The Association of Accountants and Financial Professionals in Business

January 17, 2025

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

Re: File Reference No. 2024 ED900 Proposed Accounting Standards Update - *Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Non-for-Profit Entities*

Dear Mr. Day:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) *Proposed Accounting Standards Update - Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Non-for-Profit Entities* (Proposed Update).

The IMA is a global association representing over 140,000 accountants and finance professionals. Our members work inside organizations of various sizes, industries, and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The Committee is supportive of the practical expedient within the Proposed Update that would modify the requirement in ASC 326 for a reporting entity to consider the impact of "reasonable and supportable forecasts" on historical loss information in determining the allowance for credit losses on accounts receivable and contract assets arising from transactions accounted for under ASC 606 *Revenue from Contracts with Customers* that are classified as current assets. However, the Committee only supports the Proposed Update's practical expedient option if the Board extends it to all reporting entities. We do not support different recognition and measurement requirements for private companies, particularly when many of the same issues identified by the Board in the Proposed Update also apply to public reporting entities. The Committee also supports allowing reporting entities to consider subsequent collections of accounts receivable and contract assets in establishing the allowance for credit losses; however we believe that for many reporting entities, adopting the proposed accounting policy may not have a meaningful impact due to the short passage of time between the balance sheet date and the date the financial statements are available for issuance. We also believe that this could potentially result in additional time and effort to adjust historical loss calculations to reflect the reduction of collected receivables from historical loss statistics.

Please refer to Appendix I for detailed responses to the specific questions for respondents.

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We would be pleased to discuss our comments with you or your staff at your convenience.

Sincerely,

Josh Paul
Chair, Financial Reporting Committee
Institute of Management Accountants
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Appendix I – Questions for Respondents

Overall

Question 1*: Should the amendments in this Proposed Update be limited to private companies and non-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.*

Response: We believe that the Proposed Update should be expanded to public business entities. Many public business entities also have struggled with implementing ASC 326. Similar to the observations of private companies, losses on accounts receivable arising from transactions with customers are not generally sensitive to future economic forecasts However, public companies are required to maintain processes to update and document conclusions each reporting period that economic forecasts do not have a consequential impact to their historical loss statistics and have to maintain internal controls over those processes. Those processes, controls, and documentation are then subject to review or audit by the reporting entity's independent public accountant. We believe that as a result, public companies incur costs to apply ASC 326 to accounts receivable arising from revenue arrangements that exceed any related benefits. We do not believe differing levels of resources between public and private companies (which often seems more theoretical than factual) should serve as a basis for distinguishing between reporting entities. As such, we believe that both public and private entities should be treated consistently, particularly given the possibility that a private entity could one day become public and would have to pivot accounting treatment and processes to adapt to differing accounting principles when nothing has fundamentally changed with respect to the accounts receivable arising from transactions under ASC 606 with its customers. We also do not believe (as is suggested in the Proposed Update's Basis for Conclusions), the fact that public companies have shorter reporting deadlines should impact whether public entities should be in scope of the Proposed Update or not.

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

Response: Yes, we agree with the application to accounts receivable and contract assets that would be classified as current within a classified balance sheet. We recommend not referring to "current accounts receivable" and "current contract assets" to avoid confusion with the "current" category companies include in their accounts receivable aging schedules. Defining the scope as including only accounts receivable and contract assets arising from revenue transactions that are classified as current under Topic 210 should be sufficient.

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 Derecognition of Nonfinancial Assets, and if so, what specific assets?*

Response: We would prefer that accounts receivable acquired in a business combination not be subject to ASC 326 on acquisition as those accounts receivable are measured at fair value under Topic 805, which considers expected credit losses. However, if the Board is unable to make advances on its Purchased Financial Assets project, we believe that the proposed amendments should be extended to apply to the initial estimate of expected credit losses on accounts receivable and contract assets, classified as current, that are acquired in a business combination. How the accounts receivable and contract assets are acquired should not affect how expected credit losses on those assets are measured.

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?*

Response: Because reporting entities believe that economic forecasts do not affect the historical loss statistics with respect to accounts receivable arising from transactions with customers, we believe the primary impact of the proposed amendment will be to confirm documentation of this fact does not need to be performed in the future, and, from that perspective, the guidance is clear and operable. The documentation process for most public and private entities to update economic forecasts is costly and cumbersome and typically does not result in any meaningful impact to historical loss rate assumptions or the assessment of the estimate for credit losses under Topic 326.

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?*

Response: We believe reporting entities should have the option to consider subsequent collection activity. The Committee also believes an entity that elects to take subsequent cash collections into account would need to consider if the historical loss statistics for each aging category (assuming that is how the reporting entity measures the allowance) require adjustment as receivables similar to those that were collected were previously included in the denominator used to calculate the loss statistics. We raise this point as Example 3 in the Proposed Update employs the same historical loss rates before and after the subsequent cash collections were taken into account.

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

Response: We believe that the proposed amendments that offer a practical expedient and a proposed accounting policy election are distinct from one another. While we agree that both improve the operability of Topic 326, we do not believe that one is dependent on the other and should be applied separately.

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.*

Response: Yes, we believe if entities (public and private) choose to elect either the practical expedient or the accounting policy election, they should be required to disclose that election so that users are aware of how the reporting entity is measuring its expected credit losses. Such information is pertinent to users' understanding of the application of Topic 326 by the entity.

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.*

Response: Yes, we agree with prospective transition requirements. It could be too burdensome of an exercise to retrospectively implement subsequent cash collection activity to prior periods without substantial impact, depending on individual facts and circumstances. We also believe that entities (both public and private) should be able to apply the practical expedient and accounting policy election in any period after the effective date without a preferability assessment as both elections are intuitive in nature and improve the application of Topic 326.

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.*

Response: Yes, we believe that the proposed amendments should be effective upon issuance of a final ASU as most entities have subsequent cash collection activity readily available in their financial reporting and treasury systems and track such activity already as part of normal interactions with their customers and cash collection processes. Early adoption should also be permitted to efficiently and effectively enact the improvements to the overall application of Topic 326.

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.*

Response: As previously mentioned, the proposed practical expedient will reduce both the cost and complexity of having to update economic forecast information when often the documentation and collection of such information has an insignificant impact to the evaluation and estimate of credit losses. We also believe that the accounting policy election makes intuitive sense and will support and simplify the overall approach to Topic 326 for non-financial institution public and private entities, including non-for-profit entities.