

*new york state society of*

**NYSSCPA**

*certified public accountants*

530 fifth avenue, new york, ny 10036-5101

www.nysscpa.org

September 17, 2003

Mr. Frederick Gill  
Senior Technical Manager  
Accounting Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

By email: fgill@aicpa.org

Re: File Reference 3480

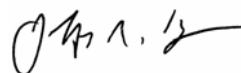
Exposure Draft: Proposed Statement of Position: *Allowance for Credit Losses*

Dear Mr. Gill:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents approximately 30,000 CPAs that will implement the provisions proposed in the captioned exposure draft. NYSSCPA thanks AcSEC for the opportunity to comment on its exposure draft.

The NYSSCPA Financial Accounting Standards Committee deliberated the exposure draft and prepared the attached comments with the assistance of the Not-for-Profit Organizations Committee. If you would like additional discussion with the committee, please contact Robert Dyson, chair of the Financial Accounting Standards Committee, at (212) 842-7565, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,



Jeffrey Hoops  
President

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**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON AcSEC EXPOSURE DRAFT**

**Proposed Statement of Position: *Allowance for Credit Losses***

**File Reference 3480**

**Principal Drafters**

**John McEnerney**

**Roseanne Farley**

**David C. Ashenfarb (Issue 2)**

**Howard Becker (Issue 2)**

**Allen Fetterman (Issue 2)**

**September 17, 2003**

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Robert H. Colson

**New York State Society of Certified Public Accountants  
Comments to AcSEC  
Proposed Statement of Position: Allowance for Credit Losses  
File 3480  
September 17, 2003**

**General Comments**

Clarifying accounting practice for the allowance for credit losses and reducing practice inconsistencies are important goals addressed by AcSEC in this proposal. The proposed Statement of Position (SOP) presents appropriately the conclusion that a loss under Statement of Financial Accounting Standards (SFAS) 5, *Accounting for Contingencies*, is not a single event. The proposed SOP also provides useful illustrations to guide its application, including the determination if a loan is impaired. Nonetheless, the final SOP should require disclosures sufficiently comprehensive to ensure that financial statement readers understand the rationale behind the unallocated portion of the SFAS 5 reserve.

As noted in answers to specific questions below, AcSEC should provide additional guidance in certain areas, most notably with respect to directional consistency, in order to promote consistency in the SOP's application. Institutions should also be permitted to change observable data when a current event such as a war or terrorist attack could have immediate impact on a loan or pool of loans, based on prior experience with similar incidents.

AcSEC should also ensure that there are no inconsistencies between this SOP and the proposed SOP on purchased loans.

Paragraph 17 describes the aggregation process for loans under collective loan impairment. A flowchart or diagram illustrating the relationship between loans reviewed under SFAS 114, *Accounting by Creditors for Impairment of a Loan*, would make the proposed SOP easier to understand.

**Comments on Specific Issues**

**Issue 1 – Is the scope of the proposed SOP understandable with respect to the kinds of loans and entities to which the SOP would apply?**

The SOP's scope is clear with respect to the loans and entities that are covered because it uses SFAS 114's definition of a loan, which has been used in practice for a number of years, and it specifically describes the exceptions.

**Issue 2 – The issue addresses whether unconditional promises to give received by a not-for-profit organization are loans covered by the proposed SOP. The proposed SOP differentiates between unconditional promises to give expected to be received in less than one year and those that are due in more than a year.**

An unconditional promise to give does not meet the definition of a loan. SFAS 114 defines a loan as “a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor’s statement of financial position.”

Unconditional promises to give are not the result of an exchange transaction. Contributions are transactions in which one entity, acting in a capacity other than as an owner, makes an unconditional voluntary transfer to another entity without directly receiving equal value in exchange. [AICPA Audit and Accounting Guide, *Not-for-Profit Organizations*, paragraph 5.08]. In contrast, accounts receivable are the result of exchange transactions, where one party provides goods or services in return for a promise to pay a specified amount of money. In such a case, the promise to pay for goods and services already received creates a loan to the debtor from the creditor.

A promise to give does not necessarily result in a **contractual** right to receive money or obligation to pay money. The AICPA Audit and Accounting Guide, paragraph 5.47, states that unconditional promises to give should be recorded “even if not legally enforceable.” From the point of view of the pledgor, the promise to give does not represent a loan payable to the recipient.

Finally, the proposed provisions are unnecessary because guidance on impairment already exists. Currently, SFAS 116, *Accounting for Contributions Received and Contributions Made*, requires not-for-profit organizations to reduce the carrying value of promises to give by a discount to present value and an allowance for uncollectible amounts.

**Issue 4 – This issue relates to whether the guidance in paragraph 19 on observable data is understandable and whether it is appropriate.**

We agree with using the concept of observable data and think companies should have flexibility in determining what represents observable data.

**Issue 5 – This issue relates to the concept of directional consistency regarding observable data.**

More guidance should be added on directional consistency. For example, there could be a time lag between when data is observed and when loans actually deteriorate and this is not sufficiently explained in the SOP.

**Issue 6 – The SOP provides limited guidance on impairment in a pool of loans. Should the SOP include a specific impairment measurement method or techniques for pools of loans?**

The proposed guidance in the SOP is adequate and no additional guidance on impairment measurement methods is necessary.

**Issue 7 – This issue pertains to disclosure requirements related to the allowance for credit losses and whether the disclosures are useful.**

The disclosure information is useful since financial statement users would be able to compare pools of loans at different institutions.

*Issue 2 was prepared in conjunction with the NYSSCPA Not-For Profit Organizations Committee. The principal drafters of Issue 2 were David C. Ashenfarb, CPA, Howard Becker, CPA, and Allen Fetterman, CPA.*