Topic 326, should the effective date and transition requirements of the proposed amendments align with the effective date and transition requirements of the amendments in Update 2016-13? If not, please explain your reasoning and provide an alternative.

Committee recommends that the transition dates be aligned.

Question 4: For entities that have early adopted Topic 326, what should be the effective date and transition requirements for the proposed amendments?

The Committee recommends that entities that have early adopted Topic 326 be permitted to adopt the proposed amendments upon their issuance as an ASU, but no later than the final effective date of ASU 2016-13.

Question 5: Would additional disclosures be needed for the proposed amendments, beyond the disclosure requirements in Topic 250, Accounting Changes and Error Corrections, and Subtopics 820-10 and 825-10?

The Committee believes the existing disclosure requirements are adequate and that additional disclosures are not necessary.

Question 6: Do you support the Board's decision not to provide entities with an option to discontinue fair value measurements for financial assets measured at fair value through net income and instead apply the measurement guidance in Subtopic 326-20? If not, please explain your reasoning about why the measurement guidance in Subtopic 326-20 is preferable for the types of financial assets for which an entity would elect to discontinue fair value measurements.

The Committee does not agree with this decision of the Board. The accounting rules for financial assets carried at amortized cost changed significantly with the introduction of the expected credit losses methodology for the measurement of credit losses in ASU 2016-13. This

change may have a significant effect on the desirability of the fair value option elected by certain entities to the point where amortized cost may be a more desirable accounting basis for financial assets for which they had elected the fair value option. Some of these entities may even have not made the fair value option election in the past if the new accounting rule for credit losses had been in effect when they made the election. These entities should be afforded the same opportunity for change, just as those entities that did not adopt the fair value option would have an opportunity for change, which would enable them to avoid the cost of dual record keeping and have comparable financial information.

* * * * *

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.

Sincerely,



Matthew J. Lombardi
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants