

# FINANCIAL ACCOUNTING SERIES



No. 2016-13  
June 2016

## Financial Instruments—Credit Losses (Topic 326)

Measurement of Credit Losses on Financial Instruments

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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# Accounting Standards Update 2016-13

## Financial Instruments—Credit Losses (Topic 326)

### Measurement of Credit Losses on Financial Instruments

June 2016

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# Summary

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## Why Is the FASB Issuing This Accounting Standards Update (Update)?

Current generally accepted accounting principles (GAAP) require an “incurred loss” methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. Both financial institutions and users of their financial statements expressed concern that current GAAP restricts the ability to record credit losses that are expected, but do not yet meet the “probable” threshold.

The global financial crisis underscored those concerns because users analyzed credit losses by utilizing forward-looking information to assess an entity’s allowance for credit losses on the basis of their own expectations. Consequently, in the lead-up to the financial crisis, users were making estimates of expected credit losses and devaluing financial institutions before accounting losses were recognized, highlighting the different information needs of users from what was required by GAAP. Similarly, financial institutions expressed frustration during this period because they could not record credit losses that they were expecting but had not yet met the probable threshold.

In 2008, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) established a Financial Crisis Advisory Group (FCAG) to advise the Boards on improvements to financial reporting in response to the financial crisis. The FCAG identified as a weakness in current GAAP the delayed recognition of credit losses that results in the potential overstatements of assets. As a result, the FCAG recommended exploring more forward-looking alternatives to the incurred loss methodology.

The main objective of this Update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

## Who Is Affected by the Amendments in This Update?

The amendments affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in

leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

The amendments in this Update affect an entity to varying degrees depending on the credit quality of the assets held by the entity, their duration, and how the entity applies current GAAP. There is diversity in practice in applying the incurred loss methodology, which means that before transition some entities may be more aligned, under current GAAP, than others to the new measure of expected credit losses.

## What Are the Main Provisions?

### Assets Measured at Amortized Cost

The amendments in this Update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset.

The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period.

The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances.

The allowance for credit losses for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (PCD assets) that are measured at amortized cost basis is determined in a similar manner to other financial assets measured at amortized cost basis; however, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for these assets. Interest income for PCD assets should be recognized based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at acquisition.

### Available-for-Sale Debt Securities

Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses.

Available-for-sale accounting recognizes that value may be realized either through collection of contractual cash flows or through sale of the security. Therefore, the amendments limit the amount of the allowance for credit losses to the amount by which fair value is below amortized cost because the classification as available for sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value.

The allowance for credit losses for purchased available-for-sale securities with a more-than-insignificant amount of credit deterioration since origination is determined in a similar manner to other available-for-sale debt securities; however, the initial allowance for credit losses is added to the purchase price rather than reported as a credit loss expense. Only subsequent changes in the allowance for credit losses are recorded in credit loss expense. Interest income should be recognized based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at acquisition.

## How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

### Assets Measured at Amortized Cost

Current GAAP includes multiple credit impairment objectives for instruments within the scope of this Update. The previous objectives generally delayed recognition of the full amount of credit losses until the loss was probable of occurring.

The amendments in this Update are an improvement because they eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses. Previously, when credit losses were measured under GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss.

The amendments in this Update broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements.

It is not the Board's expectation that an entity will need to create an economic forecast over the entire contractual life of long-dated financial assets. Therefore, the amendments in this Update allow an entity to revert to historical loss information that is reflective of the contractual term (considering the effect of

prepayments) for periods that are beyond the time frame for which the entity is able to develop reasonable and supportable forecasts.

The Board does not specify a method for measuring expected credit losses and allows an entity to apply methods that reasonably reflect its expectations of the credit loss estimate.

The Board expects that an entity can leverage its current systems and methods for recording the allowance for credit losses. However, the inputs used to record the allowance for credit losses generally will need to change to appropriately reflect an estimate of all expected credit losses and the use of reasonable and supportable forecasts.

The accounting for purchased credit impaired financial assets under current GAAP has been criticized as complex and difficult to apply. The accounting for those assets under the amendments in this Update will make the allowance for credit losses more comparable between originated assets and purchased financial assets, as well as reduce complexity with the accounting for interest income.

The amendments in this Update retain many of the disclosure amendments in Accounting Standards Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, updated to reflect the change from an incurred loss methodology to an expected credit loss methodology.

In addition, the disclosures of credit quality indicators in relation to the amortized cost of financing receivables, a current disclosure requirement, are further disaggregated by year of origination (or vintage). The vintage information will be useful for financial statement users to better assess changes in underwriting standards and credit quality trends in asset portfolios over time and the effect of those changes on credit losses. However, the disaggregation by year of origination will be optional for entities that are not public business entities.

## Available-for-Sale Debt Securities

Credit losses on available-for-sale debt securities should be measured in a manner similar to current GAAP. However, the amendments in this Update require that credit losses be presented as an allowance rather than as a write-down.

This approach is an improvement to current GAAP because an entity will be able to record reversals of credit losses (in situations in which the estimate of credit losses declines) in current period net income, which in turn should align the income statement recognition of credit losses with the reporting period in which changes occur. Current GAAP prohibits reflecting those improvements in current-period earnings.

The amendments in this Update indicate that an entity should not use the length of time a security has been in an unrealized loss position to avoid recording a credit loss. In addition, in determining whether a credit loss exists, the amendments in this Update also remove the requirements to consider the historical and implied volatility of the fair value of a security and recoveries or declines in fair value after the balance sheet date.

The accounting for purchased credit impaired available-for-sale debt securities have similar complex accounting requirements under current GAAP as the accounting for other purchased credit impaired financial assets. Consistent with the accounting for amortized cost assets, the revised accounting under the amendments will increase the comparability of the allowance for credit losses across originated and purchased available-for-sale debt securities, as well as resolve complexity with the accounting for interest income.

## When Will the Amendments Be Effective?

For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.

For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach).

A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this Update.

Amounts previously recognized in accumulated other comprehensive income as of the date of adoption that relate to improvements in cash flows expected to be collected should continue to be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements

in cash flows after the date of adoption should be recorded in earnings when received.

The Board determined that financial assets for which the guidance in Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, has previously been applied should prospectively apply the guidance in this Update for PCD assets. A prospective transition approach should be used for PCD assets where upon adoption, the amortized cost basis should be adjusted to reflect the addition of the allowance for credit losses.

This transition relief will avoid the need for a reporting entity to reassess its purchased financial assets that exist as of the date of adoption to determine whether they would have met at acquisition the new criteria of more-than-insignificant credit deterioration since origination. The transition relief also will allow an entity to accrete the remaining noncredit discount (based on the revised amortized cost basis) into interest income at the effective interest rate at the adoption date of this Update.

The same transition requirements should be applied to beneficial interests that previously applied Subtopic 310-30 or have a significant difference between contractual cash flows and expected cash flows.

# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–92. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Master Glossary

2. Add the new Master Glossary term *Purchased Financial Assets with Credit Deterioration*, with a link to transition paragraph 326-10-65-1, as follows:

### **Purchased Financial Assets with Credit Deterioration**

Acquired individual {**add glossary link to 1<sup>st</sup> definition link**}**financial assets**{**add glossary link to 1<sup>st</sup> definition link**} (or acquired groups of financial assets with similar risk characteristics) that as of the date of acquisition have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment. See paragraph 326-20-55-5 for more information on the meaning of similar risk characteristics for assets measured on an amortized cost basis.

3. Supersede the following Master Glossary terms, with a link to transition paragraph 326-10-65-1, as follows:

### **Collateral-Dependent Loan**

~~A loan for which the repayment is expected to be provided solely by the underlying collateral.~~

### **Recorded Investment in the Receivable**

~~The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.~~

4. Amend the following Master Glossary terms, with a link to transition paragraph 326-10-65-1, as follows:

## Amortized Cost Basis

The amortized cost basis is the amount at which ~~an~~ a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount, and net deferred fees or costs, collection of cash, ~~previous other than temporary impairments recognized in earnings (less any cumulative effect adjustments)~~ writeoffs, foreign exchange, and fair value hedge accounting adjustments.

## Class of Financing Receivable

A group of financing receivables determined on the basis of both ~~all~~ of the following:

- ~~a. Initial measurement attribute (for example, amortized cost or purchased credit impaired)~~
- b. a. Risk characteristics of the financing receivable
- c. b. An entity's method for monitoring and assessing credit risk.

See paragraphs 326-20-55-11 through 55-14 and 326-20-50-3 340-10-55-16 through 55-18 and 340-10-55-22.

## Credit Quality Indicator

A statistic about the credit quality of a financial asset ~~financing receivables~~.

## Effective Interest Rate

The rate of return implicit in the ~~loan~~ financial asset, that is, the contractual interest rate adjusted for any net deferred ~~loan~~ fees or costs, premium, or discount existing at the origination or acquisition of the financial asset ~~loan~~. For purchased financial assets with credit deterioration, however, to decouple interest income from credit loss recognition, the premium or discount at acquisition excludes the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at the date of acquisition.

## Holding Gain or Loss

The net change in fair value of a security. The holding gain or loss does not include dividend or interest income recognized but not yet received, writeoffs, or the allowance for credit losses ~~or write-downs for other than temporary impairment~~.

## Loan Commitment

Loan commitments are legally binding commitments to extend credit to a counterparty under certain prespecified terms and conditions. They have fixed

expiration dates and may either be fixed-rate or variable-rate. Loan commitments can either be either of the following:

- a. Revolving (in which the amount of the overall line of credit commitment is reestablished upon repayment of previously drawn amounts)
- b. Nonrevolving (in which the amount of the overall line of credit commitment is not reestablished upon repayment of previously drawn amounts).

Loan commitments can be distributed through syndication arrangements, in which one entity acts as a lead and an agent on behalf of other entities that will each extend credit to a single borrower. Loan commitments generally permit the lender to terminate the arrangement under the terms of covenants negotiated under the agreement. ~~This is not an authoritative or all-encompassing definition.~~

### **Portfolio Segment**

The level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. See paragraphs 326-20-50-3 and 326-20-55-10340 40-55-21 through 55-22.

### **Remeasurement Event**

A remeasurement (new basis) event is an event identified in other authoritative accounting literature, other than the measurement of an impairment under Topic 321 or credit loss under Topic 326 ~~recognition of an other than temporary impairment~~, that requires a financial instrument to be remeasured to its fair value at the time of the event but does not require that financial instrument to be reported at fair value continually with the change in fair value recognized in earnings. Examples of remeasurement events are business combinations and significant modifications of debt as discussed in paragraph 470-50-40-6.

5. Amend the General Note to Section 35, Subsequent Measurement, as follows:

**General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

## **Amendments to Subtopic 210-10**

6. Amend paragraph 210-10-45-13, with a link to transition paragraph 326-10-65-1, as follows:

### **Balance Sheet—Overall**

## Other Presentation Matters

### > Valuation Allowances

**210-10-45-13** Asset valuation allowances for losses such as those on receivables and investments shall be deducted from the assets or groups of assets to which the allowances relate. ~~See paragraph 310-10-50-14 for a related disclosure requirement.~~

## Amendments to Subtopic 220-10

7. Amend paragraphs 220-10-45-10A and 220-10-55-15B and supersede paragraph 220-10-45-16A, with a link to transition paragraph 326-10-65-1, as follows:

## Comprehensive Income—Overall

### Other Presentation Matters

#### > > Items within Other Comprehensive Income

**220-10-45-10A** Items of other comprehensive income include the following:

- a. Foreign currency translation adjustments (see paragraph 830-30-45-12)
- b. Gains and losses on foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign entity, commencing as of the designation date (see paragraph 830-20-35-3(a))
- c. Gains and losses on intra-entity foreign currency transactions that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future), when the entities to the transaction are consolidated, combined, or accounted for by the equity method in the reporting entity's financial statements (see paragraph 830-20-35-3(b))
- d. Gains and losses (effective portion) on derivative instruments that are designated as, and qualify as, cash flow hedges (see paragraph 815-20-35-1(c))
- e. Unrealized **{add glossary link}** holding gains and losses **{add glossary link}** on available-for-sale debt securities (see paragraph 326-30-35-2 ~~320-10-45-1~~)
- f. Unrealized holding gains and losses that result from a debt security being transferred into the available-for-sale category from the held-to-maturity category (see paragraph 320-10-35-10(c))

- g. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Amounts recognized in other comprehensive income for debt securities classified as available for sale and held to maturity related to an other than temporary impairment recognized in accordance with Section 320-10-35 if a portion of the impairment was not recognized in earnings~~
- h. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Subsequent decreases (if not an other than temporary impairment) or increases in the fair value of available for sale debt securities previously written down as impaired (see paragraph 320-10-35-18)~~
- i. Gains or losses associated with pension or other postretirement benefits (that are not recognized immediately as a component of net periodic benefit cost) (see paragraph 715-20-50-1(j))
- j. Prior service costs or credits associated with pension or other postretirement benefits (see paragraph 715-20-50-1(j))
- k. Transition assets or obligations associated with pension or other postretirement benefits (that are not recognized immediately as a component of net periodic benefit cost) (see paragraph 715-20-50-1(j)).
- l. Changes in fair value attributable to instrument-specific credit risk of liabilities for which the fair value option is elected (see paragraph 825-10-45-5).

Additional classifications or additional items within current classifications may result from future accounting standards.

~~**220-10-45-16A** Paragraph superseded by Accounting Standards Update No. 2016-13. An entity shall only determine reclassification adjustments for amounts recognized in other comprehensive income related to other than temporary impairments of debt securities classified as held to maturity if the loss is realized as a result of a sale of the security or an additional credit loss occurs. If the security is sold, Section 320-10-25 provides guidance on the effect of changes in circumstances that would not call into question the entity's intent to hold other debt securities to maturity in the future. If the held-to-maturity debt security is not sold and additional credit losses do not occur, the amount recognized in other comprehensive income shall be accounted for in accordance with Section 320-10-35.~~

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 2: Presenting Accumulated Other Comprehensive Income

#### > > > Disclosure of Changes in Accumulated Other Comprehensive Income Balances

**220-10-55-15B** The presentation of unrealized gains and losses on available-for-sale debt securities illustrated in paragraphs 220-10-55-15 through 55-15A is aggregated for simplicity and, therefore, does not necessarily comply with all of the disclosures that may be required in Topic 320 or 326 (for example, disclosures about ~~{add glossary link to available-for-sale securities}~~available-for-sale~~{add glossary link to available-for-sale securities}~~~~{add glossary link to 1<sup>st</sup> definition}~~debt securities~~{add glossary link to 1<sup>st</sup> definition}~~ with an allowance for credit losses ~~other than temporary impairments~~ in paragraph 326-30-45-2 ~~320-10-45-9A~~).

## Amendments to Subtopic 230-10

8. Amend paragraph 230-10-45-21, with a link to transition paragraph 326-10-65-1, as follows:

### Statement of Cash Flows—Overall

#### Other Presentation Matters

##### > Classification

##### > > Acquisitions and Sales of Certain Securities and Loans

**230-10-45-21** Some loans are similar to debt securities in a trading account in that they are originated or purchased specifically for resale and are held for short periods of time. Cash receipts and cash payments resulting from acquisitions and sales of loans also shall be classified as operating cash flows if those loans are acquired specifically for resale and are carried at fair value or at the lower of amortized cost basis or fair value. For example, mortgage loans held for sale are required to be reported at the lower of amortized cost basis or fair value in accordance with Topic 948.

## Amendments to Subtopic 270-10

9. Amend paragraph 270-10-50-1, with a link to transition paragraph 326-10-65-1, as follows:

### Interim Reporting—Overall

#### Disclosure

## > Disclosure of Summarized Interim Financial Data by Publicly Traded Companies

**270-10-50-1** Many **publicly traded companies** report summarized financial information at periodic interim dates in considerably less detail than that provided in annual financial statements. While this information provides more timely information than would result if complete financial statements were issued at the end of each interim period, the timeliness of presentation may be partially offset by a reduction in detail in the information provided. As a result, certain guides as to minimum disclosure are desirable. (It should be recognized that the minimum disclosures of summarized interim financial data required of publicly traded companies do not constitute a fair presentation of financial position and results of operations in conformity with generally accepted accounting principles [GAAP].) If publicly traded companies report summarized financial information at interim dates (including reports on fourth quarters), the following data should be reported, as a minimum:

- a. Sales or gross revenues, provision for income taxes, net income, and comprehensive income
- b. Basic and diluted earnings per share data for each period presented, determined in accordance with the provisions of Topic 260
- c. Seasonal revenue, costs, or expenses (see paragraph 270-10-45-11)
- d. Significant changes in estimates or provisions for income taxes (see paragraphs 740-270-30-2, 740-270-30-6, and 740-270-30-8)
- e. Disposal of a component of an entity and unusual or infrequently occurring items (see paragraphs 270-10-45-11A and 270-10-50-5)
- f. Contingent items (see paragraph 270-10-50-6)
- g. Changes in accounting principles or estimates (see paragraphs 270-10-45-12 through 45-16)
- h. Significant changes in financial position (see paragraph 270-10-50-4)
- i. All of the following information about reportable operating segments determined according to the provisions of Topic 280, including provisions related to restatement of segment information in previously issued financial statements:
  1. Revenues from external customers
  2. Intersegment revenues
  3. A measure of segment profit or loss
  4. Total assets for which there has been a material change from the amount disclosed in the last annual report
  5. A description of differences from the last annual report in the basis of segmentation or in the measurement of segment profit or loss
  6. A reconciliation of the total of the reportable segments' measures of profit or loss to the entity's consolidated income before income taxes and discontinued operations. However, if, for example, an entity allocates items such as income taxes to segments, the entity may choose to reconcile the total of the segments' measures of

profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.

- j. All of the following information about defined benefit pension plans and other defined benefit postretirement benefit plans, disclosed for all periods presented pursuant to the provisions of Subtopic 715-20:
  - 1. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to a settlement or curtailment
  - 2. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 715-20-50-1. Estimated contributions may be presented in the aggregate combining all of the following:
    - i. Contributions required by funding regulations or laws
    - ii. Discretionary contributions
    - iii. Noncash contributions.
- k. The information about the use of fair value to measure assets and liabilities recognized in the statement of financial position pursuant to Section 820-10-50
- l. The information about derivative instruments as required by Sections 815-10-50, 815-20-50, 815-25-50, 815-30-50, and 815-35-50
- m. The information about financial instruments as required by Section 825-10-50
- n. The information about certain investments in debt and equity securities as required by Sections 320-10-50, 321-10-50, and 942-320-50
- o. The information about credit losses and other-than-temporary impairments as required by Topic 326 on measurement of credit losses ~~Sections 320-10-50, 325-20-50, and 958-320-50~~ and impairments as required by Section 321-10-50
- p. All of the following information about the credit quality of **financial assets financing receivables** and the allowance for credit losses determined in accordance with the provisions of Subtopic 326-20 on financial instruments measured at amortized cost Topic 340:
  - 1. Nonaccrual and past due financial assets financing receivables (see paragraphs 326-20-50-14 through 50-183~~10-50-5A through 50-7B~~)
  - 2. Allowance for expected credit losses related to financial assets financing receivables (see paragraphs 326-20-50-10 through 50-13~~310-10-50-11A through 50-11C~~)

3. Subparagraph superseded by Accounting Standards Update No. 2016-13. Impaired loans (see paragraphs 310-10-50-14A through 50-15)
4. Credit-quality information related to instruments within the scope of Subtopic 326-20 financing receivables (see paragraphs 326-20-50-4 through 50-9 ~~310-10-50-27 through 50-30~~)
5. Modifications of financing receivables (see paragraphs 310-10-50-31 through 50-34).
- q. The gross information and net information required by paragraphs 210-20-50-1 through 50-6.
- r. The information about changes in accumulated other comprehensive income required by paragraphs 220-10-45-14A and 220-10-45-17 through 45-17B.
- s. The carrying amount of foreclosed residential real estate property as required by the last sentence of paragraph 310-10-50-11 and the amount of loans in the process of foreclosure as required by paragraph 310-10-50-35.

If summarized financial data are regularly reported on a quarterly basis, the foregoing information with respect to the current quarter and the current year-to-date or the last 12 months to date should be furnished together with comparable data for the preceding year.

## Amendments to Subtopic 310-10

10. Amend paragraphs 310-10-05-1, 310-10-35-44 through 35-48, 310-10-45-1, 310-10-50-1, 310-10-50-2, 310-10-50-4, 310-10-50-25, and 310-10-50-32 through 50-34, supersede paragraphs 310-10-35-1 through 35-43 and their related headings, 310-10-35-49 and its related heading, 310-10-45-4A through 45-6 and their related headings, 310-10-50-4A, 310-10-50-5A through 50-10 and their related headings, 310-10-50-11A through 50-11C and their related heading, 310-10-50-14 through 50-21 and their related headings, 310-10-50-24, 310-10-50-27 through 50-30 and their related heading, 310-10-55-1 through 55-11 and their related headings, and 310-10-55-16 through 55-22 and their related headings, and add paragraphs 310-10-35-53A through 35-53C and their related heading, with a link to transition paragraph 326-10-65-1, as follows:

### Receivables—Overall

#### Overview and Background

**310-10-05-1** The Receivables Topic includes the following Subtopics:

- a. Overall
- b. Nonrefundable Fees and Other Costs

- c. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13, Loans and Debt Securities Acquired with Deteriorated Credit Quality~~
- d. ~~Troubled Debt Restructurings by Creditors.~~

## Subsequent Measurement

### General

~~310-10-35-1 Paragraph superseded by Accounting Standards Update No. 2016-13. This Subsection provides the following subsequent measurement guidance:~~

- a. ~~Loan impairment~~
- b. ~~Credit losses for loans and trade receivables~~
- c. ~~Credit losses for **standby letters of credit** and certain loan commitments~~
- d. ~~Subsequent measurement of specific types of receivables.~~

### > Impairment of Loans and Receivables

~~310-10-35-2 Paragraph superseded by Accounting Standards Update No. 2016-13. Subtopic 450-20 provides the basic guidance for recognition of impairment losses for all receivables (except those receivables specifically addressed by other Topics, such as debt securities). This Subsection provides more specific guidance on measurement and disclosure for a subset of the population of loans. That subset consists of loans that are identified for evaluation and that are individually deemed to be impaired (because it is **probable** that the creditor will be unable to collect all the contractual interest and principal payments as scheduled in the loan agreement). It also includes all loans that are restructured in a troubled debt restructuring involving a modification of terms, except for those loans that are excluded from the scope of this guidance, as discussed in paragraph 310-10-35-13(b) through (d).~~

~~310-10-35-3 Paragraph superseded by Accounting Standards Update No. 2016-13. This Subsection addresses both the impairment concepts applicable to all receivables, with references to the guidance in Subtopic 450-20 where appropriate, and the impairment concepts related to loans that are identified for evaluation and that are individually deemed to be impaired, as discussed in paragraph 310-10-35-2.~~

### >> General Concepts

~~310-10-35-4 Paragraph superseded by Accounting Standards Update No. 2016-13. The following provides an overview of generally accepted accounting principles (GAAP) for loan impairment:~~

- a. ~~It is usually difficult, even with hindsight, to identify any single event that made a particular loan uncollectible. However, the concept in GAAP is~~

~~that impairment of receivables shall be recognized when, based on all available information, it is probable that a loss has been incurred based on past events and conditions existing at the date of the financial statements.~~

- ~~b. Losses shall not be recognized before it is probable that they have been incurred, even though it may be probable based on past experience that losses will be incurred in the future. It is inappropriate to consider possible or expected future trends that may lead to additional losses. Recognition of losses shall not be deferred to periods after the period in which the losses have been incurred.~~
- ~~c. GAAP does not permit the establishment of allowances that are not supported by appropriate analyses. The approach for determination of the allowance shall be well documented and applied consistently from period to period.~~
- ~~d. Under Subtopic 450-20, the threshold for recognition of impairment shall be the same whether the creditor has many loans or has only one loan. Paragraph 310-10-35-9 requires that if the conditions of paragraph 450-20-25-2 are met, accrual shall be made even though the particular receivables that are uncollectible may not be identifiable.~~
- ~~e. The guidance in this Subsection is more specific than Subtopic 450-20 in that it requires certain methods of measurement for loans that are individually considered impaired, but it does not fundamentally change the recognition criteria for loan losses.~~

### **>> Impairment of Receivables**

**310-10-35-5** Paragraph superseded by Accounting Standards Update No. 2016-13. The following discusses the general principles for measurement impairment of receivables under Subtopic 450-20, specifically:

- a. Applicability
- b. Losses from uncollectible receivables.

### **>>> Applicability**

**310-10-35-6** Paragraph superseded by Accounting Standards Update No. 2016-13. A creditor needs to apply judgment based on individual facts and circumstances to determine what represents large groups of smaller balance homogeneous loans. Paragraphs 310-10-35-7 through 35-11 would apply to those groups of smaller balance loans as well as loans that are not identified for evaluation or that are evaluated but are not individually considered impaired.

### **>>> Losses from Uncollectible Receivables**

**310-10-35-7** Paragraph superseded by Accounting Standards Update No. 2016-13. The conditions under which receivables exist usually involve some degree of uncertainty about their collectibility, in which case a contingency exists.

310-10-35-8 Paragraph superseded by Accounting Standards Update No. 2016-13. Subtopic 450-20 requires recognition of a loss when both of the following conditions are met:

- a. Information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicates that it is probable that an asset has been impaired at the date of the financial statements.
- b. The amount of the loss can be reasonably estimated.

310-10-35-9 Paragraph superseded by Accounting Standards Update No. 2016-13. Losses from uncollectible receivables shall be accrued when both of the preceding conditions are met. Those conditions may be considered in relation to individual receivables or in relation to groups of similar types of receivables. If the conditions are met, accrual shall be made even though the particular receivables that are uncollectible may not be identifiable.

310-10-35-10 Paragraph superseded by Accounting Standards Update No. 2016-13. If, based on current information and events, it is probable that the entity will be unable to collect all amounts due according to the contractual terms of the receivable, the condition in paragraph 450-20-25-2(a) is met. As used here, all amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments will be collected as scheduled according to the receivable's contractual terms. However, a creditor need not consider an insignificant delay or insignificant shortfall in amount of payments as meeting the condition in paragraph 450-20-25-2(a). Whether the amount of loss can be reasonably estimated (the condition in paragraph 450-20-25-2(b)) will normally depend on, among other things, the experience of the entity, information about the ability of individual debtors to pay, and appraisal of the receivables in light of the current economic environment. In the case of an entity that has no experience of its own, reference to the experience of other entities in the same business may be appropriate.

310-10-35-11 Paragraph superseded by Accounting Standards Update No. 2016-13. The inability to make a reasonable estimate of the amount of loss from uncollectible receivables (that is, failure to satisfy the condition in paragraph 450-20-25-2(b)) precludes accrual and may, if there is significant uncertainty as to collection, suggest that the cost recovery method, the cash basis method, or some other method shall be used.

### **>> Loans That Are Identified for Evaluation or That Are Individually Considered Impaired**

310-10-35-12 Paragraph superseded by Accounting Standards Update No. 2016-13. The following addresses impairment of loans that are identified for evaluation or that are individually considered impaired, specifically:

- a. Applicability

- b. Identifying loans for evaluation
- c. Assessing whether a loan is impaired
- d. Measurement of impairment
- e. Interaction with loss contingencies
- f. Changes in the net carrying amount of an impaired loan.

### >>> **Applicability**

**310-10-35-13** Paragraph superseded by Accounting Standards Update No. 2016-13. This guidance applies to all creditors. It addresses the accounting by creditors for impairment of a loan by specifying how allowances for credit losses related to certain loans shall be determined. The accounting for impaired loans shall be consistent among all creditors and for all types of lending except for loans that are measured at fair value or at the lower of cost or fair value in accordance with specialized industry practice. Therefore, this guidance applies to all loans that are identified for evaluation, uncollateralized as well as collateralized, except the following:

- a. Large groups of smaller balance homogeneous loans that are collectively evaluated for impairment. Those loans may include but are not limited to credit card, residential mortgage, and consumer installment loans.
- b. Loans that are measured at fair value or at the lower of cost or fair value, for example, in accordance with Topic 948 or other specialized industry practice.
- c. Subparagraph superseded by Accounting Standards Update No. 2016-02.
- d. Debt securities as defined in Topic 320.

This guidance does not address when a creditor should record a direct write-down of an impaired loan, nor does it address how a creditor should assess the overall adequacy of the allowance for credit losses.

### >>> **Identifying Loans for Evaluation**

**310-10-35-14** Paragraph superseded by Accounting Standards Update No. 2016-13. This guidance does not specify how a creditor should identify loans that are to be evaluated for collectibility. A creditor shall apply its normal loan review procedures in making that judgment. Sources of information useful in identifying loans for evaluation include the following:

- a. A specific materiality criterion
- b. Regulatory reports of examination
- c. Internally generated listings such as watch lists, past due reports, overdraft listings, and listings of loans to insiders
- d. Management reports of total loan amounts by borrower
- e. Historical loss experience by type of loan

- ~~f. Loan files lacking current financial data related to borrowers and guarantors~~
- ~~g. Borrowers experiencing problems such as operating losses, marginal working capital, inadequate cash flow, or business interruptions~~
- ~~h. Loans secured by collateral that is not readily marketable or that is susceptible to deterioration in realizable value~~
- ~~i. Loans to borrowers in industries or countries experiencing economic instability~~
- ~~j. Loan documentation and compliance exception reports.~~

~~**310-10-35-15** Paragraph superseded by Accounting Standards Update No. 2016-13. After a loan has been individually identified for evaluation, a creditor shall not aggregate loans with common risk characteristics when assessing whether loans are impaired. Only if a creditor can identify which individual loans (if any) are impaired (because it is probable that the creditor will be unable to collect all the contractual interest and principal payments as scheduled in the loan agreement) shall an allowance be measured for individual loans under this Subsection.~~

### **>>> Assessing Whether a Loan Is Impaired**

~~**310-10-35-16** Paragraph superseded by Accounting Standards Update No. 2016-13. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement. See Subtopic 310-40 for specific application of this guidance to loans restructured in a troubled debt restructuring.~~

~~**310-10-35-17** Paragraph superseded by Accounting Standards Update No. 2016-13. This guidance does not specify how a creditor should determine that it is probable that it will be unable to collect all amounts due according to the contractual terms of a loan. A creditor shall apply its normal loan review procedures in making that judgment. An insignificant delay or insignificant shortfall in amount of payments does not require application of this guidance. A loan is not impaired during a period of delay in payment if the creditor expects to collect all amounts due including interest accrued at the contractual interest rate for the period of delay. Thus, a demand loan or other loan with no stated maturity is not impaired if the creditor expects to collect all amounts due including interest accrued at the contractual interest rate during the period the loan is outstanding.~~

~~**310-10-35-18** Paragraph superseded by Accounting Standards Update No. 2016-13. The term *probable* is used consistent with its use in Subtopic 450-20, which defines *probable* as an area within a range of the likelihood that a future~~

~~event or events will occur confirming the fact of the loss. That range is from probable to remote, as follows:~~

- ~~a. Probable. The future event or events are likely to occur.~~
- ~~b. Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.~~
- ~~c. Remote. The chance of the future event or events occurring is slight.~~

~~**310-10-35-19** Paragraph superseded by Accounting Standards Update No. 2016-13. The term probable is further described in paragraph 450-20-25-3, which indicates that the conditions for accrual in paragraph 450-20-25-2(a) are not intended to be so rigid that they require virtual certainty before a loss is accrued. They require only that it be probable that an asset has been impaired or a liability has been incurred and that the amount of loss be reasonably estimable. Application of the term probable in practice requires judgment, and probable does not mean virtually certain. Probable is a higher level of likelihood than more likely than not.~~

### ~~>>> Measurement of Impairment~~

~~**310-10-35-20** Paragraph superseded by Accounting Standards Update No. 2016-13. Measuring impairment of a loan requires judgment and estimates, and the eventual outcomes may differ from those estimates. Creditors shall have latitude to develop measurement methods that are practical in their circumstances.~~

~~**310-10-35-21** Paragraph superseded by Accounting Standards Update No. 2016-13. Some impaired loans have risk characteristics that are unique to an individual borrower, and the creditor shall apply the measurement methods described in paragraphs 310-30-30-2; 310-10-35-22 through 35-28; and 310-10-35-37 on a loan by loan basis. However, some impaired loans may have risk characteristics in common with other impaired loans. A creditor may aggregate those loans and may use historical statistics, such as average recovery period and average amount recovered, along with a composite **effective interest rate** as a means of measuring impairment of those loans.~~

~~**310-10-35-22** Paragraph superseded by Accounting Standards Update No. 2016-13. When a loan is impaired (see paragraphs 310-10-35-16 through 35-17), a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a **collateral dependent loan**. If that practical expedient is used, Topic 820 shall apply.~~

~~**310-10-35-23** Paragraph superseded by Accounting Standards Update No. 2016-13. If a creditor uses the fair value of the collateral to measure impairment~~

~~of a collateral-dependent loan and repayment or satisfaction of a loan is dependent on the sale of the collateral, the fair value of the collateral shall be adjusted to consider estimated costs to sell. However, if repayment or satisfaction of the loan is dependent only on the operation, rather than the sale, of the collateral, the measure of impairment shall not incorporate estimated costs to sell the collateral.~~

~~**310-10-35-24 Paragraph superseded by Accounting Standards Update No. 2016-13.**The creditor may choose a measurement method on a loan-by-loan basis. A creditor shall consider estimated costs to sell, on a discounted basis, in the measure of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral) is less than the **recorded investment** in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), a creditor shall recognize an impairment by creating a valuation allowance with a corresponding charge to bad debt expense or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to bad debt expense. The term *recorded investment in the loan* is distinguished from *net carrying amount of the loan* because the latter term is net of a valuation allowance, while the former term is not. The recorded investment in the loan does, however, reflect any direct write-down of the investment.~~

~~**310-10-35-25 Paragraph superseded by Accounting Standards Update No. 2016-13.**If a creditor bases its measure of loan impairment on a present value amount, the creditor shall calculate that present value amount based on an estimate of the expected future cash flows of the impaired loan, discounted at the loan's effective interest rate. A creditor's recorded investment in a loan at origination and during the life of the loan, as long as the loan performs according to its contractual terms, is the sum of the present values of the future cash flows that are designated as interest and the future cash flows that are designated as principal discounted at the effective interest rate implicit in the loan. A loan that becomes impaired (because it is probable that the creditor will be unable to collect all the contractual interest payments and contractual principal payments as scheduled in the loan agreement) shall continue to be carried at an amount that considers the discounted value of all expected future cash flows in a manner consistent with the loan's measurement before it became impaired.~~

~~**310-10-35-26 Paragraph superseded by Accounting Standards Update No. 2016-13.**If a creditor bases its measure of loan impairment on a present value calculation, the estimates of expected future cash flows shall be the creditor's best estimate based on reasonable and supportable assumptions and projections. All available evidence, including estimated costs to sell if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan, shall be considered in developing the estimate of expected future cash flows. The weight given to the evidence shall be commensurate with the extent to~~

which the evidence can be verified objectively. If a creditor estimates a range for either the amount or timing of possible cash flows, the likelihood of the possible outcomes shall be considered in determining the best estimate of expected future cash flows. **[Content amended and moved to paragraph 326-30-35-8]**

**310-10-35-27** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~In addition, a creditor shall consider all available information reflecting past events and current conditions when developing the estimate of expected future cash flows. All available information would include existing environmental factors, for example, existing industry, geographical, economic, and political factors that are relevant to the collectibility of that loan and that indicate that it is probable that an asset had been impaired at the date of the financial statements.~~ **[Content amended and moved to paragraph 326-30-35-9]**

**310-10-35-28** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~If the loan's contractual interest rate varies based on subsequent changes in an independent factor, such as an index or rate, for example, the prime rate, the London Interbank Offered Rate (LIBOR), or the U.S. Treasury bill weekly average, that loan's effective interest rate may be calculated based on the factor as it changes over the life of the loan or may be fixed at the rate in effect at the date the loan meets the impairment criterion in paragraphs 310-10-35-16 through 35-17. The creditor's choice shall be applied consistently for all loans whose contractual interest rate varies based on subsequent changes in an independent factor. Projections of changes in the factor shall not be made for purposes of determining the effective interest rate or estimating expected future cash flows.~~ **[Content amended and moved to paragraphs 326-20-30-4 and 326-30-35-11]**

**310-10-35-29** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~The measurement method selected for an individual impaired loan shall be applied consistently to that loan. A change in method shall be justified by a change in circumstance.~~

**310-10-35-30** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~There are two considerations related to measurement of impairment:~~

- a. ~~Impact of hedging~~
- b. ~~Measurement of impairment when foreclosure is probable.~~

### **>>>> Impact of Hedging**

**310-10-35-31** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~Section 815-25-35 implicitly affects the measurement of impairment under this Topic by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted recorded investment in a hedged loan. When the recorded investment of a loan has been adjusted under fair value hedge accounting, the effective rate is the discount rate~~

that equates the present value of the loan's future cash flows with that adjusted recorded investment. The adjustment under fair value hedge accounting of the loan's carrying amount for changes in fair value attributable to the hedged risk under Section 815-25-35 shall be considered to be an adjustment of the loan's recorded investment. Paragraph 815-25-35-11 explains that the loan's original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value. [Content amended and moved to paragraph 326-20-55-9]

#### **>>> Measurement of Impairment when Foreclosure Is Probable**

~~310-10-35-32 Paragraph superseded by Accounting Standards Update No. 2016-13. Regardless of the measurement method, a creditor shall measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable. When a creditor determines that foreclosure is probable, a creditor shall remeasure the loan at the fair value of the collateral so that loss recognition is not delayed until actual foreclosure. [Content amended and moved to paragraph 326-20-35-4]~~

#### **>>> Interaction with Subtopic 450-20**

~~310-10-35-33 Paragraph superseded by Accounting Standards Update No. 2016-13. The following provides guidance on the interaction between the impairment guidance for receivables in general, which is discussed in Subtopic 450-20, and the impairment guidance for loans that are identified for evaluation or that are individually considered impaired discussed in this Subsection.~~

~~310-10-35-34 Paragraph superseded by Accounting Standards Update No. 2016-13. In addition to the allowance calculated in accordance with the guidance in this Subsection, a creditor shall continue to recognize an allowance for credit losses necessary to comply with Subtopic 450-20. The total allowance for credit losses related to loans includes those amounts that have been determined in accordance with that Subtopic and with this Subsection. Double counting by applying this Subsection and then applying that Subtopic to measure the same loss again is inappropriate.~~

~~310-10-35-35 Paragraph superseded by Accounting Standards Update No. 2016-13. If a creditor concludes that an individual loan specifically identified for evaluation is impaired, the creditor shall not establish an allowance in addition to one measured under this Subsection. The allowance provided for a specific loan under this Subsection shall not be supplemented by an additional allowance under Subtopic 450-20. The allowance established under this Subsection shall be the sole measure of impairment for that loan. (See boxes C and G in the flowchart in paragraph 310-10-55-1). For a loan that is impaired, no additional loss recognition is appropriate under Subtopic 450-20 even if the measurement of impairment under this Subsection results in no allowance. For example, a~~

~~creditor might conclude for a collateral-dependent loan that it is impaired (because it is probable that the creditor will be unable to collect all the contractual interest and principal payments as scheduled in the loan agreement). The creditor might measure the impairment using the fair value of the collateral, which could result in no allowance if the fair value of the collateral is greater than the recorded investment in the loan. Another example would be when the recorded investment of an impaired loan has been written down to a level where no allowance is required.~~

~~**310-10-35-36** Paragraph superseded by Accounting Standards Update No. 2016-13. If a creditor concludes that an individual loan specifically identified for evaluation is not impaired under this Subsection, that loan may be included in the assessment of the allowance for loan losses under Subtopic 450-20, but only if specific characteristics of the loan indicate that it is probable that there would be an incurred loss in a group of loans with those characteristics. Characteristics or risk factors must be specifically identified to support an accrual for losses that have been incurred but that have not yet reached the point where it is probable that amounts will not be collected on a specific individual loan. A creditor shall not ignore factors and information obtained in the evaluation of the loan's collectibility. For example, if an individual loan specifically identified for evaluation is fully collateralized with risk free assets, then consideration of that loan as sharing characteristics with a group of uncollateralized loans is inappropriate. Under Subtopic 450-20, a loss is recognized if characteristics of a loan indicate that it is probable that a group of similar loans includes some losses even though the loss could not be identified to a specific loan. However, a loss would be recognized only if it is probable that the loss has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. (See boxes D, E, and F in the flowchart in paragraph 310-10-55-1.)~~

### **>>> Changes in the Net Carrying Amount of an Impaired Loan**

~~**310-10-35-37** Paragraph superseded by Accounting Standards Update No. 2016-13. After the initial measurement of impairment, if there is a significant change (increase or decrease) in the amount or timing of an impaired loan's expected future cash flows, or if actual cash flows are significantly different from the cash flows previously projected, a creditor shall recalculate the impairment by applying the procedures specified in paragraphs 310-10-35-21 through 35-22 and 310-10-35-24 through 35-26 and by adjusting the valuation allowance. Similarly, a creditor that measures impairment based on the observable market price of an impaired loan or the fair value of the collateral of an impaired collateral-dependent loan shall adjust the valuation allowance if there is a significant change (increase or decrease) in either of those bases. However, the net carrying amount of the loan shall at no time exceed the recorded investment in the loan.~~

~~310-10-35-38 Paragraph superseded by Accounting Standards Update No. 2016-13. When an asset is carried on a discounted basis, the present value of expected future cash flows will increase from one reporting period to the next as a result of the passage of time. The present value also may change from changes in estimates of the timing or amount of expected future cash flows. Similarly, the observable market price of an impaired loan or the fair value of the collateral of an impaired collateral-dependent loan may change from one reporting period to the next. Because the net carrying amount of an impaired loan shall be the present value of expected future cash flows (or the observable market price or the fair value of the collateral) not only at the date at which impairment initially is recognized but also at each subsequent reporting period, recognition of changes in that measure is required. However, the net carrying amount of the loan shall never exceed the recorded investment in the loan.~~

~~310-10-35-39 Paragraph superseded by Accounting Standards Update No. 2016-13. Except as noted in the next paragraph, this Subsection does not address how a creditor should recognize, measure, or display interest income on an impaired loan. Some accounting methods for recognizing income may result in a recorded investment in an impaired loan that is less than the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral). In that case, while the loan would meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17, no additional impairment would be recognized. Those accounting methods include recognition of interest income using a cost-recovery method, a cash-basis method, or some combination of those methods. The recorded investment in an impaired loan also may be less than the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral) because the creditor has charged off part of the loan. [Content amended and moved to paragraph 310-10-35-53A]~~

~~310-10-35-40 Paragraph superseded by Accounting Standards Update No. 2016-13. The following are two alternative income recognition methods to account for changes in the net carrying amount of an impaired loan subsequent to the initial measure of impairment:~~

- ~~a. Under the first income recognition method, a creditor shall accrue interest on the net carrying amount of the impaired loan and report other changes in the net carrying amount of the loan as an adjustment to bad-debt expense.~~
- ~~b. Under the second income recognition method, a creditor shall recognize all changes in the net carrying amount of the loan as an adjustment to bad debt expense. See paragraph 310-10-50-19 for a disclosure requirement related to this method.~~

~~Those income recognition methods are not required, and a creditor is not precluded from using either of those methods.~~

## > ~~Credit Losses for Loans and Trade Receivables~~

~~310-10-35-41 Paragraph superseded by Accounting Standards Update No. 2016-13. Credit losses for loans and trade receivables, which may be for all or part of a particular loan or trade receivable, shall be deducted from the allowance. The related loan or trade receivable balance shall be charged off in the period in which the loans or trade receivables are deemed uncollectible. Recoveries of loans and trade receivables previously charged off shall be recorded when received. [Content amended and moved to paragraph 326-20-35-8]~~

~~310-10-35-42 Paragraph superseded by Accounting Standards Update No. 2016-13. Practices differ between entities as some industries typically credit recoveries directly to earnings while financial institutions typically credit the allowance for loan losses for recoveries. The combination of this practice and the practice of frequently reviewing the adequacy of the allowance for loan losses results in the same credit to earnings in an indirect manner. [Content amended and moved to paragraph 326-20-35-9]~~

## > ~~Credit Losses for Standby Letters of Credit and Certain Loan Commitments~~

~~310-10-35-43 Paragraph superseded by Accounting Standards Update No. 2016-13. Paragraph 825-10-35-1 states that an accrual for credit loss on a financial instrument with off-balance sheet risk (including standby letters of credit and certain loan commitments) shall be recorded separate from a valuation account related to a recognized financial instrument and provides related guidance.~~

## > ~~Subsequent Measurement of Specific Types of Receivables~~

~~310-10-35-44 The following provides guidance on aspects of subsequent measurement for various types of receivables, specifically:~~

- ~~a. Financial assets subject to prepayment~~
- ~~b. Standby commitments to purchase {add glossary link}loans{add glossary link}~~
- ~~c. Loans and trade receivables not held for sale~~
- ~~d. Nonmortgage loans held for sale~~
- ~~e. Loans not previously held for sale~~
- ~~f. Amortization of discount or premium on notes~~
- ~~g. Premium allocated to loans purchased in a credit card portfolio~~
- ~~h. Hedged portfolios of loans.~~
- ~~i. Interest income.~~

## > > ~~Financial Assets Subject to Prepayment~~

**310-10-35-45** Paragraph 860-20-35-2 requires that financial assets, except for instruments that are within the scope of Subtopic 815-10, that can contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment be subsequently measured like investments in debt securities classified as available for sale or trading under Topic 320.

#### > > **Standby Commitments to Purchase Loans**

**310-10-35-46** This paragraph applies only to standby commitments to purchase loans. It does not apply to other customary kinds of commitments to purchase loans, nor does it apply to commitments to originate loans. If a standby commitment is ~~recorded at the amount of the~~ ~~accounted for as a written put option as discussed in paragraph 310-10-25-6, the liability recorded at the amount of the option premium received (representing the~~ ~~fair value~~ ~~of the standby commitment on the trade date) shall thereafter be accounted for at the greater of the initial standby commitment fee or the fair value of the written put option. Unrealized gains (that is, recoveries of unrealized losses) or losses shall be credited or charged to current operations. However, see Subtopic 815-10 for guidance on accounting for written put options that are within the scope of that Subtopic.~~ **{add glossary link}** fair value **{add glossary link}** of the standby commitment on the trade date) shall thereafter be accounted for at the greater of the initial standby commitment fee or the fair value of the written put option. Unrealized gains (that is, recoveries of unrealized losses) or losses shall be credited or charged to current operations. However, see Subtopic 815-10 for guidance on accounting for written put options that are within the scope of that Subtopic.

#### > > **Loans and Trade Receivables Not Held for Sale**

**310-10-35-47** Loans and trade receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff shall be reported in the balance sheet at outstanding principal adjusted for any chargeoffs, the allowance for ~~loan credit losses (or the allowance for doubtful accounts)~~, any deferred fees or costs on originated loans, and any unamortized premiums or discounts on purchased loans. (Discounts offered as a result of the pricing of a sale or a product or service may be termed sales discounts. This Subsection does not address these discounts.)

#### > > **Nonmortgage Loans Held for Sale**

**310-10-35-48** Nonmortgage loans held for sale shall be reported at the lower of ~~{add glossary link} amortized cost basis~~ **{add glossary link}** or fair value. This paragraph applies only to nonmortgage loans. See Topic 948 for guidance related to mortgage loans classified as held for sale.

#### >> **Loans Not Previously Held for Sale**

**310-10-35-49** ~~Paragraph superseded by Accounting Standards Update No. 2016-13. This paragraph applies to both mortgage and nonmortgage loans. Once a decision has been made to sell loans not previously classified as held for sale,~~

~~such loans shall be transferred into the held-for-sale classification and carried at the lower of cost or fair value. At the time of the transfer into the held-for-sale classification, any amount by which cost exceeds fair value shall be accounted for as a valuation allowance.~~

## **> > Interest Income**

**310-10-35-53A** ~~Except as noted in paragraphs 310-10-35-53B through 35-53C the next paragraph, this Subsection does not address how a creditor should recognize, measure, or display interest income on a financial asset with a credit loss an impaired loan. Some accounting methods for recognizing income may result in an amortized cost basis of a financial asset a recorded investment in an impaired loan that is less than the amount expected to be collected present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral). In that case, while the loan would meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17, no additional impairment would be recognized. Those accounting methods include recognition of interest income using a cost-recovery method, a cash-basis method, or some combination of those methods. The recorded investment in an impaired loan also may be less than the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral) because the creditor has charged off part of the loan. [Content amended as shown and moved from paragraph 310-10-35-39]~~

**310-10-35-53B** ~~When recognizing interest income on purchased financial assets with credit deterioration within the scope of Topic 326, an entity shall not recognize as interest income the discount embedded in the purchase price that is attributable to the acquirer's assessment of expected credit losses at the date of acquisition. The entity shall accrete or amortize as interest income the non-credit-related discount or premium of a purchased financial asset with credit deterioration in accordance with existing applicable guidance in Section 310-20-35 or 325-40-35.~~

**310-10-35-53C** ~~Recognition of income under this Subtopic on purchased financial assets with credit deterioration is dependent on having a reasonable expectation about the timing and amount of cash flows expected to be collected. Subsequent to acquisition purchase, this Subtopic does not prohibit placing loans financial assets on nonaccrual status, including use of the cost recovery method or cash basis method of income recognition, when appropriate. For example, if the timing of either a sale of the loan financial asset into the secondary market or a sale of loan collateral in essentially the same condition as received upon foreclosure is indeterminate, the investor creditor likely does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield and shall cease recognizing income on the loan financial asset. However, the ability to place a financial asset loan on nonaccrual shall not be used to circumvent the less recognition of a credit loss. guidance~~

contained in paragraphs 310-30-35-8(a) and 310-30-35-10(a). Alternatively, if the timing and amount of cash flows expected to be collected from these sales are reasonably estimable, the investor creditor shall use those cash flows to apply the interest method under this Subtopic. Consistent with paragraph 310-20-35-18, interest income shall not be recognized to the extent that the net investment in the loan would increase to an amount greater than the payoff amount. If the loan financial asset is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate. Such rewards of ownership would include use of the collateral in operations of the entity or improving the collateral for resale. Consistent with paragraph 310-20-35-18, interest income shall not be recognized to the extent that the net investment in the financial asset would increase to an amount greater than the payoff amount. [Content amended as shown and moved from paragraph 310-30-35-3]

## Other Presentation Matters

**310-10-45-1** This Subsection provides guidance on presentation matters for receivables, specifically:

- a. ~~{add glossary link}Loans{add glossary link}~~ or trade receivables
- b. Foreclosed and repossessed assets
- c. Subparagraph superseded by Accounting Standards Update No. 2016-13.Allowances
- d. Subparagraph superseded by Accounting Standards Update No. 2016-13.Bad debt expense
- e. Discount and premium
- f. Unearned discounts
- g. Receivables classified as current assets
- h. Cash flows
- i. Receivables from officers, employees, or affiliates
- j. Note received as an equity contribution.

### > Allowances

**310-10-45-4A** Paragraph superseded by Accounting Standards Update No. 2016-13. See the guidance in paragraph 210-10-45-13 for asset valuation allowances.

### > Bad-Debt Expense

**310-10-45-5** Paragraph superseded by Accounting Standards Update No. 2016-13. The change in present value from one reporting period to the next may result not only from the passage of time but also from changes in estimates of the timing or amount of expected future cash flows. A creditor that measures impairment based on the present value of expected future cash flows is permitted

to report the entire change in present value as bad debt expense. Alternatively, a creditor may report the change in present value attributable to the passage of time as interest income. See paragraph 310-10-50-19 for a disclosure requirement applicable to creditors that choose the latter alternative and report changes in present value attributable to the passage of time as interest income.

~~310-10-45-6 Paragraph superseded by Accounting Standards Update No. 2016-13. The observable market price of an impaired loan or the fair value of the collateral of an impaired collateral-dependent loan may change from one reporting period to the next. Changes in observable market prices or the fair value of the collateral shall be reported as bad debt expense or a reduction in bad debt expense. [Content amended and moved to paragraph 326-20-45-4]~~

## Disclosure

**310-10-50-1** This Subsection provides the following disclosure guidance for receivables, off-balance-sheet credit exposures, and foreclosed and repossessed assets:

- a. Accounting policies for loans and trade receivables
- b. Assets serving as collateral
- c. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Nonaccrual and past due financing receivables~~
- d. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Accounting policies for off-balance-sheet credit exposures~~
- e. Foreclosed and repossessed assets
- f. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Allowance for credit losses~~
- g. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Impaired loans~~
- h. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Loss contingencies~~
- i. Risks and uncertainties
- j. **Fair value** disclosures
- k. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Credit quality information~~
- l. Modifications.

### > Accounting Policies for Loans and Trade Receivables

**310-10-50-1A** The guidance in paragraphs 310-10-50-2 through 50-4A applies only to the following **financing receivables**:

- a. Loans
- b. Trade receivables.

**310-10-50-2** The summary of significant accounting policies shall include the following:

- a. The basis for accounting for loans and trade receivables
- b. The method used in determining the lower of **{add glossary link}**amortized cost **basis{add glossary link}** or fair value of nonmortgage loans held for sale (that is, aggregate or individual asset basis)
- c. The classification and method of accounting for interest-only strips, loans, other receivables, or retained interests in securitizations that can be contractually prepaid or otherwise settled in a way that the holder would not recover substantially all of its **recorded investment**
- d. The method for recognizing interest income on **loan** and trade receivables, including a statement about the entity's policy for treatment of related fees and costs, including the method of amortizing net deferred fees or costs.

**310-10-50-3** If major categories of loans or trade receivables are not presented separately in the balance sheet (see paragraph 310-10-45-2), they shall be disclosed in the notes to the financial statements.

**310-10-50-4** The allowance for credit losses (~~also referred to as the allowance for doubtful accounts~~) and, as applicable, any unearned income, any unamortized premiums and discounts, and any net unamortized deferred fees and costs, shall be disclosed in the financial statements.

**310-10-50-4A** Paragraph superseded by Accounting Standards Update No. 2016-13.~~Except for credit card receivables, an entity shall disclose its policy for charging off uncollectible trade accounts receivable that have both of the following characteristics:~~

- ~~a. They have a contractual maturity of one year or less~~
- ~~b. They arose from the sale of goods or services.~~

### **> Assets Serving as Collateral**

**310-10-50-5** For required disclosures of the carrying amount of loans, trade receivables, securities and financial instruments that serve as collateral for borrowings, see paragraph 860-30-50-1A.

### **> ~~Nonaccrual and Past Due Financing Receivables~~**

**310-10-50-5A** Paragraph superseded by Accounting Standards Update No. 2016-13.~~The guidance in paragraphs 310-10-50-6 through 50-8 does not apply to loans acquired with deteriorated credit quality (accounted for under Subtopic 310-30).~~

**310-10-50-5B** Paragraph superseded by Accounting Standards Update No. 2016-13. The guidance in paragraphs 310-10-50-6 through 50-7A shall be provided by ~~class of financing receivable~~ except for the following financing receivables:

- a. ~~Receivables measured at fair value with changes in fair value reported in earnings~~
- b. ~~Receivables measured at lower of cost or fair value~~
- c. ~~Trade accounts receivable, except for credit card receivables, that have both of the following characteristics:~~
  - 1. ~~They have a contractual maturity of one year or less.~~
  - 2. ~~They arose from the sale of goods or services.~~
- d. ~~Participant loans in defined contribution pension plans.~~

**310-10-50-6** Paragraph superseded by Accounting Standards Update No. 2016-13. An entity's summary of significant accounting policies for financing receivables shall include all of the following:

- a. ~~The policy for placing financing receivables, if applicable, on nonaccrual status (or discontinuing accrual of interest)~~
- b. ~~The policy for recording payments received on nonaccrual financing receivables, if applicable~~
- c. ~~The policy for resuming accrual of interest~~
- d. ~~Subparagraph superseded by Accounting Standards Update No. 2010-20~~
- e. ~~The policy for determining past due or delinquency status.~~

**310-10-50-7** Paragraph superseded by Accounting Standards Update No. 2016-13. An entity shall provide both of the following disclosures related to nonaccrual and past due financing receivables as of each balance sheet date:

- a. ~~The recorded investment in financing receivables on nonaccrual status~~
- b. ~~The recorded investment in financing receivables past due 90 days or more and still accruing.~~

**310-10-50-7A** Paragraph superseded by Accounting Standards Update No. 2016-13. An entity shall provide an analysis of the age of the recorded investment in financing receivables at the end of the reporting period that are past due, as determined by the entity's policy.

**310-10-50-7B** Paragraph superseded by Accounting Standards Update No. 2016-13. The guidance in paragraph 310-10-50-7A does not apply to the following financing receivables:

- a. ~~Receivables measured at fair value with changes in fair value reported in earnings~~
- b. ~~Receivables measured at lower of cost or fair value~~
- c. ~~Except for credit card receivables, trade accounts receivable that have both of the following characteristics:~~

- ~~1. They have a contractual maturity of one year or less.~~
- ~~2. They arose from the sale of goods or services.~~
- ~~d. Participant loans in defined contribution pension plans. [Content amended and moved to paragraph 310-10-50-32]~~

~~**310-10-50-8** Paragraph superseded by Accounting Standards Update No. 2016-13. For trade receivables that do not accrue interest until a specified period has elapsed, nonaccrual status would be the point when accrual is suspended after the receivable becomes past due.~~

#### **> Accounting Policies for Off-Balance-Sheet Credit Exposures**

~~**310-10-50-9** Paragraph superseded by Accounting Standards Update No. 2016-13. In addition to disclosures required by Subtopic 450-20, an entity shall disclose a description of the accounting policies and methodology the entity used to estimate its liability for off-balance sheet credit exposures and related charges for those credit exposures. Such a description shall identify the factors that influenced management's judgment (for example, historical losses and existing economic conditions) and a discussion of risk elements relevant to particular categories of financial instruments. [Content amended and moved to paragraph 326-20-50-21]~~

~~**310-10-50-10** Paragraph superseded by Accounting Standards Update No. 2016-13. Off-balance sheet credit exposures refers to credit exposures on off-balance sheet loan commitments, **standby letters of credit**, financial guarantees, and other similar instruments, except for instruments within the scope of Topic 845. [Content amended and moved to paragraph 326-20-50-22]~~

#### **> Foreclosed and Repossessed Assets**

**310-10-50-11** Paragraph 310-10-45-3 states that foreclosed and repossessed assets included in other assets on the statement of financial position shall have separate disclosures in the notes to financial statements. An entity shall also disclose the carrying amount of foreclosed residential real estate properties held at the reporting date as a result of obtaining physical possession in accordance with paragraphs 310-40-40-6 and 310-40-55-10A.

#### **> Allowance for Credit Losses Related to Financing Receivables**

**310-10-50-11A** Paragraph superseded by Accounting Standards Update No. 2016-13. The guidance in paragraph 310-10-50-11B does not apply to the following financing receivables:

- ~~a. Financing receivables listed in paragraph 310-10-50-7B~~
- ~~b. Lessor's net investments in leveraged leases.~~

**310-10-50-11B** Paragraph superseded by Accounting Standards Update No. 2016-13. An entity shall disclose all of the following by **portfolio segment**:

- a. ~~A description of the entity's accounting policies and methodology used to estimate the allowance for credit losses, including all of the following:~~
  - 1. ~~A description of the factors that influenced management's judgment, including both of the following:~~
    - i. ~~Historical losses~~
    - ii. ~~Existing economic conditions.~~
  - 2. ~~A discussion of risk characteristics relevant to each portfolio segment~~
  - 3. ~~Identification of any changes to the entity's accounting policies or methodology from the prior period and the entity's rationale for the change.~~
- b. ~~A description of the policy for charging off uncollectible financing receivables~~
- c. ~~The activity in the allowance for credit losses for each period, including all of the following:~~
  - 1. ~~The balance in the allowance at the beginning and end of each period~~
  - 2. ~~Current period provision~~
  - 3. ~~Direct write-downs charged against the allowance~~
  - 4. ~~Recoveries of amounts previously charged off.~~
- d. ~~The quantitative effect of changes identified in item (a)(3) on item (c)(2)~~
- e. ~~The amount of any significant purchases of financing receivables during each reporting period~~
- f. ~~The amount of any significant sales of financing receivables or reclassifications of financing receivables to held for sale during each reporting period~~
- g. ~~The balance in the allowance for credit losses at the end of each period disaggregated on the basis of the entity's impairment method~~
- h. ~~The recorded investment in financing receivables at the end of each period related to each balance in the allowance for credit losses, disaggregated on the basis of the entity's impairment methodology in the same manner as the disclosure in item (g).~~

**310-10-50-11C** Paragraph superseded by Accounting Standards Update No. 2016-13. To disaggregate the information required by items (g) and (h) in the preceding paragraph on the basis of the impairment methodology, an entity shall separately disclose the following amounts:

- a. ~~Amounts collectively evaluated for impairment (determined under Subtopic 450-20)~~
- b. ~~Amounts individually evaluated for impairment (determined under Section 310-10-35)~~
- c. ~~Amounts related to loans acquired with deteriorated credit quality (determined under Subtopic 310-30).~~

**310-10-50-12** Paragraph superseded by Accounting Standards Update No. 2010-20.

**310-10-50-13** Paragraph superseded by Accounting Standards Update No. 2010-20.

**310-10-50-14** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~Asset valuation allowances required by paragraph 210-10-45-13 shall have an appropriate disclosure.~~

### **> Impaired Loans**

**310-10-50-14A** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~For each class of financing receivable, an entity shall disclose both of the following for loans that meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17 (individually evaluated for impairment):~~

- ~~a. The accounting for impaired loans~~
- ~~b. The amount of impaired loans.~~

**310-10-50-15** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~An entity shall disclose all of the following information about loans that meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17 by class of financing receivable:~~

- ~~a. As of the date of each statement of financial position presented:
  - ~~1. Subparagraph superseded by Accounting Standards Update No. 2010-20~~
  - ~~2. Subparagraph superseded by Accounting Standards Update No. 2010-20~~
  - ~~3. The recorded investment in the impaired loans and both of the following:
    - ~~i. The amount of that recorded investment for which there is a related allowance for credit losses determined in accordance with Section 310-10-35 and the amount of that allowance~~
    - ~~ii. The amount of that recorded investment for which there is no related allowance for credit losses determined in accordance with Section 310-10-35.~~~~
  - ~~4. The total unpaid principal balance of the impaired loans.~~~~
- ~~b. The entity's policy for recognizing interest income on impaired loans, including how cash receipts are recorded~~
- ~~c. For each period for which results of operations are presented:
  - ~~1. The average recorded investment in the impaired loans~~
  - ~~2. The related amount of interest income recognized during the time within that period that the loans were impaired~~~~

3. ~~The amount of interest income recognized using a cash-basis method of accounting during the time within that period that the loans were impaired, if practicable.~~
- d. ~~The entity's policy for determining which loans the entity assesses for impairment under Section 310-10-35~~
- e. ~~The factors considered in determining that the loan is impaired.~~

~~**310-10-50-16** Paragraph superseded by Accounting Standards Update No. 2016-13. Those disclosures shall be provided for impaired loans that have been charged off partially. Those disclosures cannot be provided for loans that have been charged off fully because both the recorded investment and the allowance for credit losses will equal zero.~~

~~**310-10-50-17** Paragraph superseded by Accounting Standards Update No. 2016-13. This guidance does not specify how a creditor shall calculate the average recorded investment in the impaired loans during the reporting period. A creditor shall develop an appropriate method for that calculation. Averages based on month-end balances may be considered an appropriate method.~~

~~**310-10-50-18** Paragraph superseded by Accounting Standards Update No. 2016-13. Information about loans meeting the scope of Subtopic 310-30 shall be included in the disclosures required by paragraph 310-10-50-15(a) through (b) if the condition in paragraphs 320-10-35-18 through 35-34 or 450-20-25-2(a), as discussed in paragraphs 310-30-35-8(a) and 310-30-35-10(a), is met.~~

~~**310-10-50-19** Paragraph superseded by Accounting Standards Update No. 2016-13. Paragraphs 310-10-45-5 through 45-6 explains that a creditor that measures impairment based on the present value of expected future cash flows is permitted to report the entire change in present value as bad debt expense but may also report the change in present value attributable to the passage of time as interest income. Creditors that choose the latter alternative shall disclose the amount of interest income that represents the change in present value attributable to the passage of time. [Content amended and moved to paragraph 326-20-50-12]~~

~~**310-10-50-20** Paragraph superseded by Accounting Standards Update No. 2016-13. The following table summarizes the scope of the disclosure requirements in paragraph 310-10-50-15.~~

**Required Disclosures about the Recorded Investment in Loans  
That Meet the Definition of an Impaired Loan in Paragraphs 310-10-35-16 through 35-17**

(A)	(B)	(C)	(D)
<b>The Total Recorded Investment in the Impaired Loans</b>	<b>Unpaid Principal Balance of the Impaired Loan</b>	<b>The Recorded Investment in (A) for Which There Is A Related Allowance for Credit Losses</b>	<b>The Recorded Investment in (A) for Which There Is No Related Allowance for Credit Losses</b>
<p><b>Description of Loans</b></p> <p>Loans that meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17 and that have not been charged off fully, separately reported by class.</p> <p>Loans that meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17 and that have been charged off fully.</p> <p>Large groups of smaller balance homogeneous loans that are collectively evaluated for impairment and other loans that are excluded from the scope of this Subtopic as defined in paragraph 310-10-35-13.</p>	<p>Included. The amount disclosed in (A) must equal the sum of (C) and (D).</p> <p>Excluded. The recorded investment and allowance for credit losses are equal to zero.</p> <p>Excluded unless restructured in a troubled debt restructuring (see paragraph 310-10-35-9 for requirements for a restructured loan).</p>	<p>Included if there is a related allowance for credit losses.</p>	<p>Included if there is no related allowance for credit losses.</p>

**> Loss Contingencies**

**310-10-50-21** Paragraph superseded by Accounting Standards Update No. 2016-13. Paragraph 450-20-50-3 provides disclosure guidance for circumstances in which no accrual is made for a loss contingency because one or both of the conditions in paragraph 450-20-25-2 (probable and reasonably estimated) are not met, or if an exposure to loss exists in excess of the amount accrued pursuant to the provisions of paragraph 450-20-25-2. The disclosures required by paragraphs 450-20-50-3 through 50-6 do not apply to loss contingencies arising from an entity's estimation of its allowance for credit losses.

**310-10-50-22** Paragraph superseded by Accounting Standards Update No. 2010-20.

**310-10-50-23** Paragraph superseded by Accounting Standards Update No. 2010-20.

**310-10-50-24** Paragraph superseded by Accounting Standards Update No. 2016-13. See Section 450-20-50 for further guidance on required disclosures for loss contingencies.

**> Risks and Uncertainties**

**310-10-50-25** Certain loans and trade receivables loan products have contractual terms that expose entities to risks and uncertainties that fall into one or more categories, as discussed in paragraph 275-10-50-1. See Section 275-10-50 for disclosure guidance related to those loan products.

**> Fair Value Disclosures**

**310-10-50-26** Section 825-10-50 provides guidance on the required disclosure of fair values of certain assets and liabilities. Paragraph 825-10-50-8 explains that, for trade receivables and payables, no disclosure is required under that Subtopic if the trade receivable or payable is due in one year or less.

#### > **Credit Quality Information**

**310-10-50-27** Paragraph superseded by Accounting Standards Update No. 2016-13. The guidance in paragraphs 310-10-50-28 through 50-30 does not apply to the financing receivables listed in paragraph 310-10-50-7B.

**310-10-50-28** Paragraph superseded by Accounting Standards Update No. 2016-13. An entity shall provide information that enables financial statement users to do both of the following:

- a. Understand how and to what extent management monitors the credit quality of its financing receivables in an ongoing manner
- b. Assess the quantitative and qualitative risks arising from the credit quality of its financing receivables.

**310-10-50-29** Paragraph superseded by Accounting Standards Update No. 2016-13. To meet the objective in the preceding paragraph, an entity shall provide quantitative and qualitative information by class about the credit quality of financing receivables, including all of the following:

- a. A description of the **credit quality indicator**
- b. The recorded investment in financing receivables by credit quality indicator
- c. For each credit quality indicator, the date or range of dates in which the information was updated for that credit quality indicator.

**310-10-50-30** Paragraph superseded by Accounting Standards Update No. 2016-13. If an entity discloses internal risk ratings, then the entity shall provide qualitative information on how those internal risk ratings relate to the likelihood of loss. **[Content moved to paragraph 326-20-50-8]**

#### > **Modifications**

**310-10-50-31** Except as noted in the following paragraph, the guidance in paragraphs 310-10-50-33 through 50-34 applies only to a creditor's **troubled debt restructurings** of financing receivables. For purposes of this disclosure guidance, a creditor's modification of a lease receivable that meets the definition of a troubled debt restructuring is subject to this disclosure guidance.

**310-10-50-32** This guidance does not apply to troubled debt restructurings of either of the following:

- a. Financing receivables listed below in paragraph 310-10-50-7B

- ~~a.1.~~ Receivables measured at fair value with changes in fair value reported in earnings
- ~~b.2.~~ Receivables measured at lower of amortized cost basis or fair value
- ~~c.3.~~ Except for credit card receivables, trade accounts receivable that have both of the following characteristics:
  - ~~4.i.~~ They have a contractual maturity of one year or less.
  - ~~2-ii.~~ They arose from the sale of goods or services.
- ~~d.4.~~ Participant loans in defined contribution pension plans. **[Content amended as shown and moved from paragraph 310-10-50-7B]**
- b. Subparagraph superseded by Accounting Standards Update No. 2016-13. Loans acquired with deteriorated credit quality (determined under Subtopic 310-30) that are accounted for within a pool.

**310-10-50-33** For each period for which a statement of income is presented, an entity shall disclose the following about troubled debt restructurings of financing receivables that occurred during the period:

- a. By **{add glossary link}** class of financing receivable **{add glossary link}**, qualitative and quantitative information, including both of the following:
  - 1. How the financing receivables were modified
  - 2. The financial effects of the modifications.
- b. By **{add glossary link}** portfolio segment **{add glossary link}**, qualitative information about how such modifications are factored into the determination of the allowance for credit losses.

**310-10-50-34** For each period for which a statement of income is presented, an entity shall disclose the following for financing receivables modified as troubled debt restructurings within the previous 12 months and for which there was a payment default (after the restructuring) during the period:

- a. By class of financing receivable, qualitative and quantitative information about those defaulted financing receivables, including both of the following:
  - 1. The types of financing receivables that defaulted
  - 2. The amount of financing receivables that defaulted.
- b. By portfolio segment, qualitative information about how such defaults are factored into the determination of the allowance for credit losses.

## > Loans in Process of Foreclosure

**310-10-50-35** An entity shall disclose the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal

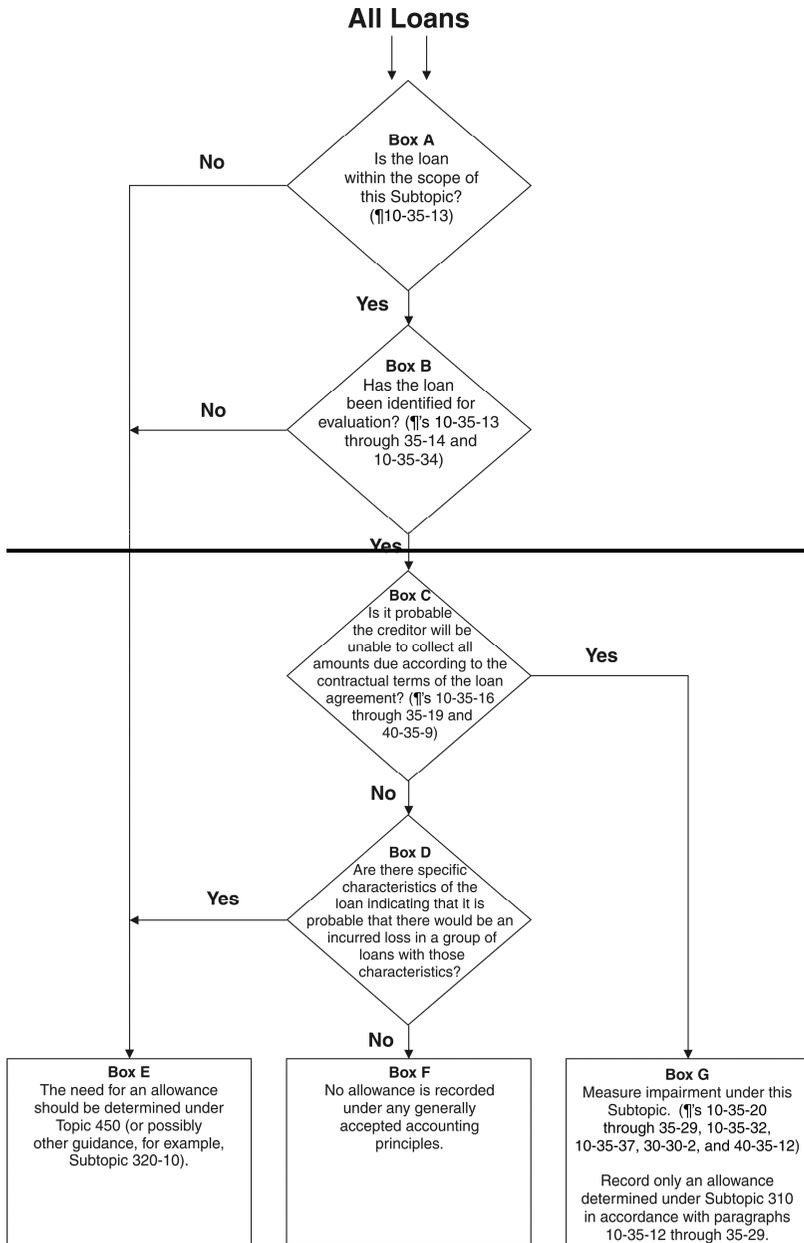
foreclosure proceedings are in process according to local requirements of the applicable jurisdiction.

## **Implementation Guidance and Illustrations**

### **> ~~Implementation Guidance~~**

### **>> ~~Diagram of Loan Impairment Guidance~~**

**310-10-55-1** Paragraph superseded by Accounting Standards Update No. 2016-13. The following diagram illustrates the application of ~~loan~~ impairment guidance discussed in Section 310-10-35.



**Note:** All paragraph references are within Topic 310.

## > Illustrations

### > > Example 1: Application of Loan Impairment Guidance to a Loan Portfolio

~~310-10-55-2 Paragraph superseded by Accounting Standards Update No. 2016-13. This Example illustrates the guidance in paragraphs 310-10-35-13 through 35-24 and 310-10-35-34. Entity A (a bank) has 20 loans (not considered smaller-balance) to businesses in a town in which the principal employer is a major corporation. Some of the loans are secured by bonds or real estate, others are unsecured. The major corporation went bankrupt and fired all of its workers. Entity A concludes that the loss of that employer has had a dire effect on the economic health of the community and its businesses. Entity A decides to review all 20 of the loans individually.~~

~~310-10-55-3 Paragraph superseded by Accounting Standards Update No. 2016-13. Two of the loans are not performing, and Entity A concludes that it is **probable** it will be unable to collect all of the cash flows on those loans as scheduled. Another five borrowers have approached Entity A for a concession, but those discussions are incomplete. Based on all available information, Entity A concludes that each of those five loans also is impaired. Entity A is unable to identify any other individual loan among the remaining 13 for which it is probable that it will not collect all of the cash flows.~~

~~310-10-55-4 Paragraph superseded by Accounting Standards Update No. 2016-13. Entity A would measure impairment on the seven loans that are individually impaired using a method permitted by Section 310-10-35, as appropriate for the loan. Entity A would consider all available information to measure the amount of the loss including the value of any collateral. If the value of the collateral, less selling costs, exceeds the **recorded investment** in the loan, no allowance would be provided. Entity A would consider its own experience or, to the extent relevant, the industry's collection experience in similar situations as part of the available information. In doing so, Entity A would consider the effect of information it possesses about the current economic downturn in making its best estimate of expected future cash flows for those seven loans.~~

~~310-10-55-5 Paragraph superseded by Accounting Standards Update No. 2016-13. Entity A would then assess whether it is probable that any loss has been incurred on the remaining 13 loans. If three of those loans are fully collateralized, no allowance should be provided under Subtopic 450-20 for those loans and they should be excluded from the assessment of the remaining 10 loans. Entity A would consider the effect of the current economic downturn to assess whether a loss has been incurred in that group of loans at the balance sheet date and to estimate the amount of loss. In doing so, Entity A would consider its historical loss experience in collecting loans in similar situations, such as the typical recovery rate, including amount and timing. However, the use of historical~~

~~statistics alone would be inappropriate if the nature of the loans or current environmental conditions differ from those on which the statistics were based. Any allowance that is recorded under that Subtopic must be reasonably estimable and supported by an analysis of all available and relevant information about circumstances that exist at the balance sheet date.~~

~~**310-10-55-6** Paragraph superseded by Accounting Standards Update No. 2016-13. The total allowance for the 20 loans should be the sum of the above components. A total allowance greater than the sum of the above components would be excessive. A total allowance less than the sum of the above components would be inadequate.~~

**> > Example 2: Disclosures about Troubled Debt Restructuring of Financing Receivables Credit Quality and the Allowance for Credit Losses**

~~**310-10-55-7** Paragraph superseded by Accounting Standards Update No. 2016-13. The following table illustrates certain of the disclosures required by paragraph 310-10-50-11B(c), (g), and (h).~~

**Allowance for Credit Losses and Recorded Investment in Financing Receivables  
For the Years Ended December 31, 20X1, and 20X0**

	<u>Commercial</u>	<u>Commercial- Real-Estate</u>	<u>Consumer</u>	<u>Residential</u>	<u>Finance- Leases</u>	<u>Unallocated</u>	<u>Total</u>
<b>20X1</b>							
<b>Allowance for credit losses:</b>							
Beginning balance	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
Charge-offs	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Recoveries	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Provision	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Ending balance	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>
Ending balance - individually evaluated for impairment	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	—	<u>\$XX,XXX</u>
Ending balance - collectively evaluated for impairment	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>
Ending balance - loans acquired with deteriorated credit quality	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>
<b>Financing receivables:</b>							
Ending balance	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	—	<u>\$XX,XXX</u>
Ending balance - individually evaluated for impairment	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	—	<u>\$XX,XXX</u>
Ending balance - collectively evaluated for impairment	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	—	<u>\$XX,XXX</u>
Ending balance - loans acquired with deteriorated credit quality	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	—	<u>\$XX,XXX</u>
<b>20X0</b>							
<b>Allowance for credit losses:</b>							
Beginning balance	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
Charge-offs	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Recoveries	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Provision	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Ending balance	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>
Ending balance - individually evaluated for impairment	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	—	<u>\$XX,XXX</u>
Ending balance - collectively evaluated for impairment	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>
Ending balance - loans acquired with deteriorated credit quality	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>
<b>Financing receivables:</b>							
Ending balance	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	—	<u>\$XX,XXX</u>
Ending balance - individually evaluated for impairment	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	—	<u>\$XX,XXX</u>
Ending balance - collectively evaluated for impairment	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	—	<u>\$XX,XXX</u>
Ending balance - loans acquired with deteriorated credit quality	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	—	<u>\$XX,XXX</u>

**310-10-55-8** Paragraph superseded by Accounting Standards Update No. 2016-13. The following table illustrates certain of the disclosures required by paragraph 310-10-50-29(b).

**Credit Quality Indicators**  
As of December 31, 20X1, and 20X0

Corporate Credit Exposure

Credit Risk Profile by Creditworthiness Category

	Commercial		Commercial Real Estate—Construction		Commercial Real Estate—Other	
	20X1	20X0	20X1	20X0	20X1	20X0
	AAA—AA	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
A	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
BBB—BB	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
B	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
CCC—C	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
D	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX

Consumer Credit Exposure

Credit Risk Profile by Internally Assigned Grade

	Residential—Prime		Residential—Subprime	
	20X1	20X0	20X1	20X0
Grade:				
Pass	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
Special mention	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Substandard	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX

Consumer Credit Exposure

Credit Risk Profile Based on Payment Activity

	Consumer—Credit Card		Consumer—Other		Finance Leases		Consumer—Auto	
	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0
Performing	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
Nonperforming	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX

**310-10-55-9** Paragraph superseded by Accounting Standards Update No. 2016-13. The following table illustrates certain of the disclosures required by paragraphs 310-10-50-7(b) and 310-10-50-7A.

**Age Analysis of Past Due Financing Receivables**  
As of December 31, 20X1, and 20X0

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded- Investment >90 Days and Accruing
<b>20X1</b>							
Commercial	-\$XX,XXX	-\$XX,XXX	-\$XX,XXX	-\$XX,XXX	-\$XX,XXX	-\$XX,XXX	-\$XX,XXX
Commercial real estate:							
Commercial real estate	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Commercial real estate—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer:							
Consumer—credit card	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—auto	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential:							
Residential—prime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—subprime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Finance leases	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>
<b>20X0</b>							
Commercial	-\$XX,XXX	-\$XX,XXX	-\$XX,XXX	-\$XX,XXX	-\$XX,XXX	-\$XX,XXX	-\$XX,XXX
Commercial—real estate:							
Commercial real estate	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Commercial real estate—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer:							
Consumer—credit card	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—auto	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential:							
Residential—prime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—subprime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Finance leases	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>

**310-10-55-10** Paragraph superseded by Accounting Standards Update No. 2016-13. The following table illustrates certain of the disclosures required by paragraph 310-10-50-15.

**Impaired Loans**  
**For the Years Ended December 31, 20X1, and 20X0**

	<u>Recorded- Investment</u>	<u>Unpaid- Principal- Balance</u>	<u>Related Allowance</u>	<u>Average Recorded- Investment</u>	<u>Interest Income Recognized</u>
<b>20X1</b>					
With no related allowance recorded:					
Commercial	\$XX,XXX	\$XX,XXX	-	\$XX,XXX	\$XX,XXX
Consumer—credit card	XX,XXX	XX,XXX	-	XX,XXX	XX,XXX
Consumer—other	XX,XXX	XX,XXX	-	XX,XXX	XX,XXX
Consumer—auto	XX,XXX	XX,XXX	-	XX,XXX	XX,XXX
With an allowance recorded:					
construction	XX,XXX	XX,XXX	\$XX,XXX	XX,XXX	XX,XXX
Commercial real estate—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—prime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—subprime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
<b>Total:</b>					
Commercial	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
Consumer	\$XX,XXX	\$XX,XXX	-	\$XX,XXX	\$XX,XXX
Residential	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
<b>20X0</b>					
With no related allowance recorded:					
Commercial	\$XX,XXX	\$XX,XXX	-	\$XX,XXX	\$XX,XXX
Consumer—credit card	XX,XXX	XX,XXX	-	XX,XXX	XX,XXX
Consumer—other	XX,XXX	XX,XXX	-	XX,XXX	XX,XXX
Consumer—auto	XX,XXX	XX,XXX	-	XX,XXX	XX,XXX
With an allowance recorded:					
construction	XX,XXX	XX,XXX	\$XX,XXX	XX,XXX	XX,XXX
Commercial real estate—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—prime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—subprime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
<b>Total:</b>					
Commercial	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
Consumer	\$XX,XXX	\$XX,XXX	-	\$XX,XXX	\$XX,XXX
Residential	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX

**310-10-55-11 Paragraph superseded by Accounting Standards Update No. 2016-13.** The following table illustrates certain of the disclosures required by paragraph 310-10-50-7(a).

**Financing Receivables on Nonaccrual Status  
As of December 31, 20X1, and 20X0**

	<u>20X1</u>	<u>20X0</u>
Commercial	-\$XX,XXX	-\$XX,XXX
Commercial real estate:		
Commercial real estate construction	XX,XXX	XX,XXX
Commercial real estate—other	XX,XXX	XX,XXX
Consumer:		
Consumer—credit card	XX,XXX	XX,XXX
Consumer—other	XX,XXX	XX,XXX
Consumer—auto	XX,XXX	XX,XXX
Residential:		
Residential—prime	XX,XXX	XX,XXX
Residential—subprime	XX,XXX	XX,XXX
Finance leases	XX,XXX	XX,XXX
Total	<u>-\$XX,XXX</u>	<u>-\$XX,XXX</u>

**310-10-55-12** The following table illustrates certain of the disclosures required by paragraphs 310-10-50-33 through 50-34.

Modifications As of December 31, 20X1, and 20X0						
	20X1			20X0		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings						
Residential - prime	XXX	\$XX,XXX	\$XX,XXX	XXX	\$XX,XXX	\$XX,XXX
Residential - subprime	XXX	XX,XXX	XX,XXX	XXX	XX,XXX	XX,XXX
Consumer - other	XXX	XX,XXX	XX,XXX	XXX	XX,XXX	XX,XXX
Finance leases	XXX	XX,XXX	XX,XXX	XXX	XX,XXX	XX,XXX
	Number of Contracts	Recorded Investment		Number of Contracts	Recorded Investment	
Troubled Debt Restructurings That Subsequently Defaulted						
Troubled debt restructurings:						
Residential - prime	XXX	\$XX,XXX		XXX	\$XX,XXX	
Residential - subprime	XXX	XX,XXX		XXX	XX,XXX	
Consumer - other	XXX	XX,XXX		XXX	XX,XXX	
Finance leases	XXX	XX,XXX		XXX	XX,XXX	

**>> Application of the Definition of Class of Financing Receivable**

**310-10-55-16** Paragraph superseded by Accounting Standards Update No. 2016-13. This implementation guidance addresses application of the term **class**

~~of financing receivable. An entity should base its principal determination of class of financing receivable on both of the following:~~

- ~~a. Initial measurement attribute. Classes should first segregate financing receivables on the basis of the model under which they were initially recorded, such as any of the following:
  - 1. Amortized cost
  - 2. Loans acquired with deteriorated credit quality (accounted for in accordance with Subtopic 310-30).~~
- ~~b. Entity assessment. Classes should secondarily be disaggregated to the level that an entity uses when assessing and monitoring the risk and performance of the portfolio for various types of financing receivables. This assessment should consider the risk characteristics of the financing receivables.~~

~~**310-10-55-17 Paragraph superseded by Accounting Standards Update No. 2016-13.** In determining the appropriate level of its internal reporting to use as a basis for disclosure, an entity should consider the level of detail needed by a user to understand the risks inherent in the entity's financing receivables. An entity could further disaggregate its financing receivables portfolio by considering numerous factors. Examples of factors that the entity should consider include any of the following:~~

- ~~a. Categorization of borrowers, such as any of the following:
  - 1. Commercial loan borrowers
  - 2. Consumer loan borrowers
  - 3. **Related party** borrowers.~~
- ~~b. Type of financing receivable, such as any of the following:
  - 1. Mortgage loans
  - 2. Credit card loans
  - 3. Interest-only loans
  - 4. Finance leases.~~
- ~~c. Industry sector, such as either of the following:
  - 1. Real estate
  - 2. Mining.~~
- ~~d. Type of collateral, such as any of the following:
  - 1. Residential property
  - 2. Commercial property
  - 3. Government guaranteed collateral
  - 4. Uncollateralized (unsecured) financing receivables.~~
- ~~e. Geographic distribution, including both of the following:
  - 1. Domestic
  - 2. International.~~

~~An entity also may consider factors related to concentrations of credit risk as discussed in Section 825-10-55. [Content moved to paragraphs 326-20-55-12 and 326-20-55-13]~~

~~310-10-55-18 Paragraph superseded by Accounting Standards Update No. 2016-13. Classes of financing receivables generally are a disaggregation of a **portfolio segment**. For determining the appropriate classes of financing receivables that are related to a portfolio segment, the portfolio segment is the starting point with further disaggregation in accordance with the guidance in paragraphs 310-10-55-16 through 55-17. The determination of class for financing receivables that are not related to a portfolio segment (because there is no associated allowance) also should be based on the guidance in those paragraphs. [Content moved to paragraph 326-20-55-14]~~

**>> Meaning of *Credit Quality Indicator***

~~310-10-55-19 Paragraph superseded by Accounting Standards Update No. 2016-13. This implementation guidance addresses application of the term **credit quality indicator**. Examples of credit quality indicators include all of the following:~~

- ~~a. Consumer credit risk scores~~
- ~~b. Credit rating agency ratings~~
- ~~c. An entity's internal credit risk grades~~
- ~~d. Loan-to-value ratios~~
- ~~e. Collateral~~
- ~~f. Collection experience~~
- ~~g. Other internal metrics. [Content moved to paragraph 326-20-55-15]~~

~~310-10-55-20 Paragraph superseded by Accounting Standards Update No. 2016-13. An entity should use judgment in determining the appropriate credit quality indicator for each class of financing receivables. As of the balance sheet date, the entity should use the most current information it has obtained for each credit quality indicator. [Content amended and moved to paragraph 326-20-55-16]~~

**>> Meaning of *Portfolio Segment***

~~310-10-55-21 Paragraph superseded by Accounting Standards Update No. 2016-13. This implementation guidance addresses the meaning of the term **portfolio segment**. All of the following are examples of portfolio segments:~~

- ~~a. Type of financing receivable~~
- ~~b. Industry sector of the borrower~~
- ~~c. Risk rate(s). [Content amended and moved to paragraph 326-20-55-10]~~

**>> Determining Class of Financing Receivable and Portfolio Segment**

**310-10-55-22** Paragraph superseded by Accounting Standards Update No. 2016-13. A creditor should determine, in light of the facts and circumstances, both of the following:

- a. How much detail it must provide to satisfy the requirements of Section 310-10-50
- b. How it disaggregates information into classes for assets with different risk characteristics.

A creditor must strike a balance between obscuring important information as a result of too much aggregation and overburdening financial statements with excessive detail that may not assist financial statement users to understand the entity's financing receivables and allowance for credit losses. For example, a creditor should not obscure important information by including it with a large amount of insignificant detail. Similarly, a creditor should not disclose information that is so aggregated that it obscures important differences between the different types of financing receivables and associated risks.

## Amendments to Subtopic 310-20

11. Amend paragraphs 310-20-15-3 through 15-4, 310-20-35-9, and paragraph 310-20-60-2 and its related heading and supersede paragraph 310-20-60-1 and its related heading, with a link to transition paragraph 326-10-65-1, as follows:

### Receivables—Nonrefundable Fees and Other Costs

#### Scope and Scope Exceptions

**310-20-15-3** The guidance in this Subtopic does not apply to the following transactions:

- a. Loan origination or commitment fees that are refundable; however, the guidance in this Subtopic does apply when such fees subsequently become nonrefundable.
- b. Costs that are incurred by the lender in transactions with independent third parties if the lender bills those costs directly to the borrower.
- c. Nonrefundable fees and costs associated with originating or acquiring loans that are carried at fair value if the changes in fair value are included in earnings of a business entity or change in net assets of a not-for-profit entity (NFP). The exclusion provided in this paragraph and the preceding paragraph applies to nonrefundable fees and costs associated with originating loans that are reported at fair value and premiums or discounts associated with acquiring loans that are reported at fair value. Loans that are reported at amortized cost basis or the lower of amortized cost basis or fair value, loans or debt

securities reported at fair value with changes in fair value reported in other comprehensive income (includes financial assets subject to prepayment as defined in paragraph 860-20-35-2, and debt securities classified as available-for-sale under Topic 320), and loans that have a market interest rate, or adjust to a market interest rate, are not considered to be loans carried at fair value.

- d. Fees and costs related to a commitment to originate, sell, or purchase loans that is accounted for as a derivative instrument under Subtopic 815-10.
- e. Fees and costs related to a standby commitment to purchase loans if the settlement date of that commitment is not within a reasonable period or the entity does not have the intent and ability to accept delivery without selling assets. For guidance on fees and costs related to such a commitment, see paragraph 310-10-30-7.

**310-20-15-4** The following table outlines the applicability of this Subtopic to various types of assets.

<u>Types of Assets</u>	<u>Basis of Accounting</u>	<u>Applicability of This Subtopic</u>
Loans or debt securities held in an investment portfolio	Historical or amortized cost <u>basis</u> <sup>(b)</sup>	Yes
Loans held for sale	Lower of <u>amortized cost basis</u> or fair value <sup>(b)</sup>	Yes
Loans or debt securities held in trading accounts by certain financial institutions	Fair value, changes in value are included in earnings	No
Loans or debt securities, available-for-sale <sup>(a)</sup>	Fair value, changes in value reported in other comprehensive income	Yes

(a) This includes financial assets subject to prepayment as defined in paragraph 310-10-35-45 and debt securities classified as available for sale under Topic 320.

(b) Entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

## Subsequent Measurement

### > Loan Refinancing or Restructuring

**310-20-35-9** If the terms of the new loan resulting from a loan refinancing or restructuring, in which the refinancing or restructuring is not itself a troubled debt restructuring, other than a troubled debt restructuring are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan with the lender, the refinanced loan shall be accounted for as a new loan. This condition would be met if the new loan's effective yield is at least equal to the effective yield for such loans and modifications of the original debt instrument are more than minor. Any unamortized net fees or costs and any prepayment penalties from the original loan shall be recognized in interest income when the new loan is granted. The effective yield comparison considers the level of nominal interest rate, commitment and origination fees, and direct loan origination costs and would also consider comparison of other factors where appropriate, such as compensating balance arrangements.

## Relationships

### > ~~Investments—Debt and Equity Securities~~

**310-20-60-1** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~For guidance on the determination of whether an other than temporary impairment of beneficial interests exists and on interest income recognition on beneficial interests, see Section 320-10-15.~~

### > ~~Investments—Beneficial Interests in Securitized Financial Assets~~ ~~Other~~

**310-20-60-2** For guidance on the determination of whether ~~an other than temporary impairment of~~ a credit loss on beneficial interests exists and on interest income recognition on beneficial interests, see Section 325-40-15.

## Amendments to Subtopic 310-30

12. Supersede Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, with a link to transition paragraph 326-10-65-1.

## Amendments to Subtopic 310-40

13. Amend paragraphs 310-40-15-11 through 55-12, 310-40-35-7, 310-40-35-10 through 35-12, 310-40-40-3, 310-40-50-5, 310-40-55-7, and 310-40-55-13 through 55-15 and supersede paragraphs 310-40-35-8 through 35-9, 310-40-50-2 through 50-4, and 310-40-50-6 and its related heading, with a link to transition paragraph 326-10-65-1, as follows:

## Receivables—Troubled Debt Restructurings by Creditors

### Scope and Scope Exceptions

#### > > Troubled Debt Restructuring

**310-40-15-11** For purposes of this Subtopic, none of the following are considered troubled debt restructurings:

- a. **Lease modifications** (for guidance, see Topic 842)
- b. Changes in employment-related agreements, for example, pension plans and deferred compensation contracts
- c. Unless they involve an agreement between debtor and creditor to restructure, either of the following:
  1. Debtors' failures to pay trade accounts according to their terms
  2. Creditors' delays in taking legal action to collect overdue amounts of interest and principal.
- d. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Modifications of loans within a pool accounted for in accordance with Subtopic 310-30 (see paragraph 310-30-15-6)~~
- e. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Changes in expected cash flows of a pool of loans accounted for in accordance with Subtopic 310-30 (see paragraph 310-30-15-6) resulting from the modification of one or more loans within the pool.~~

**310-40-15-12** A debt restructuring is not necessarily a troubled debt restructuring for purposes of this Subtopic even if the debtor is experiencing some financial difficulties. For purposes of this Subtopic, none of the following debt restructurings, for example, are considered troubled debt restructurings:

- a. The **fair value** of cash, other assets, or an equity interest accepted by a creditor from a debtor in full satisfaction of its receivable at least equals the creditor's **amortized cost basis** ~~recorded investment in the receivable~~.
- b. The fair value of cash, other assets, or an equity interest transferred by a debtor to a creditor in full settlement of its payable at least equals the debtor's carrying amount of the payable.
- c. The creditor reduces the **effective interest rate** on the debt primarily to reflect a decrease in market interest rates in general or a decrease in

- the risk so as to maintain a relationship with a debtor that can readily obtain funds from other sources at the current market interest rate.
- d. The debtor issues in exchange for its debt new marketable debt having an effective interest rate based on its market price that is at or near the current market interest rates of debt with similar maturity dates and stated interest rates issued by nontroubled debtors.

## Subsequent Measurement

### > Partial Satisfaction of a Receivable

**310-40-35-7** A troubled debt restructuring may involve receipt of assets (including an equity interest in the debtor) in partial satisfaction of a receivable and a modification of terms of the remaining receivable. Even if the stated terms of the remaining receivable, for example, the stated interest rate and the maturity date or dates, are not changed in connection with the receipt of assets (including an equity interest in the debtor), the restructuring shall be accounted for as prescribed by this paragraph. A creditor shall account for a troubled debt restructuring involving a partial satisfaction and modification of terms as prescribed in this Topic except that, first, the assets received shall be accounted for as prescribed in paragraphs 310-40-40-2 through 40-4 and the **amortized cost basis recorded investment in the receivable** shall be reduced by the fair value less cost to sell of the assets received. If cash is received in a partial satisfaction of a receivable, the ~~recorded investment in the receivable~~ **amortized cost basis** shall be reduced by the amount of cash received.

### > Impairment

**310-40-35-8** ~~Paragraph superseded by Accounting Standards Update No. 2016-13. Paragraph 310-10-35-16 explains that a loan is impaired when, based on current information and events, it is **probable** that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. For a loan that has been restructured in a troubled debt restructuring, the contractual terms of the loan agreement refers to the contractual terms specified by the original loan agreement, not the contractual terms specified by the restructuring agreement. That paragraph explains that the related guidance does not specify how a creditor should determine that it is probable that it will be unable to collect all amounts due according to the contractual terms of a loan. See paragraph 310-10-35-16 for guidance concerning the application of Topic 450 to contractual terms. See paragraph 310-10-35-17 for guidance concerning normal review procedures and insignificant delays and payment shortfalls.~~

**310-40-35-9** ~~Paragraph superseded by Accounting Standards Update No. 2016-13. Usually, a loan whose terms are modified in a troubled debt restructuring already will have been identified as impaired because the condition specified in~~

~~the preceding paragraph will have existed before a formal restructuring. However, if a loan is excluded from the scope of this Subtopic under paragraph 310-10-35-13(a), a creditor may not have accounted for that loan in accordance with this Subtopic before the loan was restructured. The creditor shall apply the provisions of this Subtopic to that loan when it is restructured.~~

**310-40-35-10** A loan restructured in a troubled debt restructuring is ~~an impaired loan. It should~~ shall not be accounted for as a new loan because a troubled debt restructuring is part of a creditor's ongoing effort to recover its investment in the original loan. Topic 326 provides guidance on measuring credit losses on financial assets and requires credit losses to be recorded through an allowance for credit loss account, including concessions given to the borrower upon a troubled debt restructuring. ~~A loan usually will have been identified as impaired because the conditions specified in paragraphs 310-10-35-16 through 35-17 will have existed before a formal restructuring.~~

**310-40-35-11** The Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 do not allow the lender to look-back to ~~lending impairments~~ credit losses measured and recorded ~~recognized~~ under ~~this Topic 326 or Topic 450~~ for purposes of measuring the cumulative loss previously recognized in determining the gain to be recognized on the increase in fair value less cost to sell of a foreclosed property under paragraph 360-10-35-40.

### > Effective Interest Rate for a Restructured Loan

**310-40-35-12** The **effective interest rate** for a loan restructured in a troubled debt restructuring is based on the original contractual rate, not the rate specified in the restructuring agreement. ~~It has been indicated that~~ As indicated in paragraph 310-40-35-10, a troubled debt restructuring does not result in a new loan but rather represents part of a creditor's ongoing effort to recover its investment in the original loan. Therefore, the interest rate used to discount expected future cash flows on a restructured loan shall be the same interest rate used to discount expected future cash flows on ~~an impaired~~ the original loan.

## Derecognition

### General

#### > Receipt of Assets in Full Satisfaction of a Receivable

**310-40-40-3** A creditor that receives long-lived assets that will be sold from a debtor in full satisfaction of a receivable shall account for those assets at their fair value less cost to sell, as that term is used in paragraph 360-10-35-43. The excess of the ~~recorded investment in the receivable~~ amortized cost basis satisfied over the fair value of assets received (less cost to sell, if required above) is a loss that shall be recognized. For purposes of this paragraph, losses, to the

extent they are not offset against allowances for uncollectible amounts or other valuation accounts, shall be included in measuring net income for the period. ~~Recorded investment in the receivable~~ The amortized cost basis is used in paragraphs 310-40-25-1 through 25-2; 310-40-35-7; 310-40-40-2 through 40-8; and 310-40-50-1 instead of **carrying amount** of the receivable because the latter is net of an allowance for estimated uncollectible amounts or other valuation account, if any, while the former is not.

## Disclosure

### > Creditor Disclosure of Troubled Debt Restructurings

**310-40-50-1** As of the date of each balance sheet presented, a creditor shall disclose, either in the body of the financial statements or in the accompanying notes, the amount of commitments, if any, to lend additional funds to debtors owing receivables whose terms have been modified in **troubled debt restructurings**.

**310-40-50-1A** For guidance on the disclosures about modifications of **financing receivables**, see paragraphs 310-10-50-31 through 50-34.

**310-40-50-2** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~Information about an impaired loan that has been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures required by paragraphs 310-10-50-15(a) and 310-10-50-15(c) in years after the restructuring if both of the following conditions exist:~~

- ~~a. The restructuring agreement specifies an interest rate equal to or greater than the rate that the creditor was willing to accept at the **time of the restructuring** for a new loan with comparable risk.~~
- ~~b. The loan is not impaired based on the terms specified by the restructuring agreement.~~

**310-40-50-3** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~That exception shall be applied consistently for paragraph 310-10-50-15(a) and 310-10-50-15(c) to all loans restructured in a troubled debt restructuring that meet the criteria in the preceding paragraph.~~

**310-40-50-4** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~Usually, a loan whose terms are modified in a troubled debt restructuring already will be identified as impaired. However, if the creditor has written down a loan and the measure of the restructured loan is equal to or greater than the **recorded investment**, no impairment would be recognized in accordance with this Topic. The creditor is required to disclose the amount of the write-down and the recorded investment in the year of the write-down but is not required to disclose the recorded investment in that loan in later years if the two criteria of paragraph 310-40-50-2 are met.~~

## > Loan Restructured Into Two (or More) Loan Agreements

**310-40-50-5** When a loan is restructured in a troubled debt restructuring into two (or more) loan agreements, the restructured loans shall be considered separately when assessing the applicability of the disclosures in Section 326-20-50 paragraph 310-10-50-15 in years after the restructuring because they are legally distinct from the original loan. The creditor would continue to base its measure of credit losses in accordance with Topic 326 ~~loan impairment~~ on the contractual terms specified by the original loan agreement ~~in accordance with paragraphs 310-10-35-20 through 35-26 and 310-10-35-37.~~

## > Summary of Scope of Disclosure Requirements

**310-40-50-6** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~See paragraph 310-10-50-20 for a table that summarizes the scope of the disclosure requirements in paragraph 310-10-50-15.~~

## Implementation Guidance and Illustrations

### > Implementation Guidance

#### > > Use of Zero Coupon Bonds in a Troubled Debt Restructuring

**310-40-55-7** The excess of the ~~recorded investment in the receivable~~ amortized cost basis satisfied over the fair value less cost to sell (as that term is used in paragraph 360-10-35-43) of assets received is a loss to be recognized.

### > Illustrations

#### > > Example 2: Fair Value Less Cost to Sell Less Than the Seller's Net Receivable

**310-40-55-13** This Example illustrates the guidance in Subtopic 310-40. The Example has the following assumptions:

- a. At December 31, 20X2 ~~2002~~, a lender's net real estate loan receivable was \$90,000. The net receivable was comprised of (a) \$100,000 principal balance and (b) \$10,000 allowance for credit losses ~~doubtful accounts~~ due to the deterioration of the borrower's credit worthiness; the allowance was based on the underlying value of the real estate since the loan is collateral dependent.
- b. Between December 31, 20X2 ~~2002~~ and March 31, 20X3 ~~2003~~, the borrower did not make principal payments. ~~The lender determined that foreclosure was probable on March 31, 2003;~~ On March 31, 20X3, the

- real estate's estimated fair value was \$75,000. The estimated costs to sell were \$4,000.
- c. On May 1, ~~20X3~~ 2003, the lender foreclosed on the real estate; the real estate's estimated fair value and costs to sell remained unchanged from March 31, ~~20X3~~ 2003. The real estate was classified as held for sale under Topic 360, subsequent to foreclosure.
  - d. At September 30, ~~20X3~~ 2003, the fair value of the property was \$65,000. The estimated costs to sell were \$3,000.
  - e. At March 31, ~~20X4~~ 2004, the fair value of the property was \$80,000. The estimated costs to sell were \$5,000.

~~310-40-55-14 Paragraphs 310-10-35-16 through 35-17 states that a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The lender determined that foreclosure is probable at March 31, 2003, and the impairment based on the fair value of the collateral less estimated costs to sell since the selling costs reduce the cash flows available to satisfy the loan as prescribed under paragraphs 310-10-35-22, 310-10-35-24, and 310-10-35-32. On March 31, 20X3, the lender estimates expected credit losses using the fair value of the collateral in accordance with paragraph 326-20-35-2. Accordingly, the lender should recognize a loan loss record an allowance for credit losses in the cumulative amount of \$19,000 (\$29,000 (\$19,000 incremental amount plus \$10,000 recorded previously) measured as the difference between the amortized cost basis carrying value (\$90,000) (\$100,000) and the fair value less cost to sell (\$71,000). Upon foreclosure on May 1, 20X3 2003, the application of paragraph 310-40-40-5 results in the measurement of a new cost basis (also \$71,000) for long-lived assets received in full satisfaction of a receivable.~~

~~310-40-55-15 The fair value less cost to sell decrease to \$62,000 as of September 30, 20X3 2003, requires the lender to recognize an impairment of \$9,000 (\$71,000 - \$62,000) under Topic 360. While the long-lived asset's fair value less cost to sell increased \$13,000 (\$75,000 - \$62,000) as of March 31, 20X4 2004, the lender's gain recognition is limited to the cumulative losses recognized and measured under that Topic 360, or \$9,000. The \$19,000 \$29,000 of loan impairment credit losses recognized previously under Subtopic 326-20 on financial instruments measured at amortized cost are excluded from the measurement of cumulative losses under that Topic 360.~~

## Amendments to Subtopic 320-10

14. Amend paragraphs 320-10-15-4, 320-10-15-9, 320-10-35-36, 320-10-40-2, 320-10-45-9, 320-10-50-2, 320-10-50-5 and 320-10-55-17 and supersede paragraphs 320-10-15-10, 320-10-35-17 through 35-24 and their related headings, 320-10-35-30 and its related heading, 320-10-35-33A through 35-33I and their related heading, 320-10-35-34A through 35-35A and their related

headings, 320-10-35-37, 320-10-35-43, 320-10-45-8A and its related heading, 320-10-45-9A and its related heading, 320-10-50-6 through 50-8B and their related headings, and 320-10-55-21A through 55-23 and their related headings, with a link to transition paragraph 326-10-65-1, as follows:

## Investments—Debt Securities—Overall

### Scope and Scope Exceptions

#### > Entities

~~320-10-15-4 Paragraphs 320-10-35-17 through 35-34 provide guidance on identifying and accounting for impairment of certain securities and identifies the scope application of that guidance to not-for-profit entities (NFPs). No other part of this Topic applies to does not apply to not-for-profit entities (NFPs) NFPs. Subtopic 958-320 establishes standards for investments in debt securities by NFPs.~~

#### > Other Considerations

~~320-10-15-9 For debt securities within its scope, Subtopic 325-40 provides incremental guidance on accounting for and reporting discount and credit losses impairment.~~

~~320-10-15-10 Paragraph superseded by Accounting Standards Update No. 2016-13. For held-to-maturity and available-for-sale debt securities within its scope, Subtopic 310-30 provides incremental guidance on accounting for and reporting discount and impairment.~~

### Subsequent Measurement

**320-10-35-1** Investments in **debt securities** shall be measured subsequently as follows:

- a. **Trading securities.** Investments in debt securities that are classified as **trading** shall be measured subsequently at **fair value** in the statement of financial position. Unrealized **holding gains and losses** for trading securities shall be included in earnings.
- b. **Available-for-sale securities.** Investments in debt securities that are classified as available for sale shall be measured subsequently at fair value in the statement of financial position. Unrealized holding gains and losses for available-for-sale securities (including those classified as current assets) shall be excluded from earnings and reported in other comprehensive income until realized except as indicated in the following

sentence. All or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a fair value hedge shall be recognized in earnings during the period of the hedge, pursuant to paragraphs 815-25-35-1 through 35-4.

- c. Held-to-maturity securities. Investments in debt securities classified as held to maturity shall be measured subsequently at amortized cost in the statement of financial position. A transaction gain or loss on a held-to-maturity foreign-currency-denominated debt security shall be accounted for pursuant to Subtopic 830-20.

## **> Impairment of Individual Available-for-Sale and Held-to-Maturity Debt Securities**

### **>> Scope of Impairment Guidance**

~~320-10-35-17 Paragraph superseded by Accounting Standards Update No. 2016-13. The guidance that follows on impairment of individual available for sale and held to maturity debt securities applies for investments in all of the following:~~

- a. ~~Debt securities that are within the scope of this Subtopic, with the following clarification:
  1. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01.~~
  2. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01.~~
  3. ~~A bifurcated host instrument under Subtopic 815-15 would be evaluated for other than temporary impairment in accordance with the guidance in Section 320-10-35 if the bifurcated host instrument meets the scope of this guidance.~~~~
- b. ~~Debt securities that are within the scope of Subtopic 958-320 and that are held by an entity that reports a performance indicator as defined in paragraphs 954-225-45-4 through 45-7.~~
- c. ~~Subparagraph superseded by Accounting Standards Update No. 2016-01.~~

~~Throughout this Section, the term *earnings* shall be read as *performance indicator*, and *other comprehensive income* shall be read as *outside the performance indicator* for debt securities that are within the scope of Subtopic 958-320.~~

### **>> Steps for Identifying and Accounting for Impairment**

~~320-10-35-18 Paragraph superseded by Accounting Standards Update No. 2016-13. For individual securities classified as either available for sale or held to maturity, an entity shall determine whether a decline in fair value below the amortized cost basis is other than temporary. Providing a general allowance for~~

unidentified impairment in a portfolio of securities is not appropriate. [Content amended and moved to paragraphs 326-30-35-2 and 326-30-35-4]

~~320-10-35-19 Paragraph superseded by Accounting Standards Update No. 2016-13. The following are specific steps an entity shall take in identifying and accounting for impairment of individual securities classified as either available for sale or held to maturity.~~

#### **>>> Step 1: Determine Whether an Investment Is Impaired**

~~320-10-35-20 Paragraph superseded by Accounting Standards Update No. 2016-13. Impairment shall be assessed at the individual security level (referred to as an investment). Individual security level means the level and method of aggregation used by the reporting entity to measure realized and unrealized gains and losses on its debt securities. (For example, debt securities of an issuer bearing the same Committee on Uniform Security Identification Procedures [CUSIP] number that were purchased in separate trade lots may be aggregated by a reporting entity on an average cost basis if that corresponds to the basis used to measure realized and unrealized gains and losses for the debt securities of the issuer.) [Content amended and moved to paragraph 326-30-35-4]~~

~~320-10-35-21 Paragraph superseded by Accounting Standards Update No. 2016-13. An investment is impaired if the fair value of the investment is less than its cost. [Content amended and moved to paragraph 326-30-35-1]~~

~~320-10-35-22 Paragraph superseded by Accounting Standards Update No. 2016-13. Except as provided in paragraphs 320-10-35-25 through 35-27, an entity shall assess whether an investment is impaired in each reporting period. For entities that issue interim financial statements, each interim period is a reporting period.~~

~~320-10-35-23 Paragraph superseded by Accounting Standards Update No. 2016-13. An entity shall not combine separate contracts (a debt security and a guarantee or other credit enhancement) for purposes of determining whether a debt security is impaired or can contractually be prepaid or otherwise settled in such a way that the entity would not recover substantially all of its cost. [Content amended and moved to paragraph 326-30-35-5]~~

~~320-10-35-24 Paragraph superseded by Accounting Standards Update No. 2016-13. If the fair value of the investment is less than its cost, proceed to Step 2.~~

#### **>>> Step 2: Evaluate Whether an Impairment Is Other Than Temporary**

~~320-10-35-30 Paragraph superseded by Accounting Standards Update No. 2016-13. If the fair value of an investment is less than its amortized cost basis at the balance sheet date of the reporting period for which impairment is assessed, the impairment is either temporary or other than temporary. In addition to the~~

guidance in this Section, an entity shall apply other guidance that is pertinent to the determination of whether an impairment is other than temporary, such as the guidance in Sections 323-10-35 and 325-40-35, as applicable. *Other than temporary* does not mean permanent.

### >>> Debt Securities

**320-10-35-33A** Paragraph superseded by Accounting Standards Update No. 2016-13. If an entity intends to sell the debt security (that is, it has decided to sell the security), an other than temporary impairment shall be considered to have occurred. [Content amended and moved to paragraph 326-30-35-10]

**320-10-35-33B** Paragraph superseded by Accounting Standards Update No. 2016-13. If an entity does not intend to sell the debt security, the entity shall consider available evidence to assess whether it more likely than not will be required to sell the security before the recovery of its amortized cost basis (for example, whether its cash or working capital requirements or contractual or regulatory obligations indicate that the security will be required to be sold before a forecasted recovery occurs). If the entity more likely than not will be required to sell the security before recovery of its amortized cost basis, an other than temporary impairment shall be considered to have occurred. [Content amended and moved to paragraph 326-30-35-10]

**320-10-35-33C** Paragraph superseded by Accounting Standards Update No. 2016-13. If an entity does not expect to recover the entire amortized cost basis of the security, the entity would be unable to assert that it will recover its amortized cost basis even if it does not intend to sell the security. Therefore, in those situations, an other than temporary impairment shall be considered to have occurred. In assessing whether the entire amortized cost basis of the security will be recovered, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered (that is, a credit loss exists), and an other than temporary impairment shall be considered to have occurred. [Content amended and moved to paragraph 326-30-35-6]

**320-10-35-33D** Paragraph superseded by Accounting Standards Update No. 2016-13. In determining whether a credit loss exists, an entity shall use its best estimate of the present value of cash flows expected to be collected from the debt security. One way of estimating that amount would be to consider the methodology described in Section 310-10-35 for measuring an impairment on the basis of the present value of expected future cash flows. That Section provides guidance on this calculation. Briefly, the entity would discount the expected cash flows at the effective interest rate implicit in the security at the date of acquisition. [Content amended and moved to paragraphs 326-30-35-7]

~~**320-10-35-33E** Paragraph superseded by Accounting Standards Update No. 2016-13. For debt securities that are beneficial interests in securitized financial assets within the scope of Subtopic 325-40, an entity shall determine the present value of cash flows expected to be collected considering the guidance in paragraphs 325-40-35-4 through 35-9 for determining whether there has been a decrease in cash flows expected to be collected from cash flows previously projected. In other words, the cash flows estimated at the current financial reporting date shall be discounted at a rate equal to the current yield used to accrete the beneficial interest. Additionally, for debt securities accounted for in accordance with Subtopic 310-30, an entity shall consider the guidance in that Subtopic in estimating the present value of cash flows expected to be collected from the debt security. A decrease in cash flows expected to be collected on an asset-backed security that results from an increase in prepayments on the underlying assets shall be considered in the estimate of the present value of cash flows expected to be collected.~~

~~**320-10-35-33F** Paragraph superseded by Accounting Standards Update No. 2016-13. There are numerous factors to be considered when estimating whether a credit loss exists and the period over which the debt security is expected to recover. The following list is not meant to be all inclusive. All of the following factors shall be considered:~~

- ~~a. The length of time and the extent to which the fair value has been less than the amortized cost basis~~
- ~~b. Adverse conditions specifically related to the security, an industry, or geographic area; for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors. Examples of those changes include any of the following:
  - ~~1. Changes in technology~~
  - ~~2. The discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security~~
  - ~~3. Changes in the quality of the credit enhancement.~~~~
- ~~c. The historical and implied volatility of the fair value of the security~~
- ~~d. The payment structure of the debt security (for example, nontraditional loan terms as described in paragraphs 825-10-55-1 through 55-2 and 310-10-50-25) and the likelihood of the issuer being able to make payments that increase in the future~~
- ~~e. Failure of the issuer of the security to make scheduled interest or principal payments~~
- ~~f. Any changes to the rating of the security by a rating agency~~
- ~~g. Recoveries or additional declines in fair value after the balance sheet date. [Content amended and moved to paragraph 326-30-55-1]~~

~~**320-10-35-33G** Paragraph superseded by Accounting Standards Update No. 2016-13. In making its other than temporary impairment assessment, an entity~~

~~shall consider all available information relevant to the collectibility of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of cash flows expected to be collected. That information shall include all of the following:~~

- ~~a. The remaining payment terms of the security~~
- ~~b. Prepayment speeds~~
- ~~c. The financial condition of the issuer(s)~~
- ~~d. Expected defaults~~
- ~~e. The value of any underlying collateral. [Content amended and moved to paragraph 326-30-55-2]~~

~~320-10-35-33H Paragraph superseded by Accounting Standards Update No. 2016-13. To achieve the objective in the preceding paragraph, the entity shall consider, for example, all of the following:~~

- ~~a. Industry analyst reports and forecasts~~
- ~~b. Sector credit ratings~~
- ~~c. Other market data that are relevant to the collectibility of the security. [Content amended and moved to paragraph 326-30-55-3]~~

~~320-10-35-33I Paragraph superseded by Accounting Standards Update No. 2016-13. An entity also shall consider how other credit enhancements affect the expected performance of the security, including consideration of the current financial condition of the guarantor of a security (if the guarantee is not a separate contract as discussed in paragraph 320-10-35-23) and/or whether any subordinated interests are capable of absorbing estimated losses on the loans underlying the security. The remaining payment terms of the security could be significantly different from the payment terms in prior periods (such as for some securities backed by nontraditional loans; see paragraph 825-10-55-1). Thus, an entity shall consider whether a security backed by currently performing loans will continue to perform when required payments increase in the future (including balloon payments). An entity also shall consider how the value of any collateral would affect the expected performance of the security. If the fair value of the collateral has declined, an entity shall assess the effect of that decline on the ability of the entity to collect the balloon payment. [Content amended and moved to paragraph 326-30-55-4]~~

### **>>> Recognition of an Other-Than-Temporary Impairment**

~~320-10-35-34 Paragraph superseded by Accounting Standards Update No. 2016-01.~~

### **>>>> Debt Securities: Determination of the Amount of an Other-Than-Temporary Impairment Recognized in Earnings and Other Comprehensive Income**

~~320-10-35-34A Paragraph superseded by Accounting Standards Update No. 2016-13. If an other than temporary impairment has occurred, the amount of the other than temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss.~~

~~320-10-35-34B Paragraph superseded by Accounting Standards Update No. 2016-13. If an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the other than temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. In assessing whether the entity more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit losses, the entity shall consider the factors in paragraph 320-10-35-33F. [Content amended and moved to paragraph 326-30-35-10]~~

~~320-10-35-34C Paragraph superseded by Accounting Standards Update No. 2016-13. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the other than temporary impairment shall be separated into both of the following:~~

- ~~a. The amount representing the credit loss~~
- ~~b. The amount related to all other factors.~~

~~320-10-35-34D Paragraph superseded by Accounting Standards Update No. 2016-13. The amount of the total other than temporary impairment related to the credit loss shall be recognized in earnings. The amount of the total other than temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes.~~

~~320-10-35-34E Paragraph superseded by Accounting Standards Update No. 2016-13. The previous amortized cost basis less the other than temporary impairment recognized in earnings shall become the new amortized cost basis of the investment. That new amortized cost basis shall not be adjusted for subsequent recoveries in fair value. However, the amortized cost basis shall be adjusted for accretion and amortization as prescribed in paragraph 320-10-35-35. [Content amended and moved to paragraph 326-30-35-14]~~

### **> Accounting for Debt Securities After an Other Than Temporary Impairment**

~~320-10-35-35 Paragraph superseded by Accounting Standards Update No. 2016-13. In periods after the recognition of an other than temporary impairment loss for debt securities, an entity shall account for the other than temporarily~~

~~impaired debt security as if the debt security had been purchased on the measurement date of the other than temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other than temporary impairment recognized in earnings. For debt securities for which other than temporary impairments were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted in accordance with existing applicable guidance as interest income. An entity shall continue to estimate the present value of cash flows expected to be collected over the life of the debt security. For debt securities accounted for in accordance with Subtopic 325-40, an entity should look to that Subtopic to account for changes in cash flows expected to be collected. For all other debt securities, if upon subsequent evaluation, there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, such changes shall be accounted for as a prospective adjustment to the accretable yield in accordance with Subtopic 310-30 even if the debt security would not otherwise be within the scope of that Subtopic. Subsequent increases and decreases (if not an other than temporary impairment) in the fair value of available-for-sale securities shall be included in other comprehensive income. (This Section does not address when a holder of a debt security would place a debt security on nonaccrual status or how to subsequently report income on a nonaccrual debt security.)~~

**[Content amended and moved to paragraph 326-30-35-15]**

~~**320-10-35-35A** Paragraph superseded by Accounting Standards Update No. 2016-13. The other than temporary impairment recognized in other comprehensive income for debt securities classified as held to maturity shall be accreted over the remaining life of the debt security in a prospective manner on the basis of the amount and timing of future estimated cash flows. That accretion shall increase the carrying value of the security and shall continue until the security is sold, the security matures, or there is an additional other than temporary impairment that is recognized in earnings. If the security is sold, Section 320-10-25 provides guidance on the effect of changes in circumstances that would not call into question the entity's intent to hold other debt securities to maturity in the future.~~

### **> Fair Value Changes of Foreign-Currency-Denominated Available-for-Sale Debt Securities**

~~**320-10-35-36** The entire change in the fair value of foreign-currency-denominated available-for-sale debt securities, excluding the amount recorded in the allowance for credit losses, shall be reported in other comprehensive income. See Subtopic 326-30 for measuring credit losses on available-for-sale debt securities. In accordance with the guidance in Subtopic 326-30, an entity shall report credit losses on available-for-sale debt securities in the statement of financial performance as credit loss expense.~~

~~320-10-35-37 Paragraph superseded by Accounting Standards Update No. 2016-13. An entity holding a foreign currency denominated available for sale debt security is required to consider, among other things, changes in market interest rates and foreign exchange rates since acquisition in determining whether an other than temporary impairment has occurred.~~

### > Income Recognition for Certain Structured Notes

~~320-10-35-43 Paragraph superseded by Accounting Standards Update No. 2016-13. In accordance with the impairment guidance for structured notes in this Subtopic, an entity shall determine whether an individual structured note security has experienced a decline in value below amortized cost that is other than temporary requiring a write-down of amortized cost, with the amount of the write-down included in earnings. Following the recognition of an other than temporary impairment, for purposes of determining the revised effective yield at which income will be subsequently recognized, the entity shall factor collectibility into its determination of estimated future cash flows. Accordingly, immediately following the recognition of an other than temporary impairment, it is expected that the entity would not assume full repayment of the contractual interest and principal amounts of the note. For example, if the fair value of a structured note security with an original investment amount of \$100 moves to \$70, prompting the entity to recognize an other than temporary impairment of \$30, and the entity does not expect to collect more than \$80 of principal at maturity, the entity shall assume collection of only \$80 of principal in its determination of future cash flows. As noted in the scope discussion for this guidance, structured notes that include embedded features are subject to Subtopic 815-15, which requires that certain embedded derivatives be separated from the host contract and accounted for separately as a derivative at fair value.~~

## Derecognition

### > Accounting for Sales of Securities

**320-10-40-1** Section 860-10-40 provides guidance on determining whether a transfer of **securities** shall be accounted for as a sale. With respect to **trading securities**, because all changes in a trading security's **fair value** are reported in earnings as they occur, the sale of a trading security does not necessarily give rise to a gain or loss. Generally, a debit to cash (or trade date receivable) is recorded for the sales proceeds, and a credit is recorded to remove the security at its fair value (or sales price). If the entity is not taxed on the changes in fair value, the deferred tax accounts would be adjusted. Some adjustment to this procedure will be necessary for entities that have not yet recorded the security's change in fair value up to the point of sale (perhaps because fair value changes are recorded at the end of each day).

**320-10-40-2** Although entities have different bookkeeping methods for **available-for-sale securities**, generally, a sale of an available-for-sale security shall be recorded by a debit to cash (or trade date receivable) for the sales proceeds, and a credit to remove the security at its fair value (or sales price). The amount recorded in other comprehensive income, representing the unrealized gain or loss at the date of sale, is reversed into earnings, and the deferred tax accounts are adjusted. Some adjustment to this procedure will be necessary for entities that have not yet recorded the security's change in fair value up to the point of sale (perhaps because fair value changes are recorded at the end of each interim period) or when write-downs ~~for other than temporary impairment~~ have been recognized.

## **Other Presentation Matters**

### **> Income Statement Classification**

**320-10-45-7** This Subtopic does not specify the income statement classification of gains and losses for transfers involving trading securities. However, gains and losses that have accumulated before the transfer shall be classified consistently with realized gains and losses for the category from which the **security** is being transferred, not the category into which the security is being transferred.

**320-10-45-8** Paragraph 320-10-35-1 explains that all or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a fair value hedge shall be recognized in earnings during the period of the hedge, pursuant to paragraphs 815-25-35-1 through 35-4.

### **>> ~~Other Than Temporary Impairment~~**

~~**320-10-45-8A** Paragraph superseded by Accounting Standards Update No. 2016-13. In periods in which an entity determines that a security's decline in fair value below its amortized cost basis is other than temporary, the entity shall present the total other than temporary impairment in the statement of earnings with an offset for the amount of the total other than temporary impairment that is recognized in other comprehensive income, in accordance with paragraph 320-10-35-34D, if any. Example 2A (see paragraph 320-10-55-21A) illustrates the application of this guidance.~~

### **> Other Comprehensive Income**

**320-10-45-9** Subsequent increases or decreases in the fair value of available-for-sale securities that do not result in recognition or reversal of an allowance for credit loss or write-down in accordance with Subtopic 326-30 on measuring credit losses on available-for-sale debt securities shall be included in other

comprehensive income pursuant to paragraphs 320-10-35-1(b) and 320-10-45-8; subsequent decreases in fair value, if not an other than temporary impairment, also shall be included in other comprehensive income.

**>> Other Than Temporary Impairment**

**320-10-45-9A** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~An entity shall separately present, in the financial statement in which the components of accumulated other comprehensive income are reported, amounts recognized therein related to held-to-maturity and available-for-sale debt securities for which a portion of an other than temporary impairment has been recognized in earnings. [Content amended and moved to paragraph 326-30-45-2]~~

**Disclosure**

**320-10-50-1** This Section provides disclosure guidance on information about **debt securities** that is required to be presented in the financial statements.

**> Securities Classified as Available for Sale**

**320-10-50-2** For securities classified as available for sale, all reporting entities shall disclose all of the following by major security type as of each date for which a statement of financial position is presented:

- a. Amortized cost basis
- aa. Aggregate **fair value**
- aaa. Total allowance for credit losses ~~other than temporary impairment recognized in accumulated other comprehensive income~~
- b. Total unrealized gains for securities with net gains in accumulated other comprehensive income
- c. Total unrealized losses for securities with net losses in accumulated other comprehensive income
- d. Information about the contractual maturities of those securities as of the date of the most recent statement of financial position presented.

**320-10-50-3** Maturity information may be combined in appropriate groupings. In complying with this requirement, financial institutions (see paragraph 942-320-50-1) shall disclose the fair value and the net carrying amount (if different from fair value) of debt securities on the basis of at least the following four maturity groupings:

- a. Within one year
- b. After one year through five years
- c. After 5 years through 10 years
- d. After 10 years.

Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, the basis for allocation also shall be disclosed.

**320-10-50-4** Paragraph superseded by Accounting Standards Update No. 2016-01.

### > **Securities Classified as Held to Maturity**

**320-10-50-5** For securities classified as held to maturity, all reporting entities shall disclose all of the following by major security type as of each date for which a statement of financial position is presented:

- a. Amortized cost basis
- aa. Aggregate fair value
- aaa. Total allowance for credit losses
- b. Gross unrecognized holding gains
- c. Gross unrecognized holding losses
- d. Net carrying amount
- dd. Subparagraph superseded by Accounting Standards Update No. 2016-13. Total other than temporary impairment recognized in accumulated other comprehensive income
- e. Gross gains and losses in accumulated other comprehensive income for any derivatives that hedged the forecasted acquisition of the held-to-maturity securities
- f. Information about the contractual maturities of those securities as of the date of the most recent statement of financial position presented. (Maturity information may be combined in appropriate groupings. In complying with this requirement, financial institutions [see paragraph 942-320-50-1] shall disclose the fair value and the net carrying amount (if different from fair value) of debt securities on the basis of at least the following four maturity groupings:
  1. Within one year
  2. After one year through five years
  3. After 5 years through 10 years
  4. After 10 years.

Securities not due at a single maturity date, such as mortgage-backed securities, may be disclosed separately rather than allocated over several maturity groupings; if allocated, the basis for allocation also shall be disclosed.)

### > **Impairment of Securities**

**320-10-50-6** Paragraph superseded by Accounting Standards Update No. 2016-13. For all investments in an unrealized loss position, including those that fall within the scope of Subtopic 325-40, for which other than temporary impairments

have not been recognized in earnings (including investments for which a portion of an other than temporary impairment has been recognized in other comprehensive income), an entity shall disclose all of the following in its interim and annual financial statements:

- a. ~~As of each date for which a statement of financial position is presented, quantitative information, aggregated by category of investment—each major security type that the entity discloses in accordance with this Subtopic—in tabular form:~~
  1. ~~The aggregate related fair value of investments with unrealized losses~~
  2. ~~The aggregate amount of unrealized losses (that is, the amount by which amortized cost basis exceeds fair value).~~
- b. ~~As of the date of the most recent statement of financial position, additional information (in narrative form) that provides sufficient information to allow financial statement users to understand the quantitative disclosures and the information that the entity considered (both positive and negative) in reaching the conclusion that the impairment or impairments are not other than temporary. (The application of Step 2 in paragraph 320.10-35-30 shall provide insight into the entity's rationale for concluding that unrealized losses are not other than temporary impairments. The disclosures required may be aggregated by investment categories, but individually significant unrealized losses generally shall not be aggregated.) This disclosure could include all of the following:~~
  1. ~~The nature of the investment(s)~~
  2. ~~The cause(s) of the impairment(s)~~
  3. ~~The number of investment positions that are in an unrealized loss position~~
  4. ~~The severity and duration of the impairment(s)~~
  5. ~~Other evidence considered by the investor in reaching its conclusion that the investment is not other than temporarily impaired, including, for example, any of the following:~~
    - i. ~~Performance indicators of the underlying assets in the security, including any of the following:~~
      01. ~~Default rates~~
      02. ~~Delinquency rates~~
      03. ~~Percentage of nonperforming assets.~~
    - ii. ~~Loan-to-collateral-value ratios~~
    - iii. ~~Third party guarantees~~
    - iv. ~~Current levels of subordination~~
    - v. ~~Vintage~~
    - vi. ~~Geographic concentration~~
    - vii. ~~Industry analyst reports~~
    - viii. ~~Sector credit ratings~~
    - ix. ~~Volatility of the security's fair value~~

~~x. Any other information that the investor considers relevant.~~

~~[Content amended and moved to paragraph 326-30-50-4]~~

~~**320-10-50-7** Paragraph superseded by Accounting Standards Update No. 2016-13. The disclosures in (a)(1) through (a)(2) in the preceding paragraph shall be segregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer. [Content amended and moved to paragraph 326-30-50-5]~~

~~**320-10-50-8** Paragraph superseded by Accounting Standards Update No. 2016-13. The reference point for determining how long an investment has been in a continuous unrealized loss position is the balance sheet date of the reporting period in which the impairment is identified. For entities that do not prepare interim financial information, the reference point is the annual balance sheet date of the period during which the impairment was identified. The continuous unrealized loss position ceases upon either of the following:~~

- ~~a. The recognition of the total amount by which amortized cost basis exceeds fair value as an other than temporary impairment in earnings~~
  - ~~b. The investor becoming aware of a recovery of fair value up to (or beyond) the amortized cost basis of the investment during the period.~~
- ~~[Content amended and moved to paragraph 326-30-50-6]~~

~~**320-10-50-8A** Paragraph superseded by Accounting Standards Update No. 2016-13. For interim and annual periods in which an other than temporary impairment of a debt security is recognized and only the amount related to a credit loss was recognized in earnings, an entity shall disclose by major security type, the methodology and significant inputs used to measure the amount related to credit loss. Examples of significant inputs include, but are not limited to, all of the following:~~

- ~~a. Performance indicators of the underlying assets in the security, including all of the following:
  - ~~1. Default rates~~
  - ~~2. Delinquency rates~~
  - ~~3. Percentage of nonperforming assets~~~~
- ~~b. Loan to collateral value ratios~~
- ~~c. Third party guarantees~~
- ~~d. Current levels of subordination~~
- ~~e. Vintage~~
- ~~f. Geographic concentration~~
- ~~g. Credit ratings. [Content amended and moved to paragraph 326-30-50-7]~~

~~**320-10-50-8B** Paragraph superseded by Accounting Standards Update No. 2016-13. For each interim and annual reporting period presented, an entity shall disclose a tabular rollforward of the amount related to credit losses recognized in~~

earnings in accordance with paragraph 320-10-35-34D, which shall include at a minimum, all of the following:

- ~~a. The beginning balance of the amount related to credit losses on debt securities held by the entity at the beginning of the period for which a portion of an other than temporary impairment was recognized in other comprehensive income~~
- ~~b. Additions for the amount related to the credit loss for which an other than temporary impairment was not previously recognized~~
- ~~c. Reductions for securities sold during the period (realized)~~
- ~~d. Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis~~
- ~~e. If the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, additional increases to the amount related to the credit loss for which an other than temporary impairment was previously recognized~~
- ~~f. Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security (see paragraph 320-10-35-35)~~
- ~~g. The ending balance of the amount related to credit losses on debt securities held by the entity at the end of the period for which a portion of an other than temporary impairment was recognized in other comprehensive income. [Content amended and moved to paragraph 326-30-50-9]~~

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 1: Assumptions and Calculation of Income Recognized Under the Retrospective Interest Method

**320-10-55-16** This Example illustrates the guidance in paragraphs 320-10-35-38 through 35-43. This Example has the following assumptions:

- a. The investor purchases a 3-year, \$100 par value structured note at par.
- b. The principal to be repaid at maturity is based on the performance of the Standard & Poor's S&P 500 Index, which, based on current Standard & Poor's S&P Futures indexes, is expected to provide the investor with principal of \$106 at the end of Year 3, and the coupon interest on the note is fixed at 6 percent per year.
- c. On the acquisition date of the note, the investor expects the following cash flows and income to be recognized over the life of the note.

<u>Period</u>	<u>Cash Flows</u>	<u>Income Recognized</u>	<u>Noncash Income</u>	<u>Ending Amortized Cost</u>
Acquisition	\$ (100)			
Year 1	6	\$ 7.85	\$ 1.85	\$ 101.85
Year 2	6	8.00	2.00	103.85
Year 3	112	8.15	2.15	-

These cash flows produce an effective yield of 7.85 percent.

**320-10-55-17** At the end of Year 1, assume the investor expects to receive only \$80 in principal at the end of Year 3, which results in a negative effective yield of 0.71 percent over the life of the note (assume that the investor concludes that a credit loss ~~an other than temporary impairment~~ has not occurred). Accordingly, the amortized cost amount must be reduced to the present value of the estimated future cash flows using a zero percent effective yield, or \$92, at the end of Year 1. The income recognized in Year 1 is negative \$2 (the amortized cost amount at the end of Year 1 in the table below of \$92 less the amortized cost amount at the beginning of the year of \$100 plus cash received during the year of \$6). The cash flow and income recognition table as of the end of Year 1 is as follows.

<u>Period</u>	<u>Cash Flows</u>	<u>Income Recognized</u>	<u>Noncash Income</u>	<u>Negative Yield Adjustment Recognized</u>	<u>Ending Amortized Cost</u>
Acquisition	\$(100)				
Year 1	6	\$ 7.85	\$ 1.85	\$ (9.85)	\$ 92
Year 2	6	-	(6)	-	86
Year 3	86	-	(6)	-	-

**320-10-55-18** These cash flows produce an effective yield of negative 0.71 percent.

**320-10-55-19** At the end of Year 2, assume the S&P 500 Index market reverses and the investor now expects to receive the same cash flows that it expected upon acquisition of the note. Using the first table above, the investor would increase the amortized cost amount of the note to \$103.85 at the end of Year 2, which would result in recognizing income of \$17.85 in Year 2 (amortized cost from the first table at the end of Year 2 of \$103.85 less the amortized cost from the second table at the end of Year 1 of \$92 plus cash received in Year 2 of \$6).

### >> **Example 2A: Presentation of Other Than Temporary Impairment**

**320-10-55-21A** Paragraph superseded by Accounting Standards Update No. 2016-13. This Example illustrates the presentation on the face of the statement of earnings required by paragraph 320-10-45-8A.

Total other than temporary impairment losses	\$(10,000)
Portion of loss recognized in other comprehensive income (before taxes)	— 4,000
Net impairment losses recognized in earnings	<u>\$ (6,000)</u>

**>> Example 3: Disclosures about Investments in an Unrealized Loss Position That Are Not Other Than Temporarily Impaired**

~~320-10-55-22 Paragraph superseded by Accounting Standards Update No. 2016-13. This Example illustrates the guidance in Section 320-10-50 with a table followed by illustrative narrative disclosures. The following table shows the gross unrealized losses and fair value of Entity A's investments with unrealized losses that are not deemed to be other than temporarily impaired (in millions), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 20X3. This Example illustrates the application of paragraphs 320-10-50-6 through 50-8 and, in doing so, describes the investor's rationale for not recognizing all unrealized losses presented in the table as other than temporary impairments. In the application of paragraph 320-10-50-6(b), the investor shall provide meaningful disclosure about individually significant unrealized losses. To facilitate the narrative disclosures and for simplicity, this Example presents only the quantitative information as of the date of the latest statement of financial position. However, pursuant to paragraphs 320-10-50-6 through 50-8, that information is required as of each date for which a statement of financial position is presented, except in the period of initial application of the other than temporary impairment guidance in this Subtopic.~~

Description of Securities	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations and direct obligations of U.S. government agencies	\$ 172	\$ 2	\$ 58	\$ 4	\$ 230	\$ 3
Federal agency mortgage-backed securities	367	5	18	4	385	6
Corporate bonds	150	7	—	—	150	7
Total	<u>\$ 689</u>	<u>\$ 14</u>	<u>\$ 76</u>	<u>\$ 2</u>	<u>\$ 765</u>	<u>\$ 16</u>

**[Content amended and moved to paragraphs 326-30-55-8]**

~~320-10-55-23 Paragraph superseded by Accounting Standards Update No. 2016-13. Following are illustrative narrative disclosures that would follow the illustrative table.~~

~~U.S. Treasury obligations. The unrealized losses on Entity A's investments in U.S. Treasury obligations and direct obligations of U.S. government~~

~~agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because Entity A does not intend to sell the investments and it is not more likely than not that Entity A will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Entity A does not consider those investments to be other than temporarily impaired at December 31, 20X3.~~

~~Federal agency mortgage backed securities. The unrealized losses on Entity A's investment in federal agency mortgage backed securities were caused by interest rate increases. Entity A purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of Entity A's investments. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because Entity A does not intend to sell the investments and it is not more likely than not that Entity A will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Entity A does not consider those investments to be other than temporarily impaired at December 31, 20X3.~~

~~Corporate bonds. Entity A's unrealized loss on investments in corporate bonds relates to a \$150 investment in Entity B's Series C Debentures. Entity B is a manufacturer. The unrealized loss was primarily caused by a recent decrease in profitability and near term profit forecasts by industry analysts resulting from intense competitive pricing pressure in the manufacturing industry and a recent sector downgrade by several industry analysts. The contractual terms of those investments do not permit Entity B to settle the security at a price less than the amortized cost basis of the investment. While Entity B's credit rating has decreased from A to BBB (Standard & Poor's), Entity A currently does not expect Entity B to settle the debentures at a price less than the amortized cost basis of the investment (that is, Entity A expects to recover the entire amortized cost basis of the security). Because Entity A does not intend to sell the investment and it is not more likely than not that Entity A will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment in Entity B's debentures to be other than temporarily impaired at December 31, 20X3. [Content amended and moved to paragraph 326-30-55-9]~~

## Amendments to Subtopic 323-10

15. Amend paragraphs 323-10-35-25, 323-10-55-34, 323-10-55-38, 323-10-55-42, 323-10-55-44, and 323-10-55-46 with a link to transition paragraph 326-10-65-1, as follows:

### Investments—Equity Method and Joint Ventures—Overall

#### Subsequent Measurement

##### > Equity Method Losses

##### > > Investee Losses If the Investor Has Other Investments in the Investee

**323-10-35-25** The cost basis of the other investments is the original cost of those investments adjusted for the effects of ~~other than temporary~~ write-downs, unrealized holding gains and losses on debt securities classified as trading in accordance with Subtopic 320-10 or equity securities accounted for in accordance with Subtopic 321-10 and amortization of any discount or premium on debt securities or ~~financing receivables~~ loans. The adjusted basis is the cost basis adjusted for the ~~valuation~~ allowance for credit losses account ~~recorded~~ recognized in accordance with Topic 326 on measurement of credit losses ~~Subtopic 310-10~~ for an investee ~~loan~~ financing receivable and debt security and the cumulative equity method losses applied to the other investments. Equity method income subsequently recorded shall be applied to the adjusted basis of the other investments in reverse order of the application of the equity method losses (that is, equity method income is applied to the more senior investments first).

#### Implementation Guidance and Illustrations

##### > Illustrations

##### > > Example 4: Investee Losses If the Investor Has Other Investments in Investee

**323-10-55-30** This Example illustrates the application of paragraph 323-10-35-24 to an investment involving all of the following circumstances:

- a. Investor owns 40 percent of the outstanding common stock of Investee.
- b. The common stock investment has been reduced to zero at the beginning of 20X1 because of previous losses.

- c. Investor also has done both of the following:
  - 1. Invested \$100 in redeemable preferred stock (that meets the definition of debt security and is classified as an available-for-sale debt security) of Investee (40 percent of the outstanding preferred stock of Investee)
  - 2. Extended \$100 in loans to Investee (which represent 40 percent of all loans extended to Investee).
- d. Investor is not obligated to provide any additional funding to Investee.

**323-10-55-31** In accordance with paragraphs 323-10-35-7 and 323-10-35-16, Investee's operating income and losses in the following table have been adjusted for intra-entity interest on the loan and dividends received or receivable on the preferred stock. As of the beginning of year 20X1, the carrying value of Investor's total combined investment in Investee is \$200, as follows.

	<b>Carrying Balance</b>
Common stock	\$ -
Loan	\$ 100
Preferred stock	\$ 100

**323-10-55-32** Assume the following facts for years 20X1 through 20X7.

<b>Year</b>	<b>Investee Operating Income (Loss)</b>	<b>Carrying Value of the Loan Under Subtopic 310-10</b>	<b>Fair Value of the Preferred Stock Under Subtopic 320-10</b>
20X1	\$ (200)	\$ 95	\$ 90
20X2	(400)	95	90
20X3	-	60	50
20X4	400	95	90
20X5	-	45	55
20X6	-	95	90
20X7	1,000	100	(a)

(a) Preferred stock was sold for \$90 on January 2, 20X7.

**323-10-55-33** Following are the steps Investor would follow in applying the equity method of accounting to its investment in Investee during the years 20X1 through 20X7.

**323-10-55-34** Investor would make all of the following entries in 20X1:

- a. In accordance with this Subtopic, record the equity method loss ( $40\% \times \$200 = \$80$ ) to the cost basis of the preferred stock (the next level of capital) at the time that the common stock investment becomes zero.

Equity method loss	\$ 80	
Preferred stock investment		\$ 80

- b. In accordance with Subtopic 326-20 on financial instruments measured at amortized cost ~~310-10~~, record ~~a valuation~~ an allowance for ~~the impaired credit losses on the~~ loan.

<del>Loan loss expense</del> Credit loss expense	\$ 5	
<del>Loan loss valuation allowance</del> <u>Allowance for credit losses</u>		\$ 5

- c. In accordance with Subtopic 320-10, record the changes in fair value for the available-for-sale preferred stock investment (market price of \$90 less the carrying amount after entry [a] of \$20, equals \$70 unrealized gain).

Preferred stock investment	\$ 70	
Unrealized gain—other comprehensive income		\$ 70

**323-10-55-35** In 20X1, the total profit-and-loss charge is \$85 (\$80 for the equity method loss and \$5 for the loan). Other comprehensive income is credited \$70 for the preferred stock investment. The carrying amount of the total combined investment in Investee is reduced to \$185 (\$0 for the common stock investment, \$95 for the loan, and \$90 for the preferred stock investment), and the balance in accumulated other comprehensive income is a credit of \$70. The adjusted basis of the total combined investment in Investee is reduced to \$115 (\$0 for the common stock investment, \$95 for the loan, and \$20 for the preferred stock investment).

**323-10-55-36** Investor would make both of the following entries in 20X2:

- a. In accordance with this Subtopic, record the equity method loss ( $40\% \times \$400 = \$160$ ) to the adjusted basis of the preferred stock of \$20 and, because the adjusted basis of the preferred stock will then be reduced to zero, record the remaining equity method loss to the adjusted basis of the loan (the next level of capital). The total equity method loss recorded would be limited, however, to the adjusted basis of the total combined investment in Investee of \$115; therefore, \$45 of equity method losses are unreported.

Equity method loss	\$ 115	
Preferred stock investment		\$ 20
Loan		95

- b. In accordance with Subtopic 320-10, record the changes in fair value for the available-for-sale preferred stock investment (market price of \$90 less the carrying amount after entry [a] of \$70, equals \$20 unrealized gain).

Preferred stock investment	\$ 20	
Unrealized gain—other comprehensive income		\$ 20

**323-10-55-37** In 20X2, the total profit-and-loss charge is \$115 (equity method loss). Other comprehensive income is credited \$20 for the preferred stock investment. The carrying amount of the total combined investment in Investee is reduced to \$90 (\$0 for the common stock investment, \$0 for the loan, and \$90 for the preferred stock investment), and the balance in accumulated other comprehensive income is a credit of \$90. The adjusted basis of the total combined investment in Investee is reduced to \$0 (\$0 for the common stock investment, \$0 for the loan, and \$0 for the preferred stock investment).

**323-10-55-38** In 20X3, there is no equity method income or loss ( $40\% \times \$0 = \$0$ ). Investor would make both of the following entries in 20X3:

- a. Because the adjusted basis of the loan was reduced to zero in 20X2 as a result of applying equity method losses to the loan, no entry is needed to reflect the Subtopic ~~326-20~~ ~~310-10~~ reduction in carrying amount from \$95 to \$60.
- b. In accordance with Subtopic 320-10, record the changes in fair value for the available-for-sale preferred stock investment (~~market price~~ fair value of \$50 less the carrying amount of \$90 equals \$40 unrealized loss).

Unrealized loss—other comprehensive income	\$ 40	
Preferred stock investment		\$ 40

**323-10-55-39** In 20X3, other comprehensive income is debited \$40 for the preferred stock investment. The carrying amount of the total combined investment in Investee is reduced to \$50 (\$0 for the common stock investment, \$0 for the loan, and \$50 for the preferred stock investment), and the balance in accumulated other comprehensive income is a credit of \$50. The adjusted basis of the total combined investment in Investee remains \$0.

**323-10-55-40** Investor would make both of the following entries in 20X4:

- a. In accordance with this Subtopic, record the equity method income ( $40\% \times \$400 = \$160$ ). However, in accordance with this Subtopic, Investor resumes applying the equity method only after its share of that income equals the unreported equity method losses of \$45. Therefore, the equity method income to be reported for the period is \$115 (\$160–\$45). The adjusted bases of the other investments are restored in the reverse order of the application of the equity method losses (loan first, then preferred stock).

Loan	\$ 95	
Preferred stock investment	20	
Equity method income		\$ 115

- b. In accordance with Subtopic 320-10, record the changes in fair value for the available-for-sale preferred stock investment (market price of \$90 less the carrying amount of \$70 equals \$20 unrealized gain).

Preferred stock investment	\$ 20	
Unrealized gain—other comprehensive income		\$ 20

**323-10-55-41** In 20X4, the total profit-and-loss credit is \$115 (the equity method income after Investor's share of unreported equity method losses of \$45 in 20X2). Other comprehensive income is credited \$20 for the preferred stock investment. The carrying amount of the total combined investment in Investee is increased to \$185 (\$0 for the common stock investment, \$95 for the loan, and \$90 for the preferred stock investment), and the balance in accumulated other comprehensive income is a credit of \$70. The adjusted basis of the total combined investment in Investee is increased to \$115 (\$0 for the common stock investment, \$95 for the loan, and \$20 for the preferred stock investment).

**323-10-55-42** In 20X5, there is no equity method income or loss ( $40\% \times \$0 = \$0$ ). Investor would make both of the following entries in 20X5:

- a. In accordance with Subtopic ~~326-20~~ 310-10, record ~~a valuation allowance for credit loss~~ a valuation allowance for credit loss for the ~~impaired~~ loan.

<del>Loan</del> Credit loss expense	\$ 50	
<del>Loan loss valuation allowance</del> Allowance for credit losses		\$ 50

- b. In accordance with Subtopic 320-10, record the changes in fair value for the available-for-sale preferred stock investment (market price of \$55 less the carrying amount of \$90 equals \$35 unrealized loss).

Unrealized loss—other comprehensive income	\$ 35	
Preferred stock investment		\$ 35

**323-10-55-43** In 20X5, the total profit-and-loss charge is \$50 (from the loan). Other comprehensive income is debited \$35 for the preferred stock investment. The carrying amount for the total combined investment in Investee is reduced to \$100 (\$0 for the common stock investment, \$45 for the loan, and \$55 for the preferred stock investment), and the balance in accumulated other comprehensive income is a credit of \$35. The adjusted basis of the total combined investment in Investee is reduced to \$65 (\$0 for the common stock investment, \$45 for the loan, and \$20 for the preferred stock investment).

**323-10-55-44** In 20X6, there is no equity method income or loss ( $40\% \times \$0 = \$0$ ). Investor would make both of the following entries in 20X6:

- a. In accordance with Subtopic ~~326-20~~ 310-10, adjust the valuation allowance for credit losses on ~~change in the expected future cash flows from~~ the loan.

<del>Loan loss valuation</del> <u>Allowance for credit losses</u>	\$ 50	
<del>Loan loss expense</del> <u>Credit loss expense</u>		\$ 50

- b. In accordance with Subtopic 320-10, record the changes in fair value for the available-for-sale preferred stock investment (market price of \$90 less the carrying amount of \$55 equals \$35 unrealized gain).

Preferred stock investment	\$ 35	
Unrealized gain—other comprehensive income		\$ 35

**323-10-55-45** In 20X6, the total profit-and-loss credit is \$50 (from the loan). Other comprehensive income is credited \$35 for the preferred stock investment. The carrying amount of the total combined investment in Investee is increased to \$185 (\$0 for the common stock investment, \$95 for the loan, and \$90 for the preferred stock investment), and the balance in accumulated other comprehensive income is a credit of \$70. The adjusted basis of the total combined investment in Investee is increased to \$115 (\$0 for the common stock investment, \$95 for the loan, and \$20 for the preferred stock investment).

**323-10-55-46** Investor would make all of the following entries in 20X7:

- a. Record the sale of the preferred stock.

Cash	\$ 90	
Other comprehensive income	70	
Preferred stock investment		\$ 90
Gain on sale of security		70

- b. In accordance with this Subtopic, record the equity method income ( $40\% \times \$1,000 = \$400$ ). Although Investor has recorded losses for all prior Investee losses, \$80 of such recorded losses (representing the difference between the cost basis of the preferred stock investment of \$100 and its adjusted basis of \$20) have effectively been reversed in entry (a) by recording a \$70 gain on the sale of the preferred stock when an actual loss of \$10 (representing the difference between the cost basis of the preferred stock investment of \$100 and the proceeds of \$90) was incurred. Accordingly, only \$320 of equity method income should be recorded (\$400–\$80).

Investment in investee (common)	\$ 320	
Equity method income		\$ 320

- c. In accordance with Subtopic ~~326-20~~ 310-10, adjust the valuation allowance for credit losses on ~~change in the expected future cash flows from~~ the loan.

<del>Loan-loss valuation allowance</del> <u>Allowance for credit losses</u>	\$ 5
<del>Loan-loss expense</del> <u>Credit loss expense</u>	\$ 5

**323-10-55-47** In 20X7, the total profit-and-loss credit is \$395 (\$70 gain from the sale of the preferred stock, \$320 for the equity method income, and \$5 from the loan). The carrying value of the total combined investment in Investee is increased to \$420 (\$320 for the common stock investment and \$100 for the loan), and the balance in accumulated other comprehensive income is \$0. The adjusted basis of the total combined investment in Investee is increased to \$420 (\$320 for the common stock investment, \$100 for the loan, and \$0 for the preferred stock investment).

## Amendments to Subtopic 325-40

16. Amend paragraphs 325-40-15-3 through 15-4, 325-40-25-2, 325-40-30-1 through 30-2, 325-40-35-3 through 35-4, 325-40-35-6 through 35-7, 325-40-35-9, and 325-40-35-10A, supersede paragraphs 325-40-35-2, 325-40-35-8, 325-40-35-10B, 325-40-35-13 through 35-14 and the related heading, and 325-40-55-1 and its related headings, and add paragraphs 325-40-30-1A, 325-40-35-4A through 35-4C, and 325-40-35-6A and its related heading, with a link to transition paragraph 326-10-65-1, as follows:

## Investments—Other—Beneficial Interests in Securitized Financial Assets

### Overview and Background

**325-40-05-1** This Subtopic addresses accounting for a transferor's interests in securitized transactions accounted for as sales (see Topic 860) and purchased **beneficial interests**. Collectively, these interests are referred to in this Subtopic as beneficial interests.

**325-40-05-2** Changes in cash flows expected to be collected might arise from prepayments, from credit concerns, from changes in interest rates, or for other reasons.

### Scope and Scope Exceptions

#### > Entities

**325-40-15-1** The guidance in this Subtopic applies to all entities.

### > Instruments

**325-40-15-2** The guidance in this Subtopic applies to a transferor's interests in securitization transactions that are accounted for as sales under Topic 860 and purchased **beneficial interests** in securitized financial assets.

**325-40-15-3** The guidance in this Subtopic applies to beneficial interests that have all of the following characteristics:

- a. Are either debt securities under Subtopic 320-10 or required to be accounted for like debt securities under that Subtopic pursuant to paragraph 860-20-35-2.
- b. Involve securitized financial assets that have contractual cash flows (for example, loans, receivables, debt securities, and guaranteed lease residuals, among other items). Thus, the guidance in this Subtopic does not apply to securitized financial assets that do not involve contractual cash flows (for example, common stock equity securities, among other items). See paragraph 320-10-35-38 for guidance on beneficial interests involving securitized financial assets that do not involve contractual cash flows.
- c. Do not result in consolidation of the entity issuing the beneficial interest by the holder of the beneficial interests.
- d. Subparagraph superseded by Accounting Standards Update No. 2016-13. Are not within the scope of Subtopic 310-30.
- e. Are not beneficial interests in securitized financial assets that have both of the following characteristics:
  1. Are of high credit quality (for example, guaranteed by the U.S. government, its agencies, or other creditworthy guarantors, and loans or securities sufficiently collateralized to ensure that the possibility of credit loss is remote)
  2. Cannot contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment.

**325-40-15-4** For guidance on recognition of interest income on beneficial interests that have both of the characteristics described in (e) in the preceding paragraph, see Subtopic 320-10. For guidance on determining the allowance for credit losses on whether an other than temporary impairment of beneficial interests that have both of the characteristics described in (e) in the preceding paragraph (other than trading debt securities), see Topic 326 on measurement of credit losses paragraphs 320-10-35-17 through 35-34.

### > > Securitized Financial Assets in Equity Form

**325-40-15-5** A beneficial interest in securitized financial assets that is in equity form may meet the definition of a **debt security**. For example, some beneficial interests issued in the form of equity represent solely a right to receive a stream of future cash flows to be collected under preset terms and conditions (that is, a creditor relationship), while others, according to the terms of the special-purpose entity, must be redeemed by the issuing entity or must be redeemable at the option of the investor. Consequently, those beneficial interests would be within the scope of both this Subtopic and Topic 320 because they are required to be accounted for as debt securities under that Topic.

**325-40-15-6** Beneficial interests issued in the form of equity that do not meet the criteria in the preceding paragraph shall be accounted for under the applicable provisions of Subtopic 323-10, the applicable consolidation guidance (see, for example, Subtopic 810-10), or Subtopic 321-10.

### > > **Beneficial Interests Classified as Trading**

**325-40-15-7** For income recognition purposes, beneficial interests classified as trading are included in the scope of this Subtopic because it is practice for certain industries (such as banks and investment companies) to report interest income as a separate item in their income statements, even though the investments are accounted for at fair value.

### > > **Host Contract Portion of a Hybrid Beneficial Interest**

**325-40-15-8** Included in the scope of this Subtopic are the host contract portion of a hybrid beneficial interest that requires separate accounting for an embedded derivative under paragraphs 815-15-25-1; 815-15-25-11 through 25-14; and 815-15-25-26 through 25-29 when the host contract otherwise meets the scope of this Subtopic. The issue of when and how a hybrid contract is to be separated into its component parts is an implementation issue of Topic 815 and, therefore, not within the scope of this Subtopic.

**325-40-15-9** The guidance in this Subtopic does not apply to hybrid beneficial interests measured at fair value pursuant to paragraphs 815-15-25-4 through 25-6 for which the transferor does not report interest income as a separate item in its income statements.

## **Recognition**

**325-40-25-1** The carrying amount of the **beneficial interest** used for purposes of measuring interest income shall be adjusted based on the application of the accounting model described in this Subtopic.

**325-40-25-2** The difference between the carrying amount and the fair value of a beneficial interest ~~issued in the form of equity~~ or classified as a trading debt security shall be recorded through earnings as a gain or a loss.

**325-40-25-3** Paragraph 325-40-35-1 addresses how the holder shall recognize accretable yield.

## Initial Measurement

### > Initial Investment

**325-40-30-1** If the holder of the **beneficial interest** is the transferor, the initial investment would be ~~measured initially~~ the fair value of the beneficial interest as of the date of transfer, as the ~~allocated carrying amount after application of the relative fair value allocation method~~ required by paragraph 860-20-30-1 ~~Topic 860~~.

**325-40-30-1A** An entity shall apply the initial measurement guidance for **purchased financial assets with credit deterioration** in Subtopic 326-20 to a beneficial interest classified as held-to-maturity and in Subtopic 326-30 to a beneficial interest classified as available for sale, if it meets either of the following conditions:

- a. There is a significant difference between contractual cash flows and expected cash flows at the date of recognition.
- b. The beneficial interests meet the definition of purchased financial assets with credit deterioration.

### > Accretable Yield

**325-40-30-2** For beneficial interests that do not apply the accounting for purchased financial assets with credit deterioration, the ~~The~~ holder shall measure accretable yield initially as the excess of *all cash flows expected to be collected* attributable to the beneficial interest estimated at the acquisition-transaction date (the transaction date) over the initial investment. For beneficial interests that apply the accounting for purchased financial assets with credit deterioration, the holder shall measure accretable yield initially as the excess of all contractual cash flows attributable to the beneficial interest at the acquisition-transaction date (the transaction date) over the amortized cost basis (the purchase price plus the initial allowance for credit losses).

**325-40-30-3** At the transaction date, *all cash flows expected to be collected* means the holder's estimate of the amount and timing of estimated future principal and interest cash flows used in determining the purchase price or the holder's fair value determination for purposes of determining a gain or loss under Topic 860.

**325-40-30-4** See paragraph 325-40-55-1 for implementation guidance.

## Subsequent Measurement

### > Accretable Yield

**325-40-35-1** The holder shall recognize accretable yield as interest income over the life of the **beneficial interest** using the effective yield method. The holder of a beneficial interest shall continue to update, over the life of the beneficial interest, the expectation of cash flows to be collected.

~~**325-40-35-2** Paragraph superseded by Accounting Standards Update No. 2016-13. The method used for recognizing and measuring the amount of interest income on a beneficial interest shall not differ based on whether that beneficial interest is classified as held to maturity, available for sale, or trading debt security. The same amount of interest income shall be recognized each period regardless of whether the beneficial interest is classified as held to maturity, available for sale, or trading debt security.~~

**325-40-35-3** After the transaction date, cash flows expected to be collected are defined as the holder's estimate of the amount and timing of estimated principal and interest cash flows based on the holder's best estimate of current conditions and reasonable and supportable forecasts information and events. ~~In this Subtopic, a change in cash flows expected to be collected is considered in the context of both timing and amount of the cash flows expected to be collected.~~  
**[Content amended as shown and moved to paragraph 325-40-35-4C]**

**325-40-35-4** If upon evaluation of a held-to-maturity classified beneficial interest there is a favorable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected, the investor shall first apply the guidance in Subtopic 326-20 on financial instruments measured at amortized cost to account for that favorable (or adverse) change. After application of the guidance in Subtopic 326-20, if the amount of the favorable (or adverse) change in cash flows expected to be collected from the cash flows previously projected is not reflected (either as an increase or as a decrease) in the allowance for credit losses in accordance with Subtopic 326-20, the investor shall recalculate the amount of accretable yield for the beneficial interest on the date of evaluation as the excess of cash flows expected to be collected over the beneficial interest's reference amount. If upon evaluation:

- a. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. Based on current information and events there is a favorable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected, then the investor shall recalculate the amount of accretable yield for the beneficial interest on the date of evaluation as the excess of cash flows expected to be collected over the beneficial interest's reference amount. The reference amount is equal to~~

~~the initial investment (or amortized cost basis for purchased beneficial interests with credit deterioration) minus cash received to date minus other than temporary impairments recognized in earnings to date (as described in paragraph 325-40-35-4(b)) plus the yield accreted to date. In this paragraph a favorable (or an adverse) change in cash flows expected to be collected is considered in the context of both timing and amount of the cash flows expected to be collected. Based on cash flows expected to be collected, interest income may be recognized on a beneficial interest even if the net investment in the beneficial interest is accreted to an amount greater than the amount at which the beneficial interest could be settled if prepaid immediately in its entirety. The adjustment shall be accounted for prospectively as a change in estimate in conformity with Topic 250, with the amount of periodic accretion adjusted over the remaining life of the beneficial interest. [Content moved to paragraph 325-40-35-4C]~~

- b. ~~Subparagraph superseded by Accounting Standards Update No. 2016-13. The fair value of the beneficial interest has declined below its reference amount, the entity shall determine whether the decline is other than temporary. The entity shall apply the impairment of securities guidance beginning in paragraph 320-10-35-18. If based on current information and events there has been an adverse change in cash flows expected to be collected (in accordance with paragraph 325-40-35-4(a)), then both of the following shall be done:~~
- ~~1. An other than temporary impairment shall be considered to have occurred.~~
  - ~~2. The beneficial interest shall be written down to fair value with the resulting change being recognized in accordance with Section 320-10-35.~~

**325-40-35-4A** If upon evaluation of an available-for-sale classified beneficial interest there is a favorable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected, the investor shall apply the guidance in Subtopic 326-30 on measuring credit losses on available-for-sale debt securities to account for that favorable (or adverse) change. After application of the guidance in Subtopic 326-30, if the amount of the favorable (or adverse) change in cash flows expected to be collected from the cash flows previously projected is not reflected (either as an increase or as a decrease) in the allowance for credit losses in accordance with Subtopic 326-30, the investor shall recalculate the amount of accretable yield for the beneficial interest on the date of evaluation as the excess of cash flows expected to be collected over the beneficial interest's reference amount.

**325-40-35-4B** The reference amount in paragraphs 325-40-35-4 through 35-4A is equal to the initial investment (or initial amortized cost basis for beneficial interests that apply the accounting for purchased financial assets with credit

deterioration) minus cash received to date minus writeoff of amortized cost basis plus the yield accreted to date.

**325-40-35-4C** In this Subtopic, a favorable (or an adverse) change in cash flows expected to be collected is considered in the context of both timing and amount of the cash flows expected to be collected. **[Content amended as shown and moved from paragraph 325-40-35-3]** Based on cash flows expected to be collected, interest income may be recognized on a beneficial interest even if the net investment in the beneficial interest is accreted to an amount greater than the amount at which the beneficial interest could be settled if prepaid immediately in its entirety. The adjustment shall be accounted for prospectively as a change in estimate in conformity with Topic 250, with the amount of periodic accretion adjusted over the remaining life of the beneficial interest. **[Content moved from paragraph 325-40-35-4(a)]**

**325-40-35-5** Determining whether there has been a favorable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected (taking into consideration both the timing and amount of the cash flows expected to be collected) involves comparing the present value of the remaining cash flows expected to be collected at the initial transaction date (or at the last date previously revised) against the present value of the cash flows expected to be collected at the current financial reporting date.

**325-40-35-6** The cash flows, including the assessment of expected credit losses, shall be discounted at a rate equal to the current yield used to accrete the beneficial interest.

### **> Credit Losses**

**325-40-35-6A** An entity shall account for credit losses on beneficial interests classified as held to maturity and available for sale in accordance with Topic 326.

**325-40-35-7** An entity shall use the present value of expected future cash flows technique to measure credit losses on beneficial interests. If the present value of the original estimate at the initial transaction date (or the last date previously revised) of cash flows expected to be collected is less than the present value of the current estimate of cash flows expected to be collected, the change is considered favorable ~~(that is, an other than temporary impairment shall be considered to have not occurred under the guidance in this Subtopic).~~ If the present value of the original estimate at the initial transaction date (or the last date previously revised) of cash flows expected to be collected is greater than the present value of the current estimate of cash flows expected to be collected, the change is considered adverse.

**325-40-35-8** Paragraph superseded by Accounting Standards Update No. 2016-13. ~~If the present value of the original estimate at the initial transaction date (or the last date previously revised) of cash flows expected to be collected is greater~~

~~than the present value of the current estimate of cash flows expected to be collected, the change is considered adverse (that is, an other than temporary impairment shall be considered to have occurred under the guidance in this Subtopic).~~

~~**325-40-35-9** However, absent any other factors that indicate an other than temporary impairment unless the guidance in Topic 326 indicates that a credit loss has occurred, changes in the interest rate of a plain-vanilla, variable-rate beneficial interest generally should not result in the recognition and measurement of a credit loss an other than temporary impairment (see footnote (a) in paragraph 325-40-55-4) (a plain-vanilla, variable-rate beneficial interest does not include those variable-rate beneficial interests with interest rate reset formulas that involve either leverage or an inverse floater).~~

~~**325-40-35-10A** It is inappropriate to automatically conclude that no credit loss in a security exists is not other than temporarily impaired because all of the scheduled payments to date have been received. However, it also is inappropriate to automatically conclude that every decline in fair value represents a credit loss an other than temporary impairment. Further analysis and judgment are required to assess whether a decline in fair value is an indicator indicates that it is probable that the holder will not collect all of the contractual cash flows or cash flows expected to be collected from the security. The longer and/or the more severe the decline in fair value, the more persuasive the evidence that is needed to overcome the premise that it is probable that the holder will not collect all of the contractual cash flows or cash flows expected to be collected from the issuer of the security.~~

~~**325-40-35-10B** Paragraph superseded by Accounting Standards Update No. 2016-13. In making its other than temporary impairment assessment, the holder shall also apply the guidance in paragraphs 320-10-35-33C through 35-33I.~~

## **> Other Than Temporary Impairment**

~~**325-40-35-13** Paragraph superseded by Accounting Standards Update No. 2016-13. When an entity intends to sell or will more likely than not be required to sell a specifically identified beneficial interest classified as available for sale for which fair value is less than the amortized cost basis, a write down for other than temporary impairment shall be recognized in earnings. Topic 320 provides additional guidance to consider when determining whether an other than temporary impairment exists.~~

~~**325-40-35-14** Paragraph superseded by Accounting Standards Update No. 2016-13. For guidance on accounting for a transfer of a financial asset classified under Topic 320 as available for sale before the transfer, see paragraph 860-20-40-1B.~~

**> Nonaccrual Status—Cash Flows Not Reliably Estimable**

**325-40-35-16** This Subtopic does not address when a holder of a beneficial interest would place that interest on nonaccrual status or when a holder cannot reliably estimate cash flows. However, for beneficial interests placed on nonaccrual status or when a holder cannot reliably estimate cash flows, the cost recovery method shall be used.

**Implementation Guidance and Illustrations**

**> ~~Implementation Guidance~~**

**>> ~~Application of Subtopic Guidance under Different Scenarios~~**

**~~325-40-55-1~~** The following table highlights the application of the guidance in this Subtopic under different scenarios:

Is Fair Value of the Beneficial Interest Greater Than or Equal to the Carrying Amount?	Has a Change in Cash Flows Expected to be Collected Occurred from the Last Revised Estimate (Considering Both Timing and Amount)?	Is an Other-Than-Temporary Impairment Recognized?	Is the Yield Revised for the Change?	Should the Original or Last Revised Cash Flows Expected to be Collected Be Used for Future Impairment Purposes?
Yes.	Yes, decrease (adverse change).	No.	Yes. The change in yield is recognized prospectively.	Last revised.
Yes.	No.	No.	N/A	If the cash flows expected to be collected have been previously revised, use the last revised cash flows. Otherwise, use the original cash flows.
Yes	Yes, increase (favorable change).	No.	Yes. The change in yield is recognized prospectively.	Last revised.
No	Yes, decrease (adverse change).	Yes. <sup>(a)</sup>	The yield is not changed as a result of recognizing an other-than-temporary impairment. However, the yield may be changed prospectively for non-credit-related factors. <sup>(a)</sup>	Last revised
No.	No.	Generally, no. <sup>(b)</sup>	If an other than temporary impairment is recognized, the yield is changed to the market rate.  If an other than temporary impairment is not recognized, the yield is not changed.	If the cash flows expected to be collected have been previously revised, use the last revised cash flows. Otherwise, use the original cash flows.
No.	Yes, increase (favorable change).	Generally, no. <sup>(b)</sup>	If an other than temporary impairment is recognized, the yield is changed to the market rate.  If an other than temporary impairment is not recognized, the change in yield is recognized prospectively.	Last revised.

(a) Changes in the interest rate of a plain-vanilla, variable-rate beneficial interest (a plain-vanilla, variable-rate beneficial interest does not include those variable-rate beneficial interests with interest rate reset formulas that involve either leverage or an inverse floater) generally should not result in the recognition of an other-than-temporary impairment. For plain-vanilla, variable-rate beneficial interests, the yield is changed to reflect the revised interest rate based on the contractual interest rate reset formula. For example, if a beneficial interest pays interest quarterly at a rate equal to the London Interbank Offered Rate (LIBOR) plus 2 percent, the yield of that beneficial interest is changed prospectively to reflect changes in LIBOR. However, changes in the fair value of a plain-vanilla, variable-rate beneficial interest due to credit events shall be considered when evaluating whether there has been an other than temporary impairment. See Section 320.10-36 for a discussion of the recognition of an other than temporary impairment.

(b) See paragraph 325.40-35-13 for further discussion.

## Addition of Topic 326

17. Add Subtopic 326-10, with a link to transition paragraph 326-10-65-1, as follows:

**[For ease of readability, the new Subtopic is not underlined.]**

### **Financial Instruments—Credit Losses—Overall**

#### **Overview and Background**

##### **General**

**326-10-05-1** This Topic provides guidance on how an entity should measure credit losses on financial instruments.

**326-10-05-2** Topic 326 includes the following Subtopics:

- a. Overall
- b. Financial Instruments—Credit Losses—Measured at Amortized Cost
- c. Financial Instruments—Credit Losses—Available-for-Sale Debt Securities

#### **Scope and Scope Exceptions**

##### **General**

###### **> Entities**

**326-10-15-1** The guidance in this Subtopic applies to all entities.

#### **Glossary**

##### **Amortized Cost Basis**

The amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, writeoffs, foreign exchange, and fair value hedge accounting adjustments.

##### **Debt Security (first definition)**

Any security representing a creditor relationship with an entity. The term debt security also includes all of the following:

- a. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor
- b. A collateralized mortgage obligation (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position
- c. U.S. Treasury securities
- d. U.S. government agency securities
- e. Municipal securities
- f. Corporate bonds
- g. Convertible debt
- h. Commercial paper
- i. All securitized debt instruments, such as collateralized mortgage obligations and real estate mortgage investment conduits
- j. Interest-only and principal-only strips.

The term debt security excludes all of the following:

- a. Option contracts
- b. Financial futures contracts
- c. Forward contracts
- d. Lease contracts
- e. Receivables that do not meet the definition of security and, so, are not debt securities (unless they have been securitized, in which case they would meet the definition of a security), for example:
  1. Trade accounts receivable arising from sales on credit by industrial or commercial entities
  2. Loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions.

### **Effective Interest Rate**

The rate of return implicit in the **financial asset**, that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the financial asset. For **purchased financial assets with credit deterioration**, however, to decouple interest income from credit loss recognition, the premium or discount at acquisition excludes the discount embedded in the purchase price that is attributable to an acquirer's assessment of credit losses at the date of acquisition.

### **Financial Asset (first definition)**

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

- a. Receive cash or another financial instrument from a second entity
- b. Exchange other financial instruments on potentially favorable terms with the second entity.

### **Loan (second definition)**

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. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable.

### **Not-for-Profit Entity**

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
- b. Operating purposes other than to provide goods or services at a profit
- c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities
- b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

### **Public Business Entity**

A public business entity is a business entity meeting any one of the criteria below. Neither a **not-for-profit entity** nor an employee benefit plan is a business entity.

- a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
- c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes

- of issuing securities that are not subject to contractual restrictions on transfer.
- d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
  - e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

### **Purchased Financial Assets with Credit Deterioration**

Acquired individual **financial assets** (or acquired groups of financial assets with similar risk characteristics) that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment. See paragraph 326-20-55-5 for more information on the meaning of similar risk characteristics for assets measured on an amortized cost basis.

### **Securities and Exchange Commission (SEC) Filer**

An entity that is required to file or furnish its financial statements with either of the following:

- a. The Securities and Exchange Commission (SEC)
- b. With respect to an entity subject to Section 12(i) of the Securities Exchange Act of 1934, as amended, the appropriate agency under that Section.

Financial statements for other entities that are not otherwise SEC filers whose financial statements are included in a submission by another SEC filer are not included within this definition.

### **Troubled Debt Restructuring**

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

### **Transition and Open Effective Date Information**

## General

### > Transition Related to Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

**326-10-65-1** The following represents the transition and effective date information related to Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*:

- a. The pending content that links to this paragraph shall be effective as follows:
  1. For **public business entities** that meet the definition of a **Securities and Exchange Commission (SEC) filer**, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years
  2. For public business entities that do not meet the definition of an SEC filer, for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years
  3. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.
- b. Early application of the pending content that links to this paragraph is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.
- c. An entity shall apply the pending content that links to this paragraph by means of a cumulative-effect adjustment to the opening retained earnings as of the beginning of the first reporting period in which the pending content that links to this paragraph is effective.
- d. An entity shall apply prospectively the pending content that links to this paragraph for **purchased financial assets with credit deterioration to {add glossary link to 1<sup>st</sup> definition}financial assets{add glossary link to 1<sup>st</sup> definition}** for which Subtopic 310-30 was previously applied. The prospective application will result in an adjustment to the **amortized cost basis** of the financial asset to reflect the addition of the allowance for credit losses at the date of adoption. An entity shall not reassess whether recognized financial assets meet the criteria of a purchased financial asset with credit deterioration as of the date of adoption. An entity may elect to maintain pools of **{add glossary link to 2<sup>nd</sup> definition}loans{add glossary link to 2<sup>nd</sup> definition}** accounted for under Subtopic 310-30 at adoption. An entity shall not reassess whether modifications to individual acquired financial assets accounted for in pools are **troubled debt restructurings** as of the date of adoption. The

noncredit discount or premium, after the adjustment for the allowance for credit losses, shall be accreted to interest income using the interest method based on the **effective interest rate** determined after the adjustment for credit losses at the adoption date. The same transition requirements should be applied to beneficial interests for which Subtopic 310-30 was applied previously or for which there is a significant difference between the contractual cash flows and expected cash flows at the date of recognition.

- e. An entity shall apply prospectively the pending content that links to this paragraph to **{add glossary link to 1<sup>st</sup> definition}**debt securities**{add glossary link to 1<sup>st</sup> definition}** for which an other-than-temporary impairment had been recognized before the date of adoption, such that the amortized cost basis (including previous write-downs) of the debt security is unchanged. In addition, the effective interest rate on a security will remain unchanged as a result of the adoption of the pending content that links to this paragraph. Amounts previously recognized in accumulated other comprehensive income as of the adoption date that relate to improvements in cash flows will continue to be accreted to interest income over the remaining life of the debt security on a level-yield basis. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption shall be recorded to income in the period received.
- f. An entity shall disclose the following in the period that the entity adopts the pending content that links to this paragraph:
  - 1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle.
  - 2. The method of applying the change.
  - 3. The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the pending content that links to this paragraph is effective. Presentation of the effect on financial statement subtotals is not required.
  - 4. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which the pending content that links to this paragraph is effective.
- g. An entity that issues interim financial statements shall provide the disclosures in (f) in each interim financial statement of the year of change and the annual financial statement of the period of the change.
- h. In the year of initial application of the pending content that links to this paragraph, a public business entity that does not meet the definition of a SEC filer may phase-in the disclosure of credit quality indicators by year of origination by only presenting the three most recent origination years (including the first year of adoption). In each subsequent fiscal year, the then-current origination year will be added in the periods after adoption until a total of five origination years are presented. Origination years

before those that are presented separately shall be disclosed in the aggregate. For example, the phase-in approach would work as follows assuming a calendar year-end entity:

1. For the first annual reporting period ended December 31, 2X21, after the effective date of January 1, 2X21, an entity would disclose the end of period amortized cost basis of the current period originations within 2X21, as well as the two origination years of 2X20 and 2X19. The December 31, 2X21 end of period amortized cost balances for all prior originations would be presented separately in the aggregate.
2. For the second annual reporting period ended December 31, 2X22, after the effective date of January 1, 2X21, an entity would disclose the end of period amortized cost basis of the current period originations within 2X22, as well as the three origination years of 2X21, 2X20, and 2X19. The December 31, 2X22 ending amortized cost basis would be presented in the aggregate for all origination periods before the four years that are presented separately.
3. For the third annual reporting period ended December 31, 2X23, after the effective date of January 1, 2X21, an entity would disclose the end-of-period amortized cost basis of the current-period originations within 2X23, as well as the four origination years of 2X22, 2X21, 2X20, and 2X19. The December 31, 2X23 ending amortized cost basis would be presented in aggregate for all origination periods before the five years that are presented separately.
4. For interim-period disclosures within the years discussed above, the current year-to-date originations should be disclosed as the originations in the interim reporting period.

18. Add Subtopic 326-20, with a link to transition paragraph 326-10-65-1, as follows:

**[For ease of readability, the new Subtopic is not underlined, except for content moved from other paragraphs in the Codification.]**

## **Financial Instruments—Credit Losses—Measured at Amortized Cost**

### **Overview and Background**

#### **General**

**326-20-05-1** This Subtopic provides guidance on how an entity should measure expected credit losses on financial instruments measured at amortized cost and on leases.

## Scope and Scope Exceptions

### General

#### > Entities

**326-20-15-1** The guidance in this Subtopic applies to all entities.

#### > Instruments

**326-20-15-2** The guidance in this Subtopic applies to the following items:

- a. Financial assets measured at amortized cost basis, including the following:
  1. **Financing receivables**
  2. Held-to-maturity **debt securities**
  3. Receivables that result from revenue transactions within the scope of Topic 605 on revenue recognition, Topic 606 on revenue from contracts with customers, and Topic 610 on other income
  4. **Reinsurance receivables** that result from insurance transactions within the scope of Topic 944 on insurance
  5. Receivables that relate to repurchase agreements and securities lending agreements within the scope of Topic 860
- b. Net investments in leases recognized by a lessor in accordance with Topic 842 on leases
- c. Off-balance-sheet credit exposures not accounted for as insurance. Off-balance-sheet credit exposure refers to credit exposures on off-balance-sheet loan commitments, standby letters of credit, financial guarantees not accounted for as insurance, and other similar instruments, except for instruments within the scope of Topic 815 on derivatives and hedging.

**326-20-15-3** The guidance in this Subtopic does not apply to the following items:

- a. Financial assets measured at **fair value** through net income
- b. Available-for-sale debt securities
- c. **Loans** made to participants by defined contribution employee benefit plans
- d. Policy loan receivables of an insurance entity
- e. Promises to give (pledges receivable) of a not-for-profit entity
- f. Loans and receivables between entities under common control.

## Glossary

### Amortized Cost Basis

The amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, writeoffs, foreign exchange, and fair value hedge accounting adjustments.

### **Class of Financing Receivable**

A group of financing receivables determined on the basis of both of the following:

- a. Risk characteristics of the financing receivable
- b. An entity's method for monitoring and assessing credit risk.

See paragraphs 326-20-55-11 through 55-14 and 326-20-50-3.

### **Credit Quality Indicator**

A statistic about the credit quality of a **financial asset**.

### **Debt Security (first definition)**

Any security representing a creditor relationship with an entity. The term debt security also includes all of the following:

- a. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor
- b. A collateralized mortgage obligation (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position
- c. U.S. Treasury securities
- d. U.S. government agency securities
- e. Municipal securities
- f. Corporate bonds
- g. Convertible debt
- h. Commercial paper
- i. All securitized debt instruments, such as collateralized mortgage obligations and real estate mortgage investment conduits
- j. Interest-only and principal-only strips.

The term debt security excludes all of the following:

- a. Option contracts
- b. Financial futures contracts
- c. Forward contracts
- d. Lease contracts
- e. Receivables that do not meet the definition of security and, so, are not debt securities (unless they have been securitized, in which case they would meet the definition of a security), for example:

1. Trade accounts receivable arising from sales on credit by industrial or commercial entities
2. Loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions.

### **Effective Interest Rate**

The rate of return implicit in the **financial asset**, that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the financial asset. For **purchased financial assets with credit deterioration**, however, to decouple interest income from credit loss recognition, the premium or discount at acquisition excludes the discount embedded in the purchase price that is attributable to an acquirer's assessment of credit losses at the date of acquisition.

### **Fair Value (second definition)**

The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.

### **Financial Asset (first definition)**

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

- a. Receive cash or another financial instrument from a second entity
- b. Exchange other financial instruments on potentially favorable terms with the second entity.

### **Financing Receivable**

A financing arrangement that has both of the following characteristics:

- a. It represents a contractual right to receive money in either of the following ways:
  1. On demand
  2. On fixed or determinable dates.
- b. It is recognized as an asset in the entity's statement of financial position.

See paragraphs 310-10-55-13 through 55-15 for more information on the definition of financing receivable, including a list of items that are excluded from the definition (for example, debt securities).

### **Freestanding Contract**

A freestanding contract is entered into either:

- a. Separate and apart from any of the entity's other financial instruments or equity transactions
- b. In conjunction with some other transaction and is legally detachable and separately exercisable.

### **Line-of-Credit Arrangement**

A line-of-credit or revolving-debt arrangement is an agreement that provides the borrower with the option to make multiple borrowings up to a specified maximum amount, to repay portions of previous borrowings, and to then reborrow under the same contract. Line-of-credit and revolving-debt arrangements may include both amounts drawn by the debtor (a debt instrument) and a commitment by the creditor to make additional amounts available to the debtor under predefined terms (a loan commitment).

### **Loan (second definition)**

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. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable.

### **Loan Commitment**

Loan commitments are legally binding commitments to extend credit to a counterparty under certain prespecified terms and conditions. They have fixed expiration dates and may either be fixed-rate or variable-rate. Loan commitments can be either of the following:

- a. Revolving (in which the amount of the overall commitment is reestablished upon repayment of previously drawn amounts)
- b. Nonrevolving (in which the amount of the overall commitment is not reestablished upon repayment of previously drawn amounts).

Loan commitments can be distributed through syndication arrangements, in which one entity acts as a lead and an agent on behalf of other entities that will each extend credit to a single borrower. Loan commitments generally permit the lender to terminate the arrangement under the terms of covenants negotiated under the agreement.

### **Market Participants**

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

- a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms

- b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary
- c. They are able to enter into a transaction for the asset or liability
- d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

### **Not-for-Profit Entity**

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
- b. Operating purposes other than to provide goods or services at a profit
- c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities
- b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

### **Orderly Transaction**

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

### **Portfolio Segment**

The level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. See paragraphs 326-20-50-3 and 326-20-55-10.

### **Public Business Entity**

A public business entity is a business entity meeting any one of the criteria below. Neither a **not-for-profit entity** nor an employee benefit plan is a business entity.

- a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
- c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
- e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

### **Purchased Financial Assets with Credit Deterioration**

Acquired individual **financial assets** (or acquired groups of financial assets with similar risk characteristics) that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment. See paragraph 326-20-55-5 for more information on the meaning of similar risk characteristics for assets measured on an amortized cost basis.

### **Reinsurance Receivable**

All amounts recoverable from reinsurers for paid and unpaid claims and claim settlement expenses, including estimated amounts receivable for unsettled claims, claims incurred but not reported, or policy benefits.

### **Related Parties**

Related parties include:

- a. Affiliates of the entity
- b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity
- c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
- d. Principal owners of the entity and members of their immediate families
- e. Management of the entity and members of their immediate families
- f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests
- g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

### **Standby Letter of Credit**

A letter of credit (or similar arrangement however named or designated) that represents an obligation to the beneficiary on the part of the issuer for any of the following:

- a. To repay money borrowed by or advanced to or for the account of the account party
- b. To make payment on account of any evidence of indebtedness undertaken by the account party
- c. To make payment on account of any default by the account party in the performance of an obligation.

A standby letter of credit would not include the following:

- a. Commercial letters of credit and similar instruments where the issuing bank expects the beneficiary to draw upon the issuer and which do not guarantee payment of a money obligation
- b. A guarantee or similar obligation issued by a foreign branch in accordance with and subject to the limitations of Regulation M of the Federal Reserve Board.

### **Troubled Debt Restructuring**

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

## Initial Measurement

### General

#### > Developing an Estimate of Expected Credit Losses

**326-20-30-1** The allowance for credit losses is a valuation account that is deducted from the **amortized cost basis** of the **financial asset(s)** to present the net amount expected to be collected on the financial asset. 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).

**326-20-30-2** An entity shall measure expected credit losses of financial assets on a collective (pool) basis when similar risk characteristic(s) exist (as described in paragraph 326-20-55-5). If an entity determines that a financial asset does not share risk characteristics with its other financial assets, the entity shall evaluate the financial asset for expected credit losses on an individual basis. If a financial asset is evaluated on an individual basis, an entity also should not include it in a collective evaluation. That is, financial assets should not be included in both collective assessments and individual assessments.

**326-20-30-3** The allowance for credit losses may be determined using various methods. For example, an entity may use discounted cash flow methods, loss-rate methods, roll-rate methods, probability-of-default methods, or methods that utilize an aging schedule. An entity is not required to utilize a discounted cash flow method to estimate expected credit losses. Similarly, an entity is not required to reconcile the estimation technique it uses with a discounted cash flow method.

**326-20-30-4** If an entity estimates expected credit losses using methods that project future principal and interest cash flows (that is, a discounted cash flow method), the entity shall discount expected cash flows at the financial asset's effective interest rate. When a discounted cash flow method is applied, the allowance for credit losses shall reflect the difference between the amortized cost basis and the present value of the expected cash flows. If the loan's financial asset's contractual interest rate varies based on subsequent changes in an independent factor, such as an index or rate, for example, the prime rate, the London Interbank Offered Rate (LIBOR), or the U.S. Treasury bill weekly average, that loan's financial asset's effective interest rate (used to discount expected cash flows as described in this paragraph) may shall be calculated based on the factor as it changes over the life of the loan financial asset or may be fixed at the rate in effect at the date the loan meets the impairment criterion in paragraphs 310-10-35-16 through 35-17. The creditor's choice shall be applied consistently for all loans whose contractual interest rate varies based on

~~subsequent changes in an independent factor.~~ Projections of changes in the factor shall not be made for purposes of determining the effective interest rate or estimating expected future cash flows. **[Content amended as shown and moved from paragraph 310-10-35-28]**

**326-20-30-5** If an entity estimates expected credit losses using a method other than a discounted cash flow method described in paragraph 326-20-30-4, the allowance for credit losses shall reflect the entity's expected credit losses of the amortized cost basis of the financial asset(s) as of the reporting date. For example, if an entity uses a loss-rate method, the numerator would include the expected credit losses of the amortized cost basis (that is, amounts that are not expected to be collected in cash or other consideration, or recognized in income). In addition, when an entity expects to accrete a discount into interest income, the discount should not offset the entity's expectation of credit losses. An entity may develop its estimate of expected credit losses by measuring components of the amortized cost basis on a combined basis or by separately measuring the following components of the amortized cost basis, including both of the following:

- a. Amortized cost basis, excluding premiums, discounts (including net deferred fees and costs), foreign exchange, and fair value hedge accounting adjustments (that is, the face amount or unpaid principal balance)
- b. Premiums or discounts, including net deferred fees and costs, foreign exchange, and fair value hedge accounting adjustments.

**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 it has a reasonable expectation at the reporting date that it will execute a **troubled debt restructuring** with the borrower.

**326-20-30-7** When developing an estimate of expected credit losses on financial asset(s), an entity shall consider available information relevant to assessing the collectibility of cash flows. This information may include internal information, external information, or a combination of both relating to past events, current conditions, and reasonable and supportable forecasts. An entity shall consider relevant qualitative and quantitative factors that relate to the environment in which the entity operates and are specific to the borrower(s). When financial assets are evaluated on a collective or individual basis, an entity is not required to search all possible information that is not reasonably available without undue cost and effort. Furthermore, an entity is not required to develop a hypothetical

pool of financial assets. An entity may find that using its internal information is sufficient in determining collectibility.

**326-20-30-8** Historical credit loss experience of financial assets with similar risk characteristics generally provides a basis for an entity's assessment of expected credit losses. Historical loss information can be internal or external historical loss information (or a combination of both). An entity shall consider adjustments to historical loss information for differences in current asset specific risk characteristics, such as differences in underwriting standards, portfolio mix, or asset term within a pool at the reporting date or when an entity's historical loss information is not reflective of the contractual term of the financial asset or group of financial assets.

**326-20-30-9** An entity shall not rely solely on past events to estimate expected credit losses. When an entity uses historical loss information, it shall consider the need to adjust historical information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The adjustments to historical loss information may be qualitative in nature and should reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses on the financial asset or in the group of financial assets). Some entities may be able to develop reasonable and supportable forecasts over the contractual term of the financial asset or a group of financial assets. However, an entity is not required to develop forecasts over the contractual term of the financial asset or group of financial assets. Rather, for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts of expected credit losses, an entity shall revert to historical loss information determined in accordance with paragraph 326-20-30-8 that is reflective of the contractual term of the financial asset or group of financial assets. An entity shall not adjust historical loss information for existing economic conditions or expectations of future economic conditions for periods that are beyond the reasonable and supportable period. An entity may revert to historical loss information at the input level or based on the entire estimate. An entity may revert to historical loss information immediately, on a straight-line basis, or using another rational and systematic basis.

**326-20-30-10** An entity's estimate of expected credit losses shall include a measure of the expected risk of credit loss even if that risk is remote, regardless of the method applied to estimate credit losses. However, an entity is not required to measure expected credit losses on a financial asset (or group of financial assets) in which historical credit loss information adjusted for current conditions and reasonable and supportable forecasts results in an expectation that nonpayment of the amortized cost basis is zero. Except for the circumstances described in paragraphs 326-20-35-4 through 35-6, an entity shall not expect nonpayment of the amortized cost basis to be zero solely on the basis of the current value of collateral securing the financial asset(s) but, instead, also

shall consider the nature of the collateral, potential future changes in collateral values, and historical loss information for financial assets secured with similar collateral.

### >> **Off-Balance-Sheet Credit Exposures**

**326-20-30-11** In estimating expected credit losses for off-balance-sheet credit exposures, an entity shall estimate expected credit losses on the basis of the guidance in this Subtopic over the contractual period in which the entity is exposed to credit risk via a present contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the issuer. At the reporting date, an entity shall record a liability for credit losses on off-balance-sheet credit exposures within the scope of this Subtopic. An entity shall report in net income (as a credit loss expense) the amount necessary to adjust the liability for credit losses for management's current estimate of expected credit losses on off-balance-sheet credit exposures. For that period of exposure, the estimate of expected credit losses should consider both the likelihood that funding will occur (which may be affected by, for example, a material adverse change clause) and an estimate of expected credit losses on commitments expected to be funded over its estimated life. If an entity uses a discounted cash flow method to estimate expected credit losses on off-balance-sheet credit exposures, the discount rate used should be consistent with the guidance in Section 310-20-35.

### >> **Credit Enhancements**

**326-20-30-12** The estimate of expected credit losses shall reflect how credit enhancements (other than those that are **freestanding contracts**) mitigate expected credit losses on **financial assets**, including consideration of the financial condition of the guarantor, the willingness of the guarantor to pay, and/or whether any subordinated interests are expected to be capable of absorbing credit losses on any underlying financial assets. However, when estimating expected credit losses, an entity shall not combine a financial asset with a separate freestanding contract that serves to mitigate credit loss. As a result, the estimate of expected credit losses on a financial asset (or group of financial assets) shall not be offset by a freestanding contract (for example, a purchased credit-default swap) that may mitigate expected credit losses on the financial asset (or group of financial assets).

### > **Purchased Financial Assets with Credit Deterioration**

**326-20-30-13** An entity shall record the allowance for credit losses for **purchased financial assets with credit deterioration** in accordance with paragraphs 326-20-30-2 through 30-10 and 326-20-30-12. An entity shall add the allowance for credit losses at the date of acquisition to the purchase price to determine the initial **amortized cost basis** for purchased financial assets with

credit deterioration. Any noncredit discount or premium resulting from acquiring a pool of purchased financial assets with credit deterioration shall be allocated to each individual asset. At the acquisition date, the initial allowance for credit losses determined on a collective basis shall be allocated to individual assets to appropriately allocate any noncredit discount or premium.

**326-20-30-14** If an entity estimates expected credit losses using a discounted cash flow method, the entity shall discount expected credit losses at the rate that equates the present value of the purchaser's estimate of the asset's future cash flows with the purchase price of the asset. If an entity estimates expected credit losses using a method other than a discounted cash flow method, the entity shall estimate expected credit losses on the basis of the unpaid principal balance (face value) of the financial asset(s). See paragraphs 326-20-55-66 through 55-78 for implementation guidance and examples.

**326-20-30-15** An entity shall account for purchased financial assets that do not have a more-than-insignificant deterioration in credit quality since origination in a manner consistent with originated financial assets in accordance with paragraphs 326-20-30-1 through 30-10 and 326-20-30-12. An entity shall not apply the guidance in paragraphs 326-20-30-13 through 30-14 for purchased financial assets that do not have a more-than-insignificant deterioration in credit quality since origination.

## Subsequent Measurement

### General

#### > Reporting Changes in Expected Credit Losses

**326-20-35-1** At each reporting date, an entity shall record an allowance for credit losses on **financial assets** (including **purchased financial assets with credit deterioration**) within the scope of this Subtopic. An entity shall compare its current estimate of expected credit losses with the estimate of expected credit losses previously recorded. An entity shall report in net income (as a credit loss expense or a reversal of 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). The method applied to initially measure expected credit losses for the assets included in paragraph 326-20-30-14 generally would be applied consistently over time and shall faithfully estimate expected credit losses for financial asset(s).

**326-20-35-2** An entity shall evaluate whether a financial asset in a pool continues to exhibit similar risk characteristics with other financial assets in the pool. For example, there may be changes in credit risk, borrower circumstances, recognition of writeoffs, or cash collections that have been fully applied to principal on the basis of nonaccrual practices that may require a reevaluation to

determine if the asset has migrated to have similar risk characteristics with assets in another pool, or if the credit loss measurement of the asset should be performed individually because the asset no longer has similar risk characteristics.

**326-20-35-3** An entity shall adjust at each reporting period its estimate of expected credit losses on off-balance-sheet credit exposures. An entity shall report in net income (as credit loss expense or a reversal of credit loss expense) the amount necessary to adjust the liability for credit losses for management's current estimate of expected credit losses on off-balance-sheet credit exposures at each reporting date.

## > Financial Assets Secured by Collateral

### > > Collateral-Dependent Financial Assets

**326-20-35-4** Regardless of the initial measurement method, ~~an entity a creditor~~ shall measure expected credit losses ~~impairment~~ based on the **{add glossary link to 2<sup>nd</sup> definition}fair value{add glossary link to 2<sup>nd</sup> definition}** of the collateral when the ~~creditor~~ entity determines that foreclosure is probable. When ~~an entity a creditor~~ determines that foreclosure is probable, ~~the entity a creditor~~ shall remeasure the **financial asset** ~~loan~~ at the fair value of the collateral so that the reporting of a credit loss ~~loss recognition~~ 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. **[Content amended as shown and moved from paragraph 310-10-35-32]**

**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. For a collateral-dependent financial asset, an entity may expect credit losses of zero when the fair value (less costs to sell, if applicable) of the collateral at the reporting date is equal to or exceeds the **amortized cost basis** of the financial asset. 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.

## >> Financial Assets Secured by Collateral Maintenance Provisions

**326-20-35-6** For certain **financial assets**, the borrower may be required to continually adjust the amount of the collateral securing the financial asset(s) as a result of ~~{add glossary link to 2<sup>nd</sup> definition}~~**fair value**~~{add glossary link to 2<sup>nd</sup> definition}~~ changes in the collateral. In those situations, an entity may use, as a practical expedient, a method that compares the **amortized cost basis** with the fair value of collateral at the reporting date to measure the estimate of expected credit losses. An entity may determine that the expectation of nonpayment of the amortized cost basis is zero if the borrower continually replenishes the collateral securing the financial asset such that the fair value of the collateral is equal to or exceeds the amortized cost basis of the financial asset and the entity expects the borrower to continue to replenish the collateral as necessary. If the fair value of the collateral at the reporting date is less than the amortized cost basis of the financial asset, an entity shall limit the allowance for credit losses on the financial asset to the difference between the fair value of the collateral at the reporting date and the amortized cost basis of the financial asset.

## > Loans Subsequently Identified for Sale

**326-20-35-7** Once a decision has been made to sell **loans** not currently classified as held for sale, those loans shall be transferred into the held-for-sale classification. The application of the writeoff guidance in paragraph 326-20-35-8 may result in a portion of the amortized cost basis being written off before the loan has been transferred to the held-for-sale classification. Upon transfer, an entity shall measure a valuation allowance equal to the amount by which the **amortized cost basis** (which is reduced by any previous writeoffs but excludes the allowance for credit losses) exceeds the ~~{add glossary link to 2<sup>nd</sup> definition}~~**fair value**~~{add glossary link to 2<sup>nd</sup> definition}~~. This paragraph applies to both mortgage and nonmortgage loans.

## > Writeoffs and Recoveries of Financial Assets

~~**326-20-35-8** Credit losses for loans and trade receivables~~ Writeoffs of financial assets, which may be for all or part of a particular loan or trade receivable full or partial writeoffs, shall be deducted from the allowance. The ~~related loan or trade receivable balance~~ writeoffs shall be ~~charged off~~ recorded in the period in which

~~the loans or trade receivables~~ financial asset(s) are deemed uncollectible. Recoveries of ~~loans~~ financial assets and trade receivables previously ~~charged~~ written off shall be recorded when received. **[Content amended as shown and moved from paragraph 310-10-35-41]**

**326-20-35-9** Practices differ between entities as some industries typically credit recoveries directly to earnings while financial institutions typically credit the allowance for ~~loan~~ credit losses for recoveries. The combination of this practice and the practice of frequently reviewing the ~~appropriateness~~ adequacy of the allowance for ~~loan~~ credit losses results in the same credit to earnings in an indirect manner. **[Content amended as shown and moved from paragraph 310-10-35-42]**

## > Interest Income on Purchased Financial Assets with Credit Deterioration

**326-20-35-10** This Subtopic does not address how a creditor shall recognize interest income. See paragraphs 310-10-35-53A through 35-53C for guidance on recognition of interest income on **purchased financial assets with credit deterioration**. See paragraph 326-20-45-3 for presentation guidance.

## Other Presentation Matters

### General

**326-20-45-1** For **financial assets** measured at amortized cost within the scope of this Subtopic, an entity shall separately present on the statement of financial position, the allowance for credit losses that is deducted from the asset's **amortized cost basis**.

**326-20-45-2** For off-balance-sheet credit exposures within the scope of this Subtopic, an entity shall present the estimate of expected credit losses on the statement of financial position as a liability. The liability for credit ~~Credit~~ losses for off-balance-sheet financial instruments shall be reduced ~~deducted from the liability for credit losses~~ in the period in which the ~~off-balance-sheet financial instruments expire, result in the recognition of a financial asset, or are otherwise liability is settled~~. An ~~accrual for~~ estimate of expected credit losses ~~loss~~ on a ~~{remove glossary link}financial instrument{remove glossary link}~~ with off-balance-sheet risk shall be recorded separate from a ~~valuation account~~ the allowance for credit losses related to a recognized financial instrument. **[Content amended as shown and moved from paragraphs 825-10-35-1 through 35-2]**

**326-20-45-3** When a discounted cash flow approach is used to estimate expected credit losses, the change in present value from one reporting period to the next may result not only from the passage of time but also from changes in estimates of the timing or amount of expected future cash flows. An entity that measures credit losses based on a discounted cash flow approach is permitted

to report the entire change in present value as credit loss expense (or reversal of credit loss expense). Alternatively, an entity may report the change in present value attributable to the passage of time as interest income. See paragraph 326-20-50-12 for a disclosure requirement applicable to entities that choose the latter alternative and report changes in present value attributable to the passage of time as interest income.

~~326-20-45-4 The observable market price of an impaired loan or the~~ **The {add glossary link to 2<sup>nd</sup> definition} fair value {add glossary link to 2<sup>nd</sup> definition}** of the collateral of ~~an impaired collateral-dependent loan~~ **a collateral-dependent financial asset** may change from one reporting period to the next. Changes in ~~observable market prices or~~ the fair value of the collateral shall be reported as ~~bad debt credit loss~~ **expense or a reduction in bad debt reversal of credit loss** expense when the guidance in paragraphs 326-20-35-4 through 35-6 is applied. **[Content amended as shown and moved from paragraph 310-10-45-6]**

## Disclosure

### General

**326-20-50-1** For instruments within the scope of this Subtopic, this Section provides the following disclosure guidance on credit risk and the measurement of expected credit losses:

- a. Credit quality information
- b. Allowance for credit losses
- c. Past-due status
- d. Nonaccrual status
- e. **Purchased financial assets with credit deterioration**
- f. Collateral-dependent **financial assets**
- g. Off-balance-sheet credit exposures.

**326-20-50-2** The disclosure guidance in this Section should enable a user of the financial statements to understand the following:

- a. The credit risk inherent in a portfolio and how management monitors the credit quality of the portfolio
- b. Management's estimate of expected credit losses
- c. Changes in the estimate of expected credit losses that have taken place during the period.

**326-20-50-3** For **financing receivables**, the disclosure guidance in this Subtopic requires an entity to provide information by either **portfolio segment** or **class of financing receivable**. Net investment in leases are within the scope of this Subtopic, and the disclosure requirements for financing receivables shall be applied to net investment in leases (including the unguaranteed residual asset). For held-to-maturity **{add glossary link to 1<sup>st</sup> definition} debt securities** {add

**glossary link to 1<sup>st</sup> definition**}, the disclosure guidance in this Subtopic requires an entity to provide information by major security type. Paragraphs 326-20-55-10 through 55-14 provide implementation guidance about the terms *portfolio segment* and *class of financing receivable*. When disclosing information, an entity shall determine, in light of the facts and circumstances, how much detail it must provide to satisfy the disclosure requirements in this Section. An entity must strike a balance between not obscuring important information as a result of too much aggregation and not overburdening financial statements with excessive detail that may not assist a financial statement user in understanding the entity's financial assets and allowance for credit losses. For example, an entity should not obscure important information by including it with a large amount of insignificant detail. Similarly, an entity should not disclose information that is so aggregated that it obscures important differences between the different types of financial assets and associated risks.

### > Credit Quality Information

**326-20-50-4** An entity shall provide information that enables a financial statement user to do both of the following:

- a. Understand how management monitors the credit quality of its **financial assets**
- b. Assess the quantitative and qualitative risks arising from the credit quality of its financial assets.

**326-20-50-5** To meet the objectives in paragraph 326-20-50-4, an entity shall provide quantitative and qualitative information by **class of financing receivable** and major security type about the credit quality of financial assets within the scope of this Subtopic (excluding off-balance-sheet credit exposures and repurchase agreements and securities lending agreements within the scope of Topic 860), including all of the following:

- a. A description of the **credit quality indicator(s)**
- b. The **amortized cost basis**, by credit quality indicator
- c. For each credit quality indicator, the date or range of dates in which the information was last updated for that credit quality indicator.

**326-20-50-6** When disclosing credit quality indicators of **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), an entity shall present the **amortized cost basis** within each credit quality indicator by year of origination (that is, vintage year). For purchased financing receivables and net investment in leases an entity shall use the initial date of issuance to determine the year of origination, not the date of acquisition. For origination years before the fifth annual period, an entity may present the amortized cost basis of financing receivables and net investments in leases in the aggregate. For interim-period disclosures, the current year-to-date originations in the current reporting

period are considered to be the current-period originations. The requirement to present the amortized cost basis within each credit quality indicator by year of origination is not required for an entity that is not a **public business entity**.

**326-20-50-7** An entity shall use the guidance in paragraphs 310-20-35-9 through 35-12 when determining whether a modification, extension, or renewal of a financing receivable should be presented as a current-period origination. An entity shall use the guidance in paragraphs 842-10-25-8 through 25-9 when determining whether a lease modification should be presented as a current-period origination.

**326-20-50-8** If an entity discloses internal risk ratings, then the entity shall provide qualitative information on how those internal risk ratings relate to the likelihood of loss. **[Content moved from paragraph 310-10-50-30]**

**326-20-50-9** The requirements to disclose credit quality indicators in paragraphs 326-20-50-4 through 50-5 do not apply to receivables measured at the lower of amortized cost basis or fair value, or trade receivables due in one year or less, except for credit card receivables, that result from revenue transactions within the scope of Topic 605 on revenue recognition or Topic 606 on revenue from contracts with customers.

#### **> Allowance for Credit Losses**

**326-20-50-10** An entity shall provide information that enables a financial statement user to do the following:

- a. Understand management's method for developing its allowance for credit losses
- b. Understand the information that management used in developing its current estimate of expected credit losses
- c. Understand the circumstances that caused changes to the allowance for credit losses, thereby affecting the related credit loss expense (or reversal) reported for the period.

**326-20-50-11** To meet the objectives in paragraph 326-20-50-10, an entity shall disclose all of the following by **portfolio segment** and major security type:

- a. A description of how expected loss estimates are developed
- b. A description of the entity's accounting policies and methodology to estimate the allowance for credit losses, as well as a discussion of the factors that influenced management's current estimate of expected credit losses, including:
  1. Past events
  2. Current conditions
  3. Reasonable and supportable forecasts about the future.
- c. A discussion of risk characteristics relevant to each portfolio segment

- d. A discussion of the changes in the factors that influenced management's current estimate of expected credit losses and the reasons for those changes (for example, changes in portfolio composition, underwriting practices, and significant events or conditions that affect the current estimate but were not contemplated or relevant during a previous period)
- e. Identification of changes to the entity's accounting policies, changes to the methodology from the prior period, its rationale for those changes, and the quantitative effect of those changes
- f. Reasons for significant changes in the amount of writeoffs, if applicable
- g. A discussion of the reversion method applied for periods beyond the reasonable and supportable forecast period
- h. The amount of any significant purchases of **financial assets** during each reporting period
- i. The amount of any significant sales of financial assets or reclassifications of **{add glossary link to 2<sup>nd</sup> definition}loans{add glossary link to 2<sup>nd</sup> definition}** held for sale during each reporting period.

~~326-20-50-12 Paragraphs 340-10-45-5 through 45-6 Paragraph 326-20-45-3~~ explains that a creditor that measures ~~impairment~~ expected credit losses based on ~~the present value of expected future cash flows~~ a discounted cash flow method is permitted to report the entire change in present value as ~~bad debt credit loss expense (or reversal of credit loss expense)~~ but ~~may~~ also ~~may~~ report the change in present value attributable to the passage of time as interest income. Creditors that choose the latter alternative shall disclose the amount of recorded interest income that represents the change in present value attributable to the passage of time. **[Content amended as shown and moved from paragraph 310-10-50-19]**

### > > Rollforward of the Allowance for Credit Losses

**326-20-50-13** Furthermore, to enable a financial statement user to understand the activity in the allowance for credit losses for each period, an entity shall separately provide by **portfolio segment** and major security type the quantitative disclosures of the activity in the allowance for credit losses for **financial assets** within the scope of this Subtopic, including all of the following:

- a. The beginning balance in the allowance for credit losses
- b. Current-period provision for expected credit losses
- c. The initial allowance for credit losses recognized on financial assets accounted for as **purchased financial assets with credit deterioration** (including beneficial interests that meet the criteria in paragraph 325-40-30-1A), if applicable
- d. Writeoffs charged against the allowance
- e. Recoveries of amounts previously written off, if applicable

- f. The ending balance in the allowance for credit losses.

### > Past-Due Status

**326-20-50-14** To enable a financial statement user to understand the extent of **financial assets** that are past due, an entity shall provide an aging analysis of the **amortized cost basis** for financial assets that are past due as of the reporting date, disaggregated by **class of financing receivable** and major security type. An entity also shall disclose when it considers a financial asset to be past due.

**326-20-50-15** The requirements to disclose past-due status in paragraph 326-20-50-14 do not apply to receivables measured at the lower of amortized cost basis or **{add glossary link to 2<sup>nd</sup> definition}fair value{add glossary link to 2<sup>nd</sup> definition}**, or trade receivables due in one year or less, except for credit card receivables, that result from revenue transactions within the scope of Topic 605 on revenue recognition or Topic 606 on revenue from contracts with customers.

### > Nonaccrual Status

**326-20-50-16** To enable a financial statement user to understand the credit risk and interest income recognized on **financial assets** on nonaccrual status, an entity shall disclose all of the following, disaggregated by class of **financing receivable** and major security type:

- a. The **amortized cost basis** of financial assets on nonaccrual status as of the beginning of the reporting period and the end of the reporting period
- b. The amount of interest income recognized during the period on nonaccrual financial assets
- c. The amortized cost basis of financial assets that are 90 days or more past due, but are not on nonaccrual status as of the reporting date
- d. The amortized cost basis of financial assets on nonaccrual status for which there is no related allowance for credit losses as of the reporting date.

**326-20-50-17** An entity's summary of significant accounting policies for financial assets within the scope of this Subtopic shall include all of the following:

- a. Nonaccrual policies, including the policies for discontinuing accrual of interest, recording payments received on nonaccrual assets (including the cost recovery method, cash basis method, or some combination of those methods), and resuming accrual of interest, if applicable
- b. The policy for determining past-due or delinquency status
- c. The policy for recognizing writeoffs within the allowance for credit losses.

**326-20-50-18** The requirements to disclose nonaccrual status in paragraphs 326-20-50-16 through 50-17 do not apply to receivables measured at lower of amortized cost basis or fair value, or trade receivables due in one year or less, except for credit card receivables, that result from revenue transactions within the scope of Topic 605 on revenue recognition or Topic 606 on revenue from contracts with customers.

#### > **Purchased Financial Assets with Credit Deterioration**

**326-20-50-19** To the extent an entity acquired **purchased financial assets with credit deterioration** during the current reporting period, an entity shall provide a reconciliation of the difference between the purchase price of the **financial assets** and the par value of the assets, including:

- a. The purchase price
- b. The allowance for credit losses at the acquisition date based on the acquirer's assessment
- c. The discount (or premium) attributable to other factors
- d. The par value.

#### > **Collateral-Dependent Financial Assets**

**326-20-50-20** For a **financial asset** for which the repayment (on the basis of an entity's assessment as of the reporting date) is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty, an entity shall describe the type of collateral by **class of financing receivable** and major security type. The entity also shall qualitatively describe, by class of financing receivable and major security type, the extent to which collateral secures its collateral-dependent financial assets, and significant changes in the extent to which collateral secures its collateral-dependent financial assets, whether because of a general deterioration or some other reason.

#### > **Off-Balance-Sheet Credit Exposures**

**326-20-50-21** In addition to disclosures required by ~~other Topics~~ ~~Subtopic 450-20~~, an entity shall disclose a description of the accounting policies and methodology the entity used to estimate its liability for off-balance-sheet credit exposures and related charges for those credit exposures. Such a description shall identify the factors that influenced management's judgment (for example, historical losses, losses and existing economic conditions, and reasonable and supportable forecasts) and a discussion of risk elements relevant to particular categories of financial instruments. **[Content amended as shown and moved from paragraph 310-10-50-9]**

**326-20-50-22** Off-balance-sheet credit exposures refers to credit exposures on off-balance-sheet {add glossary link}loan commitments{add glossary link}, **standby letters of credit**, financial guarantees not accounted for as insurance, and other similar instruments, except for instruments within the scope of Topic 815. [Content amended as shown and moved from paragraph 310-10-50-10]

## Implementation Guidance and Illustrations

### > Implementation Guidance

**326-20-55-1** This Section provides implementation guidance for management's estimate of expected credit losses on **financial asset(s)**. This Section is organized as follows:

- a. Information considered when estimating expected credit losses
- b. Developing an estimate of expected credit losses
- c. Net investment in leases
- d. Effect of a fair value hedge on the discount rate when using a discounted cash flow model.

### >> Information Considered When Estimating Expected Credit Losses

**326-20-55-2** In determining its estimate of expected credit losses, an entity should evaluate information related to the borrower's creditworthiness, changes in its lending strategies and underwriting practices, and the current and forecasted direction of the economic and business environment. This Subtopic does not specify a particular methodology to be applied by an entity for determining historical credit loss experience. That methodology may vary depending on the size of the entity, the range of the entity's activities, the nature of the entity's **financial assets**, and other factors.

**326-20-55-3** Historical loss information generally provides a basis for an entity's assessment of expected credit losses. An entity may use historical periods that represent management's expectations for future credit losses. An entity also may elect to use other historical loss periods, adjusted for current conditions, and other reasonable and supportable forecasts. When determining historical loss information in estimating expected credit losses, the information about historical credit loss data, after adjustments for current conditions and reasonable and supportable forecasts, should be applied to pools that are defined in a manner that is consistent with the pools for which the historical credit loss experience was observed.

**326-20-55-4** Because historical experience may not fully reflect an entity's expectations about the future, management should adjust historical loss information, as necessary, to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information. In

making this determination, management should consider characteristics of the financial assets that are relevant in the circumstances. To adjust historical credit loss information for current conditions and reasonable and supportable forecasts, an entity should consider significant factors that are relevant to determining the expected collectibility. Examples of factors an entity may consider include any of the following, depending on the nature of the asset (not all of these may be relevant to every situation, and other factors not on the list may be relevant):

- a. The borrower's financial condition, credit rating, credit score, asset quality, or business prospects
- b. The borrower's ability to make scheduled interest or principal payments
- c. The remaining payment terms of the financial asset(s)
- d. The remaining time to maturity and the timing and extent of prepayments on the financial asset(s)
- e. The nature and volume of the entity's financial asset(s)
- f. The volume and severity of past due financial asset(s) and the volume and severity of adversely classified or rated financial asset(s)
- g. The value of underlying collateral on financial assets in which the collateral-dependent practical expedient has not been utilized
- h. The entity's lending policies and procedures, including changes in lending strategies, underwriting standards, collection, writeoff, and recovery practices, as well as knowledge of the borrower's operations or the borrower's standing in the community
- i. The quality of the entity's credit review system
- j. The experience, ability, and depth of the entity's management, lending staff, and other relevant staff
- k. The environmental factors of a borrower and the areas in which the entity's credit is concentrated, such as:
  1. Regulatory, legal, or technological environment to which the entity has exposure
  2. Changes and expected changes in the general market condition of either the geographical area or the industry to which the entity has exposure
  3. Changes and expected changes in international, national, regional, and local economic and business conditions and developments in which the entity operates, including the condition and expected condition of various market segments.

## >> Developing an Estimate of Expected Credit Losses

**326-20-55-5** In evaluating **financial assets** on a collective (pool) basis, an entity should aggregate financial assets on the basis of similar risk characteristics, which may include any one or a combination of the following (the following list is not intended to be all inclusive):

- a. Internal or external (third-party) credit score or credit ratings

- b. Risk ratings or classification
- c. Financial asset type
- d. Collateral type
- e. Size
- f. **Effective interest rate**
- g. Term
- h. Geographical location
- i. Industry of the borrower
- j. Vintage
- k. Historical or expected credit loss patterns
- l. Reasonable and supportable forecast periods.

**326-20-55-6** Estimating expected credit losses is highly judgmental and generally will require an entity to make specific judgments. Those judgments may include any of the following:

- a. The definition of default for default-based statistics
- b. The approach to measuring the historical loss amount for loss-rate statistics, including whether the amount is simply based on the amortized cost amount written off and whether there should be adjustments to historical credit losses (if any) to reflect the entity's policies for recognizing accrued interest
- c. The approach to determine the appropriate historical period for estimating expected credit loss statistics
- d. The approach to adjusting historical credit loss information to reflect current conditions and reasonable and supportable forecasts that are different from conditions existing in the historical period
- e. The methods of utilizing historical experience
- f. The method of adjusting loss statistics for recoveries
- g. How expected prepayments affect the estimate of expected credit losses
- h. How the entity plans to revert to historical credit loss information for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts of expected credit losses
- i. The assessment of whether a financial asset exhibits risk characteristics similar to other financial assets.

**326-20-55-7** Because 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 collectibility of the financial assets by applying the principles in this Subtopic. An entity should utilize estimation techniques that are practical and relevant to the circumstance. The method(s) used to estimate expected credit losses may vary on the basis of the type of financial asset, the entity's ability to predict the timing of cash flows, and the information available to the entity.

## > > Net Investment in Leases

**326-20-55-8** This Subtopic requires that an entity recognize an allowance for credit losses on net investment in leases recognized by a lessor in accordance with Topic 842 on leases. An entity should include the unguaranteed residual asset with the lease receivable, net of any deferred selling profit, if applicable (that is, the net investment in the lease). When measuring expected credit losses on net investment in leases using a discounted cash flow method, the discount rate used in measuring the lease receivable under Topic 842 should be used in place of the **effective interest rate**.

## > > Effect of a Fair Value Hedge on the Discount Rate When Using a Discounted Cash Flow Model

**326-20-55-9** Section 815-25-35 implicitly affects the measurement of credit losses impairment under this Topic by requiring the present value of expected future cash flows to be discounted by the new **{add glossary link}effective interest rate{add glossary link}** based on the adjusted **amortized cost basis recorded investment** in a hedged **{add glossary link}loan{add glossary link}**. When the **amortized cost basis recorded investment** of a loan has been adjusted under fair value hedge accounting, the effective interest rate is the discount rate that equates the present value of the loan's future cash flows with that adjusted **amortized cost basis recorded investment**. The adjustment under fair value hedge accounting of the loan's carrying amount for changes in fair value attributable to the hedged risk under Section 815-25-35 shall be considered to be an adjustment of the loan's **amortized cost basis recorded investment**. Paragraph 815-25-35-11 explains that the loan's original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value. **[Content amended as shown and moved from paragraph 310-10-35-31]**

## > > Disclosure—Application of the Term *Portfolio Segment*

**326-20-55-10** This implementation guidance addresses the meaning of the term *portfolio segment*. All of the following are examples of portfolio segments:

- a. Type of **{add glossary link}financing receivable{add glossary link}**
- b. Industry sector of the borrower
- c. Risk rating rate(s). **[Content amended as shown and moved from paragraph 310-10-55-21]**

## > > Disclosure—Application of the Term *Class of Financing Receivable*

**326-20-55-11** This implementation guidance addresses application of the term ***class of financing receivable***. An entity should base its principal determination of class of financing receivable by disaggregating to the level that the entity uses

when assessing and monitoring the risk and performance of the portfolio for various types of financing receivables. In its assessment, the entity should consider the risk characteristics of the financing receivables.

**326-20-55-12** In determining the appropriate level of its internal reporting to use as a basis for disclosure, an entity should consider the level of detail needed by a user to understand the risks inherent in the entity's financing receivables. An entity could further disaggregate its financing receivables portfolio by considering numerous factors. Examples of factors that the entity should consider include any of the following:

- a. Categorization of borrowers, such as any of the following:
  1. Commercial loan borrowers
  2. Consumer loan borrowers
  3. **Related party** borrowers.
- b. Type of financing receivable, such as any of the following:
  1. Mortgage loans
  2. Credit card loans
  3. Interest-only loans
  4. Finance leases.
- c. Industry sector, such as either of the following:
  1. Real estate
  2. Mining.
- d. Type of collateral, such as any of the following:
  1. Residential property
  2. Commercial property
  3. Government-guaranteed collateral
  4. Uncollateralized (unsecured) financing receivables.
- e. Geographic distribution, including both of the following:
  1. Domestic
  2. International. **[Content moved from paragraph 310-10-55-17]**

**326-20-55-13** An entity also may consider factors related to concentrations of credit risk as discussed in Section 825-10-55. **[Content moved from paragraph 310-10-55-17]**

**326-20-55-14** Classes of financing receivables generally are a disaggregation of a **portfolio segment**. For determining the appropriate classes of financing receivables that are related to a portfolio segment, the portfolio segment is the starting point with further disaggregation in accordance with the guidance in paragraphs ~~326-20-55-11~~ ~~310-10-55-16~~ through ~~55-13~~ ~~55-17~~. The determination of class for financing receivables that are not related to a portfolio segment (because there is no associated allowance) also should be based on the guidance in those paragraphs. **[Content amended as shown and moved from paragraph 310-10-55-18]**

**> > Disclosure—Application of the Term *Credit Quality Indicator***

**326-20-55-15** This implementation guidance addresses application of the term **credit quality indicator**. Examples of credit quality indicators include all of the following:

- a. Consumer credit risk scores
- b. Credit-rating-agency ratings
- c. An entity's internal credit risk grades
- d. ~~Debt-to-value~~ ~~Loan-to-value~~ ratios
- e. Collateral
- f. Collection experience
- g. Other internal metrics. **[Content amended as shown and moved from paragraph 310-10-55-19]**

**326-20-55-16** An entity should use judgment in determining the appropriate credit quality indicator for each ~~{add glossary link}~~class of financing ~~receivable~~~~{add glossary link}~~ ~~receivables~~ and ~~major security type~~. As of the balance sheet date, the entity should use the most current information it has obtained for each credit quality indicator. **[Content amended as shown and moved from paragraph 310-10-55-20]**

#### > Illustrations

**326-20-55-17** The following Examples illustrate certain initial and subsequent measurement guidance in this Subtopic to account for expected credit losses on financial assets:

- a. Example 1: Estimating expected credit losses using a loss-rate approach (collective evaluation)
- b. Example 2: Estimating expected credit losses using a loss-rate approach (individual evaluation)
- c. Example 3: Estimating expected credit losses on a vintage-year basis
- d. Example 4: Estimating expected credit losses using both a collective method and an individual asset method
- e. Example 5: Estimating expected credit losses for trade receivables using an aging schedule
- f. Example 6: Estimating expected credit losses—practical expedient for collateral-dependent financial assets
- g. Example 7: Estimating expected credit losses—practical expedient for financial assets with collateral maintenance provisions
- h. Example 8: Estimating expected credit losses when potential default is greater than zero, but expected nonpayment is zero
- i. Example 9: Recognizing writeoffs and recoveries
- j. Example 10: Applying expected credit losses to unconditionally cancellable loan commitments
- k. Example 11: Identifying purchased financial assets with credit deterioration

- l. Example 12: Recognizing purchased financial assets with credit deterioration
- m. Example 13: Using a loss-rate approach for determining expected credit losses and the discount rate on a purchased financial asset with credit deterioration
- n. Example 14: Using a discounted cash flow approach for determining expected credit losses and the discount rate on a purchased financial asset with credit deterioration
- o. Example 15: Disclosing credit quality indicators of financing receivables by amortized cost basis
- p. Example 16: Disclosing past-due status
- q. Example 17: Identifying similar risk characteristics in reinsurance receivables.

**> > Example 1: Estimating Expected Credit Losses Using a Loss-Rate Approach (Collective Evaluation)**

**326-20-55-18** This Example illustrates one way an entity may estimate expected credit losses on a portfolio of loans with similar risk characteristics using a loss-rate approach.

**326-20-55-19** Community Bank A provides 10-year amortizing loans to customers. Community Bank A manages those loans on a collective basis based on similar risk characteristics. The loans within the portfolio were originated over the last 10 years, and the portfolio has an amortized cost basis of \$3 million.

**326-20-55-20** After comparing historical information for similar financial assets with the current and forecasted direction of the economic environment, Community Bank A believes that its most recent 10-year period is a reasonable period on which to base its expected credit-loss-rate calculation after considering the underwriting standards and contractual terms for loans that existed over the historical period in comparison with the current portfolio. Community Bank A's historical lifetime credit loss rate (that is, a rate based on the sum of all credit losses for a similar pool) for the most recent 10-year period is 1.5 percent. The historical credit loss rate already factors in prepayment history, which it expects to remain unchanged. Community Bank A considered whether any adjustments to historical loss information in accordance with paragraph 326-20-30-8 were needed, before considering adjustments for current conditions and reasonable and supportable forecasts, but determined none were necessary.

**326-20-55-21** In accordance with paragraph 326-20-55-4, Community Bank A considered significant factors that could affect the expected collectibility of the amortized cost basis of the portfolio and determined that the primary factors are real estate values and unemployment rates. As part of this analysis, Community Bank A observed that real estate values in the community have decreased and the unemployment rate in the community has increased as of the current

reporting period date. Based on current conditions and reasonable and supportable forecasts, Community Bank A expects that there will be an additional decrease in real estate values over the next one to two years, and unemployment rates are expected to increase further over the next one to two years. To adjust the historical loss rate to reflect the effects of those differences in current conditions and forecasted changes, Community Bank A estimates a 10-basis-point increase in credit losses incremental to the 1.5 percent historical lifetime loss rate due to the expected decrease in real estate values and a 5-basis-point increase in credit losses incremental to the historical lifetime loss rate due to expected deterioration in unemployment rates. Management estimates the incremental 15-basis-point increase based on its knowledge of historical loss information during past years in which there were similar trends in real estate values and unemployment rates. Management is unable to support its estimate of expectations for real estate values and unemployment rates beyond the reasonable and supportable forecast period. Under this loss-rate method, the incremental credit losses for the current conditions and reasonable and supportable forecast (the 15 basis points) is added to the 1.5 percent rate that serves as the basis for the expected credit loss rate. No further reversion adjustments are needed because Community Bank A has applied a 1.65 percent loss rate where it has immediately reverted into historical losses reflective of the contractual term in accordance with paragraphs 326-20-30-8 through 30-9. This approach reflects an immediate reversion technique for the loss-rate method.

**326-20-55-22** The expected loss rate to apply to the amortized cost basis of the loan portfolio would be 1.65 percent, the sum of the historical loss rate of 1.5 percent and the adjustment for the current conditions and reasonable and supportable forecast of 15 basis points. The allowance for expected credit losses at the reporting date would be \$49,500.

### **> > Example 2: Estimating Expected Credit Losses Using a Loss-Rate Approach (Individual Evaluation)**

**326-20-55-23** This Example illustrates one way an entity may estimate expected credit losses on an individual loan using a loss-rate approach when no loans with similar risk characteristics exist.

**326-20-55-24** Community Bank B principally provides residential real estate loans to borrowers in the community. In the current year, Community Bank B expanded a program to originate commercial loans. Community Bank B has a few commercial loans outstanding at period end. In evaluating the loans, Community Bank B determines that one of the commercial loans does not share similar risk characteristics with other loans outstanding; therefore, Community Bank B believes that it is inappropriate to pool this commercial loan for purposes of determining its allowance for credit losses. This commercial loan has an amortized cost of \$1 million. Historical loss information for commercial loans in

the community with similar risk characteristics shows a 0.50 percent loss rate over the contractual term.

**326-20-55-25** Community Bank B considers relevant current conditions and reasonable and supportable forecasts that relate to its lending practices and environment and the specific borrower. Community Bank B determines that the significant factors affecting the performance of this loan are borrower-specific operating results and local unemployment rates. Community Bank B considers other qualitative factors including national macroeconomic conditions but determines that they are not significant inputs to the loss estimates for this loan.

**326-20-55-26** Community Bank B is able to reasonably forecast local unemployment rates and borrower-specific financial results for one year only. Community Bank B's reasonable and supportable forecasts of those factors indicate that local unemployment rates are expected to remain stable (based on the main employer in the community continuing to operate normally) and that there will be a deterioration in the borrower's financial results (based on an evaluation of rent rolls). Management determines that no adjustment is necessary for local unemployment rates because they are expected to be consistent with the conditions in the 0.50 percent loss-rate estimate. However, the current and forecasted conditions related to borrower-specific financial results are different from the conditions in the 0.50 percent loss-rate estimate, based on borrower-specific information. Community Bank B determines that an upward adjustment of 10 basis points that is incremental to the historical lifetime loss information is appropriate based on those factors. Management estimates the 10-basis-point adjustment based on its knowledge of commercial loan loss history in the community when borrowers exhibit similar declines in financial performance. Management is unable to support its estimate of expectations for local unemployment and borrower-specific financial results beyond the reasonable and supportable forecast period. Under this loss-rate method, Community Bank B applies the same immediate reversion technique as in Example 1, where Community Bank B has immediately reverted into historical losses reflective of the contractual term in accordance with paragraphs 326-20-30-8 through 30-9.

**326-20-55-27** The historical loss rate to apply to the amortized cost basis of the individual loan would be adjusted an incremental 10 basis points to 0.60 percent. The allowance for expected credit losses for the reporting period date would be \$6,000.

### **>> Example 3: Estimating Expected Credit Losses on a Vintage-Year Basis**

**326-20-55-28** The following Example illustrates one way an entity might estimate the expected credit losses on a vintage-year basis.

**326-20-55-29** Bank C is a lending institution that provides financing to consumers purchasing new or used farm equipment throughout the local area. Bank C

originates approximately the same amount of loans each year. The four-year amortizing loans it originates are secured by collateral that provides a relatively consistent range of loan-to-collateral-value ratios at origination. If a borrower becomes 90 days past due, Bank C repossesses the underlying farm equipment collateral for sale at auction.

**326-20-55-30** Bank C tracks those loans on the basis of the calendar year of origination. The following pattern of credit loss information has been developed (represented by the nonshaded cells in the accompanying table) based on the amount of amortized cost basis in each vintage that was written off as a result of credit losses.

Year of Origination	Loss Experience in Years Following Origination					
	Year 1	Year 2	Year 3	Year 4	Total	Expected
20X1	\$ 50	\$ 120	\$ 140	\$ 30	\$ 340	-
20X2	\$ 40	\$ 120	\$ 140	\$ 40	\$ 340	-
20X3	\$ 40	\$ 110	\$ 150	\$ 30	\$ 330	-
20X4	\$ 60	\$ 110	\$ 150	\$ 40	\$ 360	-
20X5	\$ 50	\$ 130	\$ 170	\$ 50	\$ 400	-
20X6	\$ 70	\$ 150	\$ 180	\$ 60	\$ 460	\$ 60
20X7	\$ 80	\$ 140	\$ 190	\$ 70	\$ 480	\$ 260
20X8	\$ 70	\$ 150	\$ 200	\$ 80	\$ 500	\$ 430
20X9	\$ 70	\$ 160	\$ 200	\$ 80	\$ 510	\$ 510

**326-20-55-31** In estimating expected credit losses on the remaining outstanding loans at December 31, 20X9, Bank C considers its historical loss information. It notes that the majority of losses historically emerge in Year 2 and Year 3 of the loans. It notes that historical loss experience has worsened since 20X3 and that loss experience for loans originated in 20X6 has already equaled the loss experience for loans originated in 20X5 despite the fact that the 20X6 loans will be outstanding for one additional year as compared with those originated in 20X5. In considering current conditions and reasonable and supportable forecasts, Bank C notes that there is an oversupply of used farm equipment in the resale market that is expected to continue, thereby putting downward pressure on the resulting collateral value of equipment. It also notes that severe weather in recent years has increased the cost of crop insurance and that this trend is expected to continue. On the basis of those factors, Bank C determines adjustments to historical loss information for current conditions and reasonable and supportable forecasts. The remaining expected losses (represented by the shaded cells in the table in paragraph 326-20-55-30 in each respective year) reflect those adjustments, and Bank C arrives at expected losses of \$60, \$260, \$430, and \$510 for loans originated in 20X6, 20X7, 20X8, and 20X9, respectively. Therefore, the allowance for credit losses for the reporting period date would be \$1,260.

#### **> > Example 4: Estimating Expected Credit Losses Using both a Collective Method and an Individual Asset Method**

**326-20-55-32** This Example illustrates a situation in which loans with credit deterioration are evaluated individually because they no longer exhibit risk characteristics similar to other loans. There is no requirement to evaluate financial assets individually when a certain level of credit deterioration has occurred. However, the assessment of whether financial assets exhibit similar risk characteristics should be based on the relevant and appropriate facts and circumstances.

**326-20-55-33** An entity may estimate expected credit losses for some financial assets on a collective (pool) basis and may estimate expected credit losses for other assets on an individual basis when similar risk characteristics do not exist. As a result, the method used to estimate expected credit losses for a financial asset may change over time. For example, a pool of homogeneous loans may initially use a loss-rate method, but certain individual loans no longer may have similar risk characteristics because of credit deterioration. When a financial asset no longer shares similar risk characteristics with the original pool of financial assets, an entity should evaluate that financial asset to determine whether it shares risk characteristics similar to other pools of loans. Expected credit losses of that financial asset should be measured individually if there are no similar risk characteristics with other loans. A discounted cash flow approach is one method to estimate expected credit losses of individual loans, but it is not a required method. Paragraphs 326-20-55-34 through 55-36 illustrate those concepts.

**326-20-55-34** One loan program from Bank D provides unsecured commercial loans of up to \$75,000 to small businesses and entrepreneurs. Given the relative homogeneity of the borrowers (in terms of credit risk) and loans (in terms of type, amount, and underwriting standards) in the program, Bank D manages this loan program on a collective basis. However, Bank D concludes that the loss estimates for loans with credit deterioration is based on borrower-specific facts and circumstances because the repayment of those loans depends on facts and circumstances unique to each borrower. Therefore, Bank D estimates expected credit losses on an individual basis for loans that no longer exhibit similar risk characteristics because of credit deterioration. A loss-rate method for estimating expected credit losses on a pooled basis is applied for the loans in the portfolio segment that continue to exhibit similar risk characteristics.

**326-20-55-35** To estimate expected credit losses for individual loans without similar risk characteristics, Bank D uses a discounted cash flow method for each loan. Frequently, Bank D has insight into the likelihood of a credit loss as a result of information provided by the borrower and recent discussions with the borrower given the elevated credit risk for these loans. Under a discounted cash flow method, the allowance for credit losses is estimated as the difference between the amortized cost basis and the present value of cash flows expected to be collected.

**326-20-55-36** To estimate expected credit losses for the remainder of the loans that continue to exhibit similar risk characteristics, Bank D considers historical loss information (updated for current conditions and reasonable and supportable forecasts that affect the expected collectibility of the amortized cost basis of the pool) using a loss-rate approach.

### > > Example 5: Estimating Expected Credit Losses for Trade Receivables Using an Aging Schedule

**326-20-55-37** This Example illustrates one way an entity may estimate expected credit losses for trade receivables using an aging schedule.

**326-20-55-38** Entity E manufactures and sells products to a broad range of customers, primarily retail stores. Customers typically are provided with payment terms of 90 days with a 2 percent discount if payments are received within 60 days. Entity E has tracked historical loss information for its trade receivables and compiled the following historical credit loss percentages:

- a. 0.3 percent for receivables that are current
- b. 8 percent for receivables that are 1–30 days past due
- c. 26 percent for receivables that are 31–60 days past due
- d. 58 percent for receivables that are 61–90 days past due
- e. 82 percent for receivables that are more than 90 days past due.

**326-20-55-39** Entity E believes that this historical loss information is a reasonable base on which to determine expected credit losses for trade receivables held at the reporting date because the composition of the trade receivables at the reporting date is consistent with that used in developing the historical credit-loss percentages (that is, the similar risk characteristics of its customers and its lending practices have not changed significantly over time). However, Entity E has determined that the current and reasonable and supportable forecasted economic conditions have improved as compared with the economic conditions included in the historical information. Specifically, Entity E has observed that unemployment has decreased as of the current reporting date, and Entity E expects there will be an additional decrease in unemployment over the next year. To adjust the historical loss rates to reflect the effects of those differences in current conditions and forecasted changes, Entity E estimates the loss rate to decrease by approximately 10 percent in each age bucket. Entity E developed this estimate based on its knowledge of past experience for which there were similar improvements in the economy.

**326-20-55-40** At the reporting date, Entity E develops the following aging schedule to estimate expected credit losses.

<u>Past-Due Status</u>	<u>Amortized Cost Basis</u>	<u>Credit Loss Rate</u>	<u>Expected Credit Loss Estimate</u>
Current	\$ 5,984,698	0.27%	\$ 16,159
1–30 days past due	8,272	7.2%	596
31–60 days past due	2,882	23.4%	674
61–90 days past due	842	52.2%	440
More than 90 days past due	1,100	73.8%	812
	<u>\$ 5,997,794</u>		<u>\$ 18,681</u>

**> > Example 6: Estimating Expected Credit Losses—Practical Expedient for Collateral-Dependent Financial Assets**

**326-20-55-41** This Example illustrates one way an entity may implement the guidance in paragraph 326-20-35-5 for estimating expected credit losses on a collateral-dependent financial asset for which the borrower is experiencing financial difficulty based on the entity’s assessment.

**326-20-55-42** Bank F provides commercial real estate loans to developers of luxury apartment buildings. Each loan is secured by a respective luxury apartment building. Over the past two years, comparable standalone luxury housing prices have dropped significantly, while luxury apartment communities have experienced an increase in vacancy rates.

**326-20-55-43** At the end of 20X7, Bank F reviews its commercial real estate loan to Developer G and observes that Developer G is experiencing financial difficulty as a result of, among other things, decreasing rental rates and increasing vacancy rates in its apartment building.

**326-20-55-44** After analyzing Developer G’s financial condition and the operating statements for the apartment building, Bank F believes that it is unlikely Developer G will be able to repay the loan at maturity in 20X9. Therefore, Bank F believes that repayment of the loan is expected to be substantially through the foreclosure and sale (rather than the operation) of the collateral. As a result, in its financial statements for the period ended December 31, 20X7, Bank F utilizes the practical expedient provided in paragraph 326-20-35-5 and uses the apartment building’s fair value, less costs to sell, when developing its estimate of expected credit losses.

**> > Example 7: Estimating Expected Credit Losses—Practical Expedient for Financial Assets with Collateral Maintenance Provisions**

**326-20-55-45** This Example illustrates one way an entity may implement the guidance in paragraph 326-20-35-6 for estimating expected credit losses on financial assets with collateral maintenance provisions.

**326-20-55-46** Bank H enters into a reverse repurchase agreement with Entity I that is in need of short-term financing. Under the terms of the agreement, Entity I sells securities to Bank H with the expectation that it will repurchase those securities for a certain price on an agreed-upon date. In addition, the agreement contains a provision that requires Entity I to provide security collateral that is valued daily, and the amount of the collateral is adjusted up or down to reflect changes in the fair value of the underlying securities transferred. This collateral maintenance provision is designed to ensure that at any point during the arrangement, the fair value of the collateral continually equals or is greater than the amortized cost basis of the reverse repurchase agreement.

**326-20-55-47** At the end of the first reporting period after entering into the agreement with Entity I, Bank H evaluates the reverse repurchase agreement's collateral maintenance provision to determine whether it can use the practical expedient in accordance with paragraph 326-20-35-6 for estimating expected credit losses. Bank H determines that although there is a risk that Entity I may default, Bank H's expectation of nonpayment of the amortized cost basis on the reverse repurchase agreement is zero because Entity I continually adjusts the amount of collateral such that the fair value of the collateral is always equal to or greater than the amortized cost basis of the reverse repurchase agreement. In addition, Bank H continually monitors that Entity I adheres to the collateral maintenance provision. As a result, Bank H uses the practical expedient in paragraph 326-20-35-6 and does not record expected credit losses at the end of the first reporting period because the fair value of the security collateral is greater than the amortized cost basis of the reverse repurchase agreement. Bank H performs a reassessment of the fair value of collateral in relation to the amortized cost basis each reporting period.

**> > Example 8: Estimating Expected Credit Losses When Potential Default Is Greater Than Zero, but Expected Nonpayment Is Zero**

**326-20-55-48** This Example illustrates one way, but not the only way, an entity may estimate expected credit losses when the expectation of nonpayment is zero. This example is not intended to be only applicable to U.S. Treasury securities.

**326-20-55-49** Entity J invests in U.S. Treasury securities with the intent to hold them to collect contractual cash flows to maturity. As a result, Entity J classifies its U.S. Treasury securities as held to maturity and measures the securities on an amortized cost basis.

**326-20-55-50** Although U.S. Treasury securities often receive the highest credit rating by rating agencies at the end of the reporting period, Entity J's management still believes that there is a possibility of default, even if that risk is remote. However, Entity J considers the guidance in paragraph 326-20-30-10 and concludes that the long history with no credit losses for U.S. Treasury

securities (adjusted for current conditions and reasonable and supportable forecasts) indicates an expectation that nonpayment of the amortized cost basis is zero, even if the U.S. government were to technically default. Judgment is required to determine the nature, depth, and extent of the analysis required to evaluate the effect of current conditions and reasonable and supportable forecasts on the historical credit loss information, including qualitative factors. In this circumstance, Entity J notes that U.S. Treasury securities are explicitly fully guaranteed by a sovereign entity that can print its own currency and that the sovereign entity's currency is routinely held by central banks and other major financial institutions, is used in international commerce, and commonly is viewed as a reserve currency, all of which qualitatively indicate that historical credit loss information should be minimally affected by current conditions and reasonable and supportable forecasts. Therefore, Entity J does not record expected credit losses for its U.S. Treasury securities at the end of the reporting period. The qualitative factors considered by Entity J in this Example are not an all-inclusive list of conditions that must be met in order to apply the guidance in paragraph 326-20-30-10.

**> > Example 9: Recognizing Writeoffs and Recoveries**

**326-20-55-51** This Example illustrates how an entity may implement the guidance in paragraphs 326-20-35-8 through 35-9 relating to writeoffs and recoveries of expected credit losses on financial assets.

**326-20-55-52** Bank K currently evaluates its loan to Entity L on an individual basis because Entity L is 90 days past due on its loan payments and the loan no longer exhibits similar risk characteristics with other loans in the portfolio. At the end of December 31, 20X3, the amortized cost basis for Entity L's loan is \$500,000 with an allowance for credit losses of \$375,000. During the first quarter of 20X4, Entity L issues a press release stating that it is filing for bankruptcy. Bank K determines that the \$500,000 loan made to Entity L is uncollectible. Bank K measures a full credit loss on the loan to Entity L and writes off its entire loan balance in accordance with paragraph 326-20-35-8, as follows:

Credit loss expense	\$125,000	
Allowance for credit losses		\$125,000
Allowance for credit losses	\$500,000	
Loan receivable		\$500,000

During March 20X6, Bank K receives a partial payment of \$50,000 from Entity L for the loan previously written off. Upon receipt of the payment, Bank K recognizes the recovery in accordance with paragraph 326-20-35-8, as follows:

Cash	\$50,000	
Allowance for credit losses (recovery)		\$50,000

**326-20-55-53** For its March 31, 20X6 financial statements, Bank K estimates expected credit losses on its financial assets and determines that the current estimate is consistent with the estimate at the end of the previous reporting period. During the period, Bank K does not record any change to its allowance for credit losses account other than the recovery of the loan to Entity L. To adjust its allowance for credit losses to reflect the current estimate, Bank K reports the following on March 31, 20X6:

Allowance for credit losses	\$50,000	
Credit loss expense		\$50,000

Alternatively, Bank K could record the recovery of \$50,000 directly as a reduction to credit loss expense, rather than initially recording the cash received against the allowance.

**> > Example 10: Application of Expected Credit Losses to Unconditionally Cancellable Loan Commitments**

**326-20-55-54** This Example illustrates the application of the guidance in paragraph 326-20-30-11 for off-balance-sheet credit exposures that are unconditionally cancellable by the issuer.

**326-20-55-55** Bank M has a significant credit card portfolio, including funded balances on existing cards and unfunded commitments (available credit) on credit cards. Bank M's card holder agreements stipulate that the available credit may be unconditionally cancelled at any time.

**326-20-55-56** When determining the allowance for credit losses, Bank M estimates the expected credit losses over the remaining lives of the funded credit card loans. Bank M does not record an allowance for unfunded commitments on the unfunded credit cards because it has the ability to unconditionally cancel the available lines of credit. Even though Bank M has had a past practice of extending credit on credit cards before it has detected a borrower's default event, it does not have a present contractual obligation to extend credit. Therefore, an allowance for unfunded commitments should not be established because credit risk on commitments that are unconditionally cancellable by the issuer are not considered to be a liability.

**> > Example 11: Identifying Purchased Financial Assets with Credit Deterioration**

**326-20-55-57** This Example illustrates factors that may be considered when assessing whether the purchased financial assets have more than an insignificant deterioration in credit quality since origination.

**326-20-55-58** Entity N purchases a portfolio of financial assets subsequently measured at amortized cost basis with varying levels of credit quality. When determining which assets should be considered to be in the scope of the guidance for purchased financial assets with credit deterioration, Entity N considers the factors in paragraph 326-20-55-4 that are relevant for determining collectibility.

**326-20-55-59** Entity N assesses what is more-than-insignificant credit deterioration since origination and considers the purchased assets with the following characteristics to be consistent with the factors that affect collectibility in paragraph 326-20-55-4. Entity N records the allowance for credit losses in accordance with paragraph 326-20-30-13 for the following assets:

- a. Financial assets that are delinquent as of the acquisition date
- b. Financial assets that have been downgraded since origination
- c. Financial assets that have been placed on nonaccrual status
- d. Financial assets for which, after origination, credit spreads have widened beyond the threshold specified in its policy.

**326-20-55-60** Judgment is required when determining whether purchased financial assets should be recorded as purchased financial assets with credit deterioration. Entity N's considerations represent only a few of the possible considerations. There may be other acceptable considerations and policies applied by an entity to identify purchased financial assets with credit deterioration.

### **> > Example 12: Recognizing Purchased Financial Assets with Credit Deterioration**

**326-20-55-61** This Example illustrates application of the guidance to an individual purchased financial asset with credit deterioration.

**326-20-55-62** Under paragraphs 326-20-30-13 and 310-10-35-53B, for purchased financial assets with credit deterioration, the discount embedded in the purchase price that is attributable to expected credit losses should not be recognized as interest income and also should not be reported as a credit loss expense upon acquisition.

**326-20-55-63** Bank O records purchased financial assets with credit deterioration in its existing systems by recognizing the amortized cost basis of the asset, at acquisition, as equal to the sum of the purchase price and the associated allowance for credit loss at the date of acquisition. The difference between amortized cost basis and the par amount of the debt is recognized as a noncredit

discount or premium. By doing so, the credit-related discount is not accreted to interest income after the acquisition date.

**326-20-55-64** Assume that Bank O pays \$750,000 for a financial asset with a par amount of \$1 million. The instrument is measured at amortized cost basis. At the time of purchase, the allowance for credit losses on the unpaid principal balance is estimated to be \$175,000. At the purchase date, the statement of financial position would reflect an amortized cost basis for the financial asset of \$925,000 (that is, the amount paid plus the allowance for credit loss) and an associated allowance for credit losses of \$175,000. The difference between par of \$1 million and the amortized cost of \$925,000 is a non-credit-related discount. The acquisition-date journal entry is as follows:

Loan—par amount	\$1,000,000	
Loan—noncredit discount		\$ 75,000
Allowance for credit losses		175,000
Cash		750,000

**326-20-55-65** Subsequently, the \$75,000 noncredit discount would be accreted into interest income over the life of the financial asset consistent with other Topics. The \$175,000 allowance for credit losses should be updated in subsequent periods consistent with the guidance in Section 326-20-35, with changes in the allowance for credit losses on the unpaid principal balance reported immediately in the statement of financial performance as a credit loss expense.

**> > Example 13: Using a Loss-Rate Approach for Determining Expected Credit Losses and the Discount Rate on a Purchased Financial Asset with Credit Deterioration**

**326-20-55-66** This Example illustrates the application of the guidance to determine the expected credit loss using a loss rate for an individual purchased financial asset with credit deterioration. The method applied to initially measure expected credit losses for purchased financial assets with credit deterioration generally would be applied consistently over time and should faithfully estimate expected credit losses for financial assets by applying this Subtopic. This does not mean that the application of a loss-rate approach is an irrevocable election.

**326-20-55-67** Bank P purchases a \$5 million amortizing nonprepayable loan with a 6 percent coupon rate and original contract term of 5 years. All contractual principal and interest payments due of \$1,186,982 for each of the first 3 years of the loan's life have been received, and the loan has an unpaid balance of \$2,176,204 at the purchase date at the beginning of Year 4 of the loan's life. The original contractual amortization schedule of the loan is as follows.

Original Amortization Table

Period	Beginning Balance	Total Payment	Interest	Principal	Ending Balance
1	\$ 5,000,000	\$ 1,186,982	\$ 300,000	\$ 886,982	\$ 4,113,018
2	4,113,018	1,186,982	246,781	940,201	3,172,817
3	3,172,817	1,186,982	190,369	996,613	2,176,204
4	2,176,204	1,186,982	130,572	1,056,410	1,119,794
5	1,119,794	1,186,982	67,188	1,119,794	-
<b>Totals</b>		<b>\$ 5,934,910</b>	<b>\$ 934,910</b>	<b>\$ 5,000,000</b>	

**326-20-55-68** At the purchase date, the loan is purchased for \$1,918,559 because significant credit events have been discovered. The purchaser expects a 10 percent loss rate, based on historical loss information over the contractual term of the loan, adjusted for current conditions and reasonable and supportable forecasts, for groups of similar loans. In accordance with paragraph 326-20-30-14, as a result of the expected credit losses, the allowance is estimated as \$217,620 by multiplying the 10 percent loss rate by the unpaid principal balance, or par amount, of the loan (see beginning balance in Year 4 in the table above). The following journal entry is recorded at the acquisition of the loan:

Loan	\$ 2,176,204	
Loan—noncredit discount		\$ 40,025
Allowance for credit losses		217,620
Cash		1,918,559

**326-20-55-69** The contractual interest rate is adjusted for the noncredit discount of \$40,025 to determine the discount rate (consistent with paragraph 326-20-30-14) of 7.33 percent, which excludes the purchaser's assessment of expected credit losses at the acquisition date. The 7.33 percent (rounded from 7.3344 percent) is computed as the rate that equates the amortized cost of \$2,136,179 (computed by adding the purchase price of \$1,918,559 to the gross-up adjustment of \$217,620) with the net present value of the remaining contractual cash flows on the purchased asset (\$1,186,982 in each of Years 4 and 5).

**326-20-55-70** A default occurs in the last year of the loan's life. The amortization of the purchased loan would be recorded as follows for the periods after the purchase date in Years 4 and 5 of the loan's life.

**Book Amortization**

<u>Period</u>	<u>Beginning Balance <sup>(a)</sup></u>	<u>Total Payment <sup>(b)</sup></u>	<u>Writeoff <sup>(c)</sup></u>	<u>Accrued Interest <sup>(d)</sup></u>	<u>Reduction <sup>(e)</sup></u>	<u>Ending Balance <sup>(f)</sup></u>
4	\$ 2,136,179	\$1,186,982		\$156,676	\$1,030,306	\$1,105,873
5	1,105,873	969,362	\$ 217,620	81,109	1,105,873	-
<b>Totals</b>		<b><u>\$2,156,344</u></b>	<b><u>\$ 217,620</u></b>	<b><u>\$ 237,785</u></b>	<b><u>\$ 2,136,179</u></b>	

- (a) The amortized cost at the purchase date is determined as the sum of the purchase price of \$1,918,559 and the allowance for credit losses of \$217,620.
- (b) The cash received is consistent with the expectations at the purchase date.
- (c) The writeoff represents the default in the final year of the loan that is written off.
- (d) The interest income recognized is determined by multiplying the beginning amortized cost by the discount rate of 7.33 percent (as determined in accordance with paragraph 326-20-55-69).
- (e) The reduction of amortized cost is determined as the sum of the cash received (b) and writeoffs recognized (c) (if any), less the interest income recognized (d). The writeoff in Year 5 represents the difference between the contractual cash flows of \$1,186,982 and the actual cash flows of \$969,362.
- (f) The ending amortized cost is equal to the beginning amortized cost (a), less the amortized cost reduction (e).

**326-20-55-71** The rollforward of the allowance would be as follows.

Beginning allowance for credit losses	\$ 217,620
Plus, credit loss expense	-
Less, writeoffs	(217,620)
Ending allowance for credit losses	<u>\$ -</u>

**> > Example 14: Using a Discounted Cash Flow Approach for Determining Expected Credit Losses and the Discount Rate on a Purchased Financial Asset with Credit Deterioration**

**326-20-55-72** This Example illustrates the application of the guidance to determine the expected credit loss using a discounted cash flow approach for an individual purchased financial asset with credit deterioration. The method applied to initially measure expected credit losses for purchased financial assets with credit deterioration generally would be applied consistently over time and should faithfully estimate expected credit losses for financial assets by applying this Subtopic. This does not mean that the application of a discounted cash flow approach is an irrevocable election.

**326-20-55-73** This Example uses the same assumptions as in Example 13, as described in paragraphs 326-20-55-66 through 55-71.

**326-20-55-74** To determine the discount rate in accordance with paragraph 326-20-30-14, the expected cash flows would be estimated and discounted at a rate

that equates the purchase price with the present value of expected cash flows. The expected cash flows, including the considerations for current conditions and reasonable and supportable forecasts, are expected to be \$1,186,982 in Year 4 and \$969,362 in Year 5. The discount rate that equates the purchase price with the cash flows expected to be collected is 8.46 percent (rounded from 8.455 percent). This also is the same rate that equates the amortized cost basis (purchase price plus the acquisition date allowance for credit losses) with the net present value of the future contractual cash flows.

**326-20-55-75** To determine the allowance for credit losses at the purchase date, the expected credit loss (that is, the contractual cash that an entity does not expect to collect) is discounted using the discount rate of 8.46 percent. The expected credit loss is \$217,620 in Year 5, as determined by finding the difference between the contractual cash flows of \$1,186,982 and the expected cash flows of \$969,362. The present value of the expected loss at the purchase date is \$185,012. The journal entry to record the purchase of this loan is as follows:

Loan	\$ 2,176,204	
Loan—noncredit discount		\$ 72,633
Allowance for credit losses		185,012
Cash		1,918,559

**326-20-55-76** The amortization of the loan in the years following the purchase date is as follows.

<b>Book Amortization</b>						
<u>Period</u>	<u>Beginning Balance <sup>(a)</sup></u>	<u>Total Payment <sup>(b)</sup></u>	<u>Writeoff <sup>(c)</sup></u>	<u>Accrued Interest <sup>(d)</sup></u>	<u>Reduction <sup>(e)</sup></u>	<u>Ending Balance <sup>(f)</sup></u>
4	\$2,103,571	\$ 1,186,982		\$ 177,857	\$ 1,009,125	\$ 1,094,446
5	1,094,446	969,362	\$ 217,620	92,536	1,094,446	-
<b>Totals</b>		<b><u>\$ 2,156,344</u></b>	<b><u>\$ 217,620</u></b>	<b><u>\$ 270,393</u></b>	<b><u>\$ 2,103,571</u></b>	

- (a) The amortized cost at the purchase date is determined as the sum of the purchase price of \$1,918,559 and the allowance for credit losses of \$185,012.
- (b) The cash received is consistent with the expectations at the purchase date.
- (c) The writeoff represents the default in the final year of the loan that is written off.
- (d) The interest income recognized is determined by multiplying the beginning amortized cost by the discount rate of 8.46 percent (as determined in accordance with paragraph 326-20-55-74).
- (e) The reduction of amortized cost is determined as the sum of the cash received (b) and writeoffs recognized (c) (if any), less the interest income recognized (d). The writeoff in Year 5 represents the difference between the contractual cash flows of \$1,186,982 and the actual cash flows of \$969,362.
- (f) The ending amortized cost is equal to the beginning amortized cost (a), less the amortized cost reduction (e).

**326-20-55-77** The Day 1 allowance established at the purchase date was \$185,012. The allowance for credit losses was estimated on a discounted cash flow approach and, therefore, the allowance for credit losses needs to be adjusted for the time value of money. The rollforward of the allowance for credit losses is shown below.

Beginning allowance for credit losses	\$ 185,012
Plus, credit loss expense	15,643 <sup>(a)</sup>
Less, writeoffs	-
Ending allowance for credit losses (Year 4)	<u>200,655</u>
Plus, credit loss expense	16,965 <sup>(a)</sup>
Less, writeoffs	(217,620) <sup>(b)</sup>
Ending allowance for credit losses (Year 5)	<u><u>\$ -</u></u>

- (a) The provision for credit losses in Years 4 and 5 is determined by multiplying the beginning allowance for credit losses by the discount rate of 8.46 percent to adjust for the time value of money.
- (b) The writeoff represents the default in Year 5. The default is the difference between the Year 5 contractual cash flows of \$1,186,982 and the actual cash flows received of \$969,362.

**326-20-55-78** The net income effect of a loss-rate approach illustrated in Example 13 and of a discounted cash flow approach illustrated in this Example is the same (\$237,785 net income). The difference between the two approaches is that the Day 1 allowance for credit losses under a discounted cash flow approach explicitly reflects the time value of money. Therefore, it needs to be accreted to the future value of the loss that ultimately will occur. The change in the allowance for credit losses associated with the time value of money can be presented either as credit loss expense or as an adjustment to interest income in accordance with paragraph 326-20-45-3. Therefore, the discounted cash flow approach, over the life of the asset, presents interest income as \$270,393 but will require \$32,608 (\$15,643 in Year 4 plus \$16,965 in Year 5) of credit loss expense to be recorded for the time value of money, resulting in net interest income after credit loss expense of \$237,785. Under a loss-rate approach as illustrated in Example 13, interest income over the life of the asset is \$237,785 but does not require credit loss expense to be recognized.

**> > Example 15: Disclosing Credit Quality Indicators of Financing Receivables by Amortized Cost Basis**

**326-20-55-79** The following Example illustrates the presentation of credit quality disclosures for a financial institution with a narrow range of loan products offered to local customers—both consumer and commercial. Depending on the size and complexity of an entity’s portfolio of financing receivables, the entity may present

disclosures that are more or less detailed than the following Example. An entity may choose other methods of determining the class of financing receivable and may determine different credit quality indicators that reflect how credit risk is monitored. Some entities may have more than one credit quality indicator for certain classes of financing receivables.

As of December 31, 20X5	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
	20X5	20X4	20X3	20X2	20X1	Prior		
<b>Residential mortgage:</b>								
Risk rating:								
1-2 internal grade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3-4 internal grade	-	-	-	-	-	-	-	-
5 internal grade	-	-	-	-	-	-	-	-
6 internal grade	-	-	-	-	-	-	-	-
7 internal grade	-	-	-	-	-	-	-	-
<b>Total residential mortgage loans</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Residential mortgage loans:</b>								
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current-period recoveries	-	-	-	-	-	-	-	-
<b>Current-period net writeoffs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Consumer:</b>								
Risk rating:								
1-2 internal grade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3-4 internal grade	-	-	-	-	-	-	-	-
5 internal grade	-	-	-	-	-	-	-	-
6 internal grade	-	-	-	-	-	-	-	-
7 internal grade	-	-	-	-	-	-	-	-
<b>Total consumer</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Consumer loans:</b>								
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current-period recoveries	-	-	-	-	-	-	-	-
<b>Current-period net writeoffs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Commercial business:</b>								
Risk rating:								
1-2 internal grade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3-4 internal grade	-	-	-	-	-	-	-	-
5 internal grade	-	-	-	-	-	-	-	-
6 internal grade	-	-	-	-	-	-	-	-
7 internal grade	-	-	-	-	-	-	-	-
<b>Total commercial business</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Commercial business loans:</b>								
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current-period recoveries	-	-	-	-	-	-	-	-
<b>Current-period net writeoffs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Commercial mortgage:</b>								
Risk rating:								
1-2 internal grade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3-4 internal grade	-	-	-	-	-	-	-	-
5 internal grade	-	-	-	-	-	-	-	-
6 internal grade	-	-	-	-	-	-	-	-
7 internal grade	-	-	-	-	-	-	-	-
<b>Total commercial mortgage</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Commercial mortgage loans:</b>								
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Current-period recoveries	-	-	-	-	-	-	-	-
<b>Current-period net writeoffs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## > > Example 16: Disclosing Past-Due Status

**326-20-55-80** The following table illustrates certain of the disclosures in paragraph 326-20-50-14 by class of financing receivable.

**Age Analysis of Past-Due Financial Assets**  
**As of December 31, 20X5, and 20X4**

	Past Due				Current	Total	Amortized Cost > 90 Days and Accruing
	30-59 Days	60-89 Days	Greater Than 90 Days	Total			
20X5							
Commercial	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
Commercial real estate:							
Commercial real estate—construction	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Commercial real estate—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer:							
Consumer—credit card	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—auto	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential:							
Residential—prime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—subprime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Finance leases	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>
20X4							
Commercial	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX	\$XX,XXX
Commercial real estate:							
Commercial real estate—construction	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Commercial real estate—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer:							
Consumer—credit card	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—auto	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential:							
Residential—prime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—subprime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Finance leases	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>	<u>\$XX,XXX</u>

## > > Example 17: Identifying Similar Risk Characteristics in Reinsurance Receivables

**326-20-55-81** Reinsurance receivables may comprise a variety of risks that affect collectibility including:

- a. Credit risk of the reinsurer/assuming company
- b. Contractual coverage disputes between the reinsurer/assuming company and the insurer/ceding company including contract administration issues
- c. Other noncontractual, noncoverage issues including reinsurance billing and allocation issues.

**326-20-55-82** This Subtopic only requires measurement of expected losses related to the credit risk of the reinsurer/assuming company.

**326-20-55-83** In situations in which similar risk characteristics are not present in the reinsurance receivables, the ceding insurer should measure expected credit losses on an individual basis. Similar risk characteristics may not exist because any one or a combination of the following factors exists, including, but not limited to:

- a. Customized reinsurance agreements associated with individual risk geographies
- b. Different size and financial conditions of reinsurers that may be either domestic or international
- c. Different attachment points among reinsurance agreements
- d. Different collateral terms of the reinsurance agreements (such as collateral trusts or letters of credit)
- e. The existence of state-sponsored reinsurance programs.

**326-20-55-84** However, similar risk characteristics may exist for certain reinsurance receivables because any one or combination of the following exists:

- a. Reinsurance agreements that have standardized terms
- b. Reinsurance agreements that involve similar insured risks and underwriting practices
- c. Reinsurance counterparties that have similar financial characteristics and face similar economic conditions.

**326-20-55-85** Judgment should be applied by ceding insurers in determining if and when similar risks exist within their reinsurance receivables.

19. Add Subtopic 326-30, with a link to transition paragraph 326-10-65-1, as follows:

**[For ease of readability, the new Subtopic is not underlined, except for content moved from other paragraphs in the Codification.]**

## **Financial Instruments—Credit Losses—Available-for-Sale Debt Securities**

### **Overview and Background**

#### **General**

**326-30-05-1** This Subtopic provides guidance on how an entity should measure credit losses on available-for-sale debt securities.

### **Scope and Scope Exceptions**

#### **General**

##### **> Entities**

**326-30-15-1** The guidance in this Subtopic applies to all entities.

## > Instruments

**326-30-15-2** The guidance in this Subtopic applies to **{add glossary link to 1<sup>st</sup> definition}debt securities{add glossary link to 1<sup>st</sup> definition}** classified as **available-for-sale securities**, including **{add glossary link to 2<sup>nd</sup> definition}loans{add glossary link to 2<sup>nd</sup> definition}** that meet the definition of *debt securities* and are classified as available-for-sale securities.

## Glossary

### Amortized Cost Basis

The amortized cost basis is the amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, writeoffs, foreign exchange, and fair value hedge accounting adjustments.

### Available-for-Sale Securities

Investments not classified as either trading securities or as held-to-maturity securities.

### Debt Security (first definition)

Any security representing a creditor relationship with an entity. The term debt security also includes all of the following:

- a. Preferred stock that by its terms either must be redeemed by the issuing entity or is redeemable at the option of the investor
- b. A collateralized mortgage obligation (or other instrument) that is issued in equity form but is required to be accounted for as a nonequity instrument regardless of how that instrument is classified (that is, whether equity or debt) in the issuer's statement of financial position
- c. U.S. Treasury securities
- d. U.S. government agency securities
- e. Municipal securities
- f. Corporate bonds
- g. Convertible debt
- h. Commercial paper
- i. All securitized debt instruments, such as collateralized mortgage obligations and real estate mortgage investment conduits
- j. Interest-only and principal-only strips.

The term debt security excludes all of the following:

- a. Option contracts
- b. Financial futures contracts

- c. Forward contracts
- d. Lease contracts
- e. Receivables that do not meet the definition of security and, so, are not debt securities (unless they have been securitized, in which case they would meet the definition of a security), for example:
  - 1. Trade accounts receivable arising from sales on credit by industrial or commercial entities
  - 2. Loans receivable arising from consumer, commercial, and real estate lending activities of financial institutions.

### **Effective Interest Rate**

The rate of return implicit in the **financial asset**, that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount existing at the origination or acquisition of the financial asset. For **purchased financial assets with credit deterioration**, however, to decouple interest income from credit loss recognition, the premium or discount at acquisition excludes the discount embedded in the purchase price that is attributable to the acquirer's assessment of credit losses at the date of acquisition.

### **Fair Value (second definition)**

The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.

### **Financial Asset (first definition)**

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

- a. Receive cash or another financial instrument from a second entity
- b. Exchange other financial instruments on potentially favorable terms with the second entity.

### **Holding Gain or Loss**

The net change in fair value of a security. The holding gain or loss does not include dividend or interest income recognized but not yet received, writeoffs, or the allowance for credit losses.

### **Loan (second definition)**

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. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable.

## Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

- a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms
- b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary
- c. They are able to enter into a transaction for the asset or liability
- d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

## Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

## Purchased Financial Assets with Credit Deterioration

Acquired individual **financial assets** (or acquired groups of financial assets with shared risk characteristics) that, as of the date of acquisition, have experienced a more-than-insignificant deterioration in credit quality since origination, as determined by an acquirer's assessment. See paragraph 326-20-55-5 for more information on the meaning of similar risk characteristics for assets measured on an amortized cost basis.

## Related Parties

Related parties include:

- a. Affiliates of the entity
- b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity
- c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
- d. Principal owners of the entity and members of their immediate families
- e. Management of the entity and members of their immediate families

- f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests
- g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

## Initial Measurement

### General

**326-30-30-1** Throughout this Subtopic, the term *earnings* shall be read as *performance indicator*, and *other comprehensive income* shall be read as *outside the performance indicator* for **{add glossary link to 1<sup>st</sup> definition}debt securities{add glossary link to 1<sup>st</sup> definition}** that are within the scope of Subtopic 958-320 on debt securities of not-for-profit entities.

### > Purchased Financial Assets with Credit Deterioration

**326-30-30-2** A purchased **{add glossary link to 1<sup>st</sup> definition}debt security{add glossary link to 1<sup>st</sup> definition}** classified as available-for-sale shall be considered to be a **purchased financial asset with credit deterioration** when the indicators of a credit loss in paragraph 326-30-55-1 have been met. The allowance for credit losses for purchased **financial assets** with credit deterioration shall be measured at the individual security level in accordance with paragraphs 326-30-35-3 through 35-10. The **amortized cost basis** for purchased financial assets with credit deterioration shall be considered to be the purchase price plus any allowance for credit losses. See paragraphs 326-30-55-1 through 55-7 for implementation guidance.

**326-30-30-3** Estimated credit losses shall be discounted at the rate that equates the present value of the purchaser's estimate of the security's future cash flows with the purchase price of the asset.

**326-30-30-4** An entity shall record the **holding gain or loss** through other comprehensive income, net of applicable taxes.

## Subsequent Measurement

### General

## > Impairment of Individual Available-for-Sale Securities

### > > Identifying and Accounting for Impairment

**326-30-35-1** An investment is impaired if the {add glossary link to 2<sup>nd</sup> definition} fair value {add glossary link to 2<sup>nd</sup> definition} of the investment is less than its cost amortized cost basis. [Content amended as shown and moved from paragraph 320-10-35-21]

**326-30-35-2** For individual securities {add glossary link to 1<sup>st</sup> definition} debt securities {add glossary link to 1<sup>st</sup> definition} classified as available-for-sale securities either ~~available for sale or held to maturity~~, an entity shall determine whether a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. An entity shall record impairment relating to credit losses through an allowance for credit losses. However, the allowance shall be limited by the amount that the fair value is less than the amortized cost basis. Impairment that has not been recorded through an allowance for credit losses shall be recorded through other comprehensive income, net of applicable taxes. An entity shall consider the guidance in paragraphs 326-30-35-6 and 326-30-55-1 through 55-4 when determining whether a credit loss exists. ~~is other than temporary. Providing a general allowance for unidentified impairment in a portfolio of securities is not appropriate.~~ [Content amended as shown and moved from paragraph 320-10-35-18]

**326-30-35-3** At each reporting date, an entity shall record an allowance for credit losses that reflects the amount of the impairment related to credit losses, limited by the amount that fair value is less than the amortized cost basis. Changes in the allowance shall be recorded in the period of the change as credit loss expense (or reversal of credit loss expense).

**326-30-35-4** Impairment shall be assessed at the individual security level (referred to as an investment). Individual security level means the level and method of aggregation used by the reporting entity to measure realized and unrealized gains and losses on its debt securities. (For example, debt securities ~~of an issuer~~ bearing the same Committee on Uniform Security Identification Procedures [CUSIP] number that were purchased in separate trade lots may be aggregated by a reporting entity on an average cost basis if that corresponds to the basis used to measure realized and unrealized gains and losses for the debt securities ~~of the issuer~~.) Providing a general allowance for an unidentified impairment in a portfolio of debt securities is not appropriate. [Content amended as shown and moved from paragraphs 320-10-35-18 and 320-10-35-20]

**326-30-35-5** An entity shall not combine separate contracts (a debt security and a guarantee or other credit enhancement) for purposes of determining whether a debt security is impaired or can contractually be prepaid or otherwise settled in such a way that the entity would not recover substantially all of its cost. [Content moved from paragraph 320-10-35-23]

## > > Impairment in Earnings and Other Comprehensive Income

**326-30-35-6** ~~If an entity does not expect to recover the entire amortized cost basis of the security, the entity would be unable to assert that it will recover its amortized cost basis even if it does not intend to sell the security. Therefore, in those situations, an other than temporary impairment shall be considered to have occurred. In assessing whether the entire amortized cost basis of the security will be recovered, In assessing whether a credit loss exists, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered (that is, a credit loss exists and an allowance for credit losses shall be recorded for the credit loss, limited by the amount that the {add glossary link to 2<sup>nd</sup> definition}fair value{add glossary link to 2<sup>nd</sup> definition} is less than amortized cost basis), and an other than temporary impairment shall be considered to have occurred. Credit losses on an impaired security shall continue to be measured using the present value of expected future cash flows. [Content amended as shown and moved from paragraph 320-10-35-33C]~~

**326-30-35-7** ~~In determining whether a credit loss exists, an entity shall consider the factors in paragraphs 326-30-55-1 through 55-4 and use its best estimate of the present value of cash flows expected to be collected from the {add glossary link to 1<sup>st</sup> definition}debt security{add glossary link to 1<sup>st</sup> definition}. One way of estimating that amount would be to consider the methodology described in paragraphs 326-30-35-8 through 35-10. Section 340-10-35 for measuring an impairment on the basis of the present value of expected future cash flows. That Section provides guidance on this calculation. Briefly, the entity would discount the expected cash flows at the {add glossary link}effective interest rate{add glossary link} implicit in the security at the date of acquisition. [Content amended as shown and moved from paragraph 320-10-35-33D]~~

**326-30-35-8** ~~If a creditor bases its measure of loan impairment on a present value calculation, the~~ The estimates of expected future cash flows shall be the creditor's entity's best estimate based on past events, current conditions, and on reasonable and supportable forecasts assumptions and projections. All available Available evidence, including estimated costs to sell if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan, shall be considered in developing the estimate of expected future cash flows. The weight given to the evidence information used in the assessment shall be commensurate with the extent to which the evidence can be verified objectively. If a creditor an entity estimates a range for either the amount or timing of possible cash flows, the likelihood of the possible outcomes shall be considered in determining the best estimate of expected future cash flows. [Content amended as shown and moved from paragraph 310-10-35-26]

~~**326-30-35-9** In addition, a creditor shall consider all available information reflecting past events and current conditions when developing the estimate of expected future cash flows. All available Available information would include existing environmental factors, for example, existing industry, geographical, economic, and political factors that are relevant to the collectibility of that debt security loan and that indicate that it is probable that an asset had been impaired at the date of the financial statements. [Content amended as shown and moved from paragraph 310-10-35-27]~~

~~**326-30-35-10** If an entity intends to sell the debt security (that is, it has decided to sell the security), or more likely than not will be required to sell the security before recovery of its amortized cost basis, any allowance for credit losses shall be written off and the amortized cost basis shall be written down to the debt security's fair value at the reporting date with any incremental impairment reported in earnings an other than temporary impairment shall be considered to have occurred. [Content amended as shown and moved from 320-10-35-33A]~~

~~If an entity does not intend to sell the debt security, the entity shall consider available evidence to assess whether it more likely than not will be required to sell the security before the recovery of its amortized cost basis (for example, whether its cash or working capital requirements or contractual or regulatory obligations indicate that the security will be required to be sold before a the forecasted recovery occurs). If the entity more likely than not will be required to sell the security before recovery of its amortized cost basis, an other than temporary impairment shall be considered to have occurred. [Content amended as shown and moved from paragraph 320-10-35-33B] If an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the other than temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. In assessing whether the entity more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit losses, the entity shall consider the factors in paragraphs 326-30-55-1 through 55-2 paragraph 320-10-35-33F. [Content amended as shown and moved from paragraph 320-10-35-34B]~~

~~**326-30-35-11** If the loan's security's contractual interest rate varies based on subsequent changes in an independent factor, such as an index or rate, for example, the prime rate, the London Interbank Offered Rate (LIBOR), or the U.S. Treasury bill weekly average, that loan's security's effective interest rate (used to discount expected cash flows as described in paragraph 326-30-35-7) may be calculated based on the factor as it changes over the life of the loan security or may be fixed at the rate in effect at the date an entity determines that the loan security has a credit loss as determined in accordance with meets the impairment criterion in paragraphs 326-30-35-1 through 35-2 340-10-35-16 through 35-17. The entity's creditor's choice shall be applied consistently for all loans securities whose contractual interest rate varies based on subsequent~~

changes in an independent factor. Projections of changes in the factor shall not be made for purposes of determining the effective interest rate or estimating expected future cash flows. **[Content amended as shown and moved from paragraph 310-10-35-28]**

**> Accounting for Debt Securities after a Credit Impairment**

**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 **{add glossary link to available-for-sale securities}available-for-sale{add glossary link to available-for-sale securities} {add glossary link to 1<sup>st</sup> definition}debt securities{add glossary link to 1<sup>st</sup> definition}**. An entity shall not reverse a previously recorded allowance for credit losses to an amount below zero.

**326-30-35-13** An entity shall recognize writeoffs and recoveries of available-for-sale debt securities in accordance with paragraphs 326-20-35-8 through 35-9.

**> Accounting after a Write-Down Resulting from an Intent to Sell or a More-Likely-Than-Not Requirement to Sell**

**326-30-35-14** ~~The~~ Once an individual {add glossary link to 1<sup>st</sup> definition}debt security{add glossary link to 1<sup>st</sup> definition} has been written down in accordance with paragraph 326-30-35-10, the previous {add glossary link} amortized cost basis{add glossary link} less the ~~other than temporary impairment recognized~~ writeoffs, including ~~non-credit-related impairment reported in earnings~~ earnings, shall become the new amortized cost basis of the investment. That new amortized cost basis shall not be adjusted for subsequent recoveries in {add glossary link to 2<sup>nd</sup> definition}fair value{add glossary link to second definition}. However, the amortized cost basis shall be adjusted for accretion and amortization as prescribed in paragraph 320 10 35 35. **[Content amended as shown and moved from paragraph 320-10-35-34E]**

**326-30-35-15** ~~In periods after the recognition of an other than temporary impairment loss for debt securities, an entity shall account for the other than temporarily impaired debt security as if the debt security had been purchased on the measurement date of the other than temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other than temporary impairment recognized in earnings. For debt securities for which other than temporary impairments were recognized reported in earnings as a writeoff because of an intent to sell or a more-likely-than-not requirement to sell, the difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted in accordance with existing applicable guidance as interest income. An entity shall continue to estimate the present value of cash flows expected to be collected over the life of the debt security. For~~

debt securities accounted for in accordance with Subtopic 325-40, an entity should look to that Subtopic to account for changes in cash flows expected to be collected. For all other debt securities, if upon subsequent evaluation, there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, ~~such those~~ changes shall be accounted for as a prospective adjustment to the ~~accrutable~~ yield ~~in accordance with Subtopic 310-30 even if the debt security would not otherwise be within the scope of that Subtopic~~. Subsequent increases ~~and~~ decreases (if not other than temporary impairment) in the fair value of available-for-sale securities ~~after the write-down~~ shall be included in other comprehensive income. (This Section does not address when a holder of a debt security would place a debt security on nonaccrual status or how to subsequently report income on a nonaccrual debt security.) **[Content amended as shown and moved from paragraph 320-10-35-35]**

## **> Purchased Financial Assets with Credit Deterioration**

**326-30-35-16** An entity shall measure changes in the allowance for credit losses on a **purchased financial asset with credit deterioration** in accordance with paragraph 326-30-35-6. The entity shall report changes in the allowance for credit losses in net income as credit loss expense (or reversal of credit loss expense) in each reporting period.

**326-30-35-17** This Subtopic does not address how an entity shall recognize interest income. See paragraphs 310-10-35-53A through 35-53C for guidance on recognition of interest income on purchased financial assets with credit deterioration.

## **Other Presentation Matters**

### **General**

**326-30-45-1** An entity shall present ~~{add glossary link to available-for-sale securities}~~~~available-for-sale~~~~{add glossary link to available-for-sale securities}~~ ~~{add glossary link to 1<sup>st</sup> definition}~~ ~~debt securities~~~~{add glossary link to 1<sup>st</sup> definition}~~ on the statement of position at ~~{add glossary link to 2<sup>nd</sup> definition}~~ ~~fair value~~~~{add glossary link to 2<sup>nd</sup> definition}~~. In addition, an entity shall present parenthetically the **amortized cost basis** and the allowance for credit losses.

**326-30-45-2** An entity shall separately present, in the financial statement in which the components of accumulated other comprehensive income are reported, amounts ~~recognized~~ reported therein related to ~~held-to-maturity and available-for-sale debt securities for which an allowance for credit losses has been recorded~~ a portion of an other than temporary impairment has been recognized

~~in earnings.~~ **[Content amended as shown and moved from paragraph 320-10-45-9A]**

**326-30-45-3** When an entity applies the guidance in paragraph 326-30-35-7, the change in present value of cash flows expected to be collected from one reporting period to the next may result not only from the passage of time but also from changes in estimates of the timing or amount of expected future cash flows. An entity is permitted to report the entire change in present value as a credit loss expense (or a reversal of credit loss expense). Alternatively, an entity may report the change in present value attributable to the passage of time as interest income. See paragraph 326-30-50-8 for a disclosure requirement applicable to creditors that choose the latter alternative and report changes in present value attributable to the passage of time as interest income.

## Disclosure

### General

#### > General

**326-30-50-1** For instruments within the scope of this Subtopic, this Section provides the following disclosure guidance related to credit risk and the measurement of credit losses:

- a. **{add glossary link to available-for-sale securities}Available-for-sale{add glossary link to available-for-sale securities}{add glossary link to 1<sup>st</sup> definition}debt securities{add glossary link to 1<sup>st</sup> definition}** in unrealized loss positions without an allowance for credit losses
- b. Allowance for credit losses
- c. **Purchased financial assets with credit deterioration.**

**326-30-50-2** The disclosure guidance in this Section should enable a user of the financial statements to understand the following:

- a. The credit risk inherent in available-for-sale debt securities
- b. Management's estimate of credit losses
- c. Changes in the estimate of credit losses that have taken place during the period.

**326-30-50-3** An entity shall determine, in light of the facts and circumstances, how much detail it must provide to satisfy the disclosure requirements in this Section and how it disaggregates information into major security types. An entity must strike a balance between obscuring important information as a result of too much aggregation and overburdening financial statements with excessive detail that may not assist a financial statement user to understand an entity's securities and allowance for credit losses. For example, an entity should not obscure

important information by including it with a large amount of insignificant detail. Similarly, an entity should not disclose information that is so aggregated that it obscures important differences between the different types of **{add glossary link to 1<sup>st</sup> definition}financial assets{add glossary link to 1<sup>st</sup> definition}** and associated risks.

### > Available-for-Sale Debt Securities in Unrealized Loss Positions without an Allowance for Credit Losses

**326-30-50-4** ~~For all investments in an unrealized loss position, including those that fall within the scope of Subtopic 325-40, for which other than temporary impairments have not been recognized in earnings (including investments for which a portion of an other than temporary impairment has been recognized in other comprehensive income) For {add glossary link to available-for-sale securities}available-for-sale{add glossary link to available-for-sale securities}{add glossary link to 1<sup>st</sup> definition}debt securities{add glossary link to 1<sup>st</sup> definition}, including those that fall within the scope of Subtopic 325-40 on beneficial interests in securitized financial assets, in an unrealized loss position for which an allowance for credit losses has not been recorded, an entity shall disclose all of the following in its interim and annual financial statements:~~

- a. As of each date for which a statement of financial position is presented, quantitative information, aggregated by category of investment—each major security type that the entity discloses in accordance with this Subtopic—in tabular form:
  1. The aggregate related**{add glossary link to 2<sup>nd</sup> definition}**fair value**{add glossary link to 2<sup>nd</sup> definition}** of investments with unrealized losses
  2. The aggregate amount of unrealized losses (that is, the amount by which **{add glossary link}**amortized cost basis**{add glossary link}** exceeds fair value).
- b. As of the date of the most recent statement of financial position, additional information (in narrative form) that provides sufficient information to allow a financial statement user users to understand the quantitative disclosures and the information that the entity considered (both positive and negative) in reaching the conclusion that an allowance for credit losses is unnecessary. ~~the impairment or impairments are not other than temporary. (The application of Step 2 in paragraph 320-10-35-30 shall provide insight into the entity's rationale for concluding that unrealized losses are not other than temporary impairments.~~ The disclosures required may be aggregated by investment categories, but individually significant unrealized losses generally shall not be aggregated. ~~aggregated.~~) This disclosure could include all of the following:
  1. The nature of the investment(s)
  2. The cause(s) of the impairment(s)

3. The number of investment positions that are in an unrealized loss position
4. The severity ~~and duration~~ of the impairment(s)
5. Other evidence considered by the investor in reaching its conclusion that ~~the investment is not other than temporarily impaired~~ an allowance for credit losses is not necessary, including, for example, any of the following:
  - i. Performance indicators of the underlying assets in the security, including any of the following:
    01. Default rates
    02. Delinquency rates
    03. Percentage of nonperforming assets.
  - ii. ~~Loan Debt~~-to-collateral-value ratios
  - iii. Third-party guarantees
  - iv. Current levels of subordination
  - v. Vintage
  - vi. Geographic concentration
  - vii. Industry analyst reports
  - viii. ~~Sector credit~~ Credit ratings
  - ix. Volatility of the security's fair value
  - x. ~~Any other information that the investor considers relevant.~~ Interest rate changes since purchase
  - xi. ~~Any other information that the investor considers relevant.~~ [Content amended as shown and moved from paragraph 320-10-50-6]

**326-30-50-5** The disclosures in (a)(1) through (a)(2) in ~~the preceding paragraph 326-30-50-4~~ shall be disaggregated ~~segregated~~ by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer. **[Content amended as shown and moved from paragraph 320-10-50-7]**

**326-30-50-6** The reference point for determining how long an investment has been in a continuous unrealized loss position is the balance sheet date of the reporting period in which the impairment is identified. For entities that do not prepare interim financial information, the reference point is the annual balance sheet date of the period during which the impairment was identified. The continuous unrealized loss position ceases upon the investor becoming aware of a recovery of fair value up to (or beyond) the amortized cost basis of the investment during the period. ~~either of the following:~~

- a. ~~The recognition of the total amount by which amortized cost basis exceeds fair value as an other than temporary impairment in earnings~~
- b. ~~The investor becoming aware of a recovery of fair value up to (or beyond) the amortized cost basis of the investment during the period.~~

[Content amended as shown and moved from paragraph 320-10-50-8]

> Allowance for Credit Losses

**326-30-50-7** For interim and annual periods in which an ~~other than temporary impairment allowance for credit losses of a~~ an ~~{add glossary link to available-for-sale securities}~~ available-for-sale ~~{add glossary link to available-for-sale securities}~~ {add glossary link to 1<sup>st</sup> definition} debt security ~~{add glossary link to 1<sup>st</sup> definition}~~ is recorded ~~recognized and only the amount related to a credit loss was recognized in earnings~~, an entity shall disclose by major security type, the methodology and significant inputs used to measure the amount related to credit loss, including its accounting policy for recognizing writeoffs of uncollectible available-for-sale debt securities. Examples of significant inputs include, but are not limited to, all of the following:

- a. Performance indicators of the underlying assets in the security, including all of the following:
  1. Default rates
  2. Delinquency rates
  3. Percentage of nonperforming assets
- b. ~~Loan~~ Debt-to-collateral-value ratios
- c. Third-party guarantees
- d. Current levels of subordination
- e. Vintage
- f. Geographic concentration
- g. ~~Credit ratings~~. Industry analyst reports and forecasts
- h. Credit ratings
- i. Other market data that are relevant to the collectibility of the security.

[Content amended as shown and moved from paragraph 320-10-50-8A]

**326-30-50-8** Paragraph 326-30-45-3 explains that an entity may report the change in the allowance for credit losses due to changes in time value as credit loss expense (or reversal of credit loss expense) but also may report the change as interest income. An entity that chooses the latter alternative shall disclose the amount recorded to interest income that represents the change in present value attributable to the passage of time.

> > Rollforward of the Allowance for Credit Losses

**326-30-50-9** For each interim and annual reporting period presented, an entity shall disclose by major security type, a tabular rollforward of the ~~amount related to allowance for credit losses recognized in earnings in accordance with paragraph 320-10-35-34D~~, which shall ~~include~~ include, at a minimum, all of the following:

- a. ~~The beginning balance of the amount related to allowance for credit losses on {add glossary link to available-for-sale securities}available-for-sale{add glossary link to available-for-sale securities} {add glossary link to 1<sup>st</sup> definition}debt securities{add glossary link to 1<sup>st</sup> definition} held by the entity at the beginning of the period for which a portion of an other than temporary impairment was recognized in other comprehensive income~~
- b. ~~Additions to for the amount related to the allowance for credit losses on securities less for which an other than temporary impairment credit losses were was not previously recorded recognized~~
- c. ~~Additions to the allowance for credit losses arising from purchases of available-for-sale debt securities accounted for as purchased financial assets with credit deterioration (including beneficial interests that meet the criteria in paragraph 325-40-30-1A)~~
- d. ~~Reductions for securities sold during the period (realized)~~
- e. ~~Reductions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings in the allowance for credit losses because the entity intends to sell the security or more likely than not will be required to sell the security before recovery of its {add glossary link}amortized cost basis{add glossary link}~~
- f. ~~If the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, additional increases or decreases to the amount related to the allowance for credit losses on securities that had an allowance recorded in a previous period less for which an other than temporary impairment was previously recognized~~
- f. ~~Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security (see paragraph 320-10-35-35)~~
- g. ~~Writeoffs charged against the allowance~~
- h. ~~Recoveries of amounts previously written off~~
- i. ~~The ending balance of the amount related to allowance for credit losses on related to debt securities held by the entity at the end of the period for which a portion of an other than temporary impairment was recognized in other comprehensive income. [Content amended as shown and moved from paragraph 320-10-50-8B]~~

## > Purchased Financial Assets with Credit Deterioration

**326-30-50-10** To the extent an entity acquired **purchased financial assets with credit deterioration** during the current reporting period, an entity shall provide a reconciliation of the difference between the purchase price of the assets and the par value of the {add glossary link to available-for-sale securities}available-for-sale{add glossary link to available-for-sale securities} {add glossary

**link to 1<sup>st</sup> definition}**debt securities{**add glossary link to 1<sup>st</sup> definition**}, including:

- a. The purchase price
- b. The allowance for credit losses at the acquisition date based on the acquirer's assessment
- c. The discount (or premium) attributable to other factors
- d. The par value.

## Implementation Guidance and Illustrations

### General

#### > Implementation Guidance

#### > > Information Considered When Estimating Credit Losses

**326-30-55-1** There are numerous factors to be considered ~~when estimating in determining~~ whether a credit loss exists ~~and the period over which the debt security is expected to recover~~. The length of time a security has been in an unrealized loss position should not be a factor, by itself or in combination with others, that an entity would use to conclude that a credit loss does not exist. The following list is not meant to be all inclusive. All of the following factors ~~shall~~ should be considered:

- a. ~~The length of time and the extent to which the~~ {**add glossary link to 2<sup>nd</sup> definition**}fair value{**add glossary link to 2<sup>nd</sup> definition**} ~~has been~~ is less than the {**add glossary link**}amortized cost basis{**add glossary link**}
- b. Adverse conditions specifically related to the security, an industry, or geographic area; for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed {**add glossary link to 1<sup>st</sup> definition**}debt security{**add glossary link to 1<sup>st</sup> definition**}, changes in the financial condition of the underlying {**add glossary link to 2<sup>nd</sup> definition**}loan{**add glossary link to 2<sup>nd</sup> definition**} obligors. Examples of those changes include any of the following:
  - 1. Changes in technology
  - 2. The discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security
  - 3. Changes in the quality of the credit enhancement.
- ~~c. The historical and implied volatility of the fair value of the security~~
- ~~d.c.~~ The payment structure of the debt security (for example, nontraditional loan terms as described in paragraphs 825-10-55-1 through 55-2 ~~and~~

- ~~310-10-50-25~~) and the likelihood of the issuer being able to make payments that increase in the future
- e.d. Failure of the issuer of the security to make scheduled interest or principal payments
  - f.e. Any changes to the rating of the security by a rating agency
  - g. ~~Recoveries or additional declines in fair value after the balance sheet date.~~ **[Content amended as shown and moved from paragraph 320-10-35-33F]**

**326-30-55-2** ~~In making its other than temporary impairment assessment, an~~ An entity ~~shall~~ should consider ~~all~~ available information relevant to the collectibility of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of cash flows expected to be collected. That information ~~shall~~ should include all of the following:

- a. The remaining payment terms of the security
- b. Prepayment speeds
- c. The financial condition of the issuer(s)
- d. Expected defaults
- e. The value of any underlying collateral. **[Content amended as shown and moved from paragraph 320-10-35-33G]**

**326-30-55-3** To achieve the objective in ~~the preceding~~ paragraph 326-30-55-2, the entity ~~shall~~ should consider, for example, all of the following to the extent they influence the estimate of expected cash flows on a security:

- a. Industry analyst reports and forecasts
- b. ~~Sector credit~~ Credit ratings
- c. Other market data that are relevant to the collectibility of the security. **[Content amended as shown and moved from paragraph 320-10-35-33H]**

**326-30-55-4** An entity also ~~shall~~ should consider how other credit enhancements affect the expected performance of the security, including consideration of the current financial condition of the guarantor of a security (if the guarantee is not a separate contract as discussed in paragraph ~~326-30-35-5~~ ~~320-10-35-23~~), the willingness of the guarantor to pay, and/or whether any subordinated interests are capable of absorbing estimated losses on the loans underlying the security. The remaining payment terms of the security could be significantly different from the payment terms in prior periods (such as for some securities backed by nontraditional loans; see paragraph 825-10-55-1). Thus, an entity ~~shall~~ should consider whether a security backed by currently performing loans will continue to perform when required payments increase in the future (including balloon payments). An entity also ~~shall~~ should consider how the value of any collateral would affect the expected performance of the security. If the fair value of the

collateral has declined, an entity ~~shall~~ should assess the effect of that decline on the its ability of the entity to collect the balloon payment. **[Content amended as shown and moved from paragraph 320-10-35-33!]**

## > Illustrations

### > > Example 1: Identifying Purchased Financial Assets with Credit Deterioration

**326-30-55-5** This Example illustrates one way an entity may identify purchased financial assets with credit deterioration.

**326-30-55-6** Entity A purchases a portfolio of debt securities with varying levels of credit quality that it classifies as available for sale. When determining which individual available-for-sale debt securities should be considered to be in the scope of the guidance for purchased financial assets with credit deterioration, Entity A considers the indicators of impairment in paragraph 326-30-55-1. Entity A also considers its practices for identifying credit losses on available-for-sale debt securities. If Entity A determines that, on an individual basis, the purchased debt securities are purchased financial assets with credit deterioration, it should classify them as such.

**326-30-55-7** Entity A also considers the securities that are within the scope of Subtopic 325-40 on beneficial interests in securitized financial assets. Entity A purchases a residual tranche and determines that there is a significant difference between contractual cash flows and expected cash flows. In accordance with paragraph 325-40-30-1A(a), Entity A applies the accounting for purchased financial assets with credit deterioration to the residual tranche.

### > > Example 32: Disclosures about Investments in Available-for-Sale Debt Securities in an Unrealized Loss Position with No Credit Losses Reported That Are Not Other Than Temporarily Impaired

**326-30-55-8** This Example illustrates the guidance in Section ~~326-30-50~~ ~~320-40-50~~ with a table followed by illustrative narrative disclosures. The following table shows the gross unrealized losses and fair value of Entity B's A's investments with unrealized losses that are not deemed to have credit losses ~~be other than temporarily impaired~~ (in millions), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 20X3. This Example illustrates the application of paragraphs ~~326-30-50-4 through 50-6~~ ~~320-40-50-6 through 50-8~~ and, in doing so, describes Entity B's the investor's rationale for not recognizing reporting all or a portion of unrealized losses presented in the table as credit losses other than temporary impairments. In the application of paragraph ~~326-30-50-4(b)~~ ~~320-40-50-6(b)~~, Entity B the investor shall should provide meaningful disclosure about individually significant unrealized losses. To facilitate the narrative disclosures

and for simplicity, this Example presents only the quantitative information as of the date of the latest statement of financial position. However, pursuant to in accordance with paragraphs 326-30-50-4 through 50-6 320-10-50-6 through 50-8, that information is required as of each date for which a statement of financial position is presented, except in the period of initial application of the other than temporary impairment guidance in this Subtopic.

Description of Securities	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations and direct obligations of U.S. government agencies	\$ 172	\$ 2	\$ 58	\$ 1	\$ 230	\$ 3
Federal agency mortgage-backed securities	367	5	18	1	385	6
Corporate bonds	150	7	-	-	150	7
Total	<u>\$ 689</u>	<u>\$ 14</u>	<u>\$ 76</u>	<u>\$ 2</u>	<u>\$ 765</u>	<u>\$ 16</u>

**[Content amended as shown and moved from paragraph 320-10-55-22]**

**326-30-55-9** Following are illustrative narrative disclosures that would follow the illustrative table.

U.S. Treasury obligations. The unrealized losses on Entity B's A's investments in U.S. Treasury obligations and direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. ~~Because Entity B A does not intend to sell the investments and it is not more likely than not that Entity B A will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Entity A does not consider those investments to be other than temporarily impaired at December 31, 20X3.~~

Federal agency mortgage-backed securities. The unrealized losses on Entity B's A's investment in federal agency mortgage-backed securities were caused by interest rate increases. Entity B A purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of Entity B's A's investments. ~~Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because Entity B A does not intend to sell the investments and it is not more likely than not that Entity B A will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Entity A does not consider those investments to be other than temporarily impaired at December 31, 20X3.~~

Corporate bonds. Entity B's A's unrealized loss on investments in corporate bonds relates to a \$150 investment in Entity C's B's Series C Debentures. Entity C B is a manufacturer. The unrealized loss was primarily caused by a recent decrease in profitability and near-term profit forecasts by industry analysts resulting from intense competitive pricing pressure in the manufacturing industry

and a recent sector downgrade by several industry analysts. The contractual terms of those investments do not permit Entity C B to settle the security at a price less than the amortized cost basis of the investment. While Entity C's B's credit rating has decreased from A to BBB (Standard & Poor's), Entity B A currently does not expect Entity C B to settle the debentures at a price less than the amortized cost basis of the investment (that is, Entity B A expects to recover the entire amortized cost basis of the security). ~~Because Entity B A does not intend to sell the investment and it is not more likely than not that Entity B A will be required to sell the investment before recovery of its amortized cost basis, which may be maturity, it does not consider the investment in Entity B's debentures to be other than temporarily impaired at December 31, 20X3.~~

**[Content amended as shown and moved from paragraph 320-10-55-23]**

## Amendments to Subtopic 450-20

20. Amend paragraphs 450-20-15-2, 450-20-50-2A, and 450-20-60-2 through 60-3, with a link to transition paragraph 326-10-65-1, as follows:

### Contingencies—Loss Contingencies

#### Scope and Scope Exceptions

##### > Transactions

**450-20-15-2** The following transactions are excluded from the scope of this Subtopic because they are addressed elsewhere in the Codification:

- a. Stock issued to employees, which is discussed in Topic 718.
- b. Employment-related costs, including deferred compensation contracts, which are discussed in Topics 710, 712, and 715. However, certain postemployment benefits are included in the scope of this Subtopic through application of paragraphs 712-10-25-4 through 25-5.
- c. Uncertainty in income taxes, which is discussed in Section 740-10-25.
- d. Accounting and reporting by insurance entities, which is discussed in Topic 944.
- e. Measurement of credit losses for instruments within the scope of Topic 326 on measurement of credit losses.

#### Disclosure

##### > Unrecognized Contingencies

**450-20-50-2A** The disclosures required by paragraphs 450-20-50-3 through 50-6 do not apply to ~~loss contingencies arising from an entity's recurring estimation of its allowance for credit losses on instruments within the scope of Topic 326 on measurement of credit losses.~~ (See paragraph 310-10-50-21.)

## Relationships

### > Receivables

**450-20-60-2** For **contingencies** related to the collectibility of receivables, see Subtopic 326-20 on financial instruments measured at amortized cost ~~Section 310-10-35.~~

**450-20-60-3** For ~~application of this Subtopic~~ contingencies related to the collectibility of a loan portfolio, see Subtopic 326-20 ~~Section 310-10-35.~~

## Amendments to Subtopic 460-10

21. Amend paragraphs 460-10-25-2 through 25-3, 460-10-30-2, the heading preceding paragraph 460-10-30-3, 460-10-35-4, 460-10-45-1, 460-10-50-4(c), 460-10-50-5, and 460-10-55-22, add paragraph 460-10-30-5 and its related heading, and supersede paragraph 460-10-35-3, with a link to transition paragraph 326-10-65-1, as follows:

## Guarantees—Overall

### Recognition

**460-10-25-2** The issuance of a guarantee obligates the guarantor (the issuer) in two respects:

- a. The guarantor undertakes an obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur (the noncontingent aspect).
- b. The guarantor undertakes a contingent obligation to make future payments if those triggering events or conditions occur (the contingent aspect).

~~No~~ For guarantees that are not within the scope of Subtopic 326-20 on financial instruments measured at amortized cost, no bifurcation and no separate accounting for the contingent and noncontingent aspects of the guarantee are required by this Topic. For guarantees that are within the scope of Subtopic 326-20, the expected credit losses (the contingent aspect) shall be measured and accounted for in addition to and separately from the fair value of the guarantee (the noncontingent aspect) in accordance with paragraph 460-10-30-5.

**460-10-25-3** Because the issuance of a guarantee imposes a noncontingent obligation to stand ready to perform in the event that the specified triggering events or conditions occur, the provisions of Section 450-20-25 regarding a guarantor's contingent obligation under a guarantee should not be interpreted as prohibiting a guarantor from initially recognizing a liability for a guarantee even though it is not **probable** that payments will be required under that guarantee. Similarly, for guarantees within the scope of Subtopic 326-20, the requirement to measure a guarantor's expected credit loss on the guarantee should not be interpreted as prohibiting a guarantor from initially recognizing a liability for the noncontingent aspect of a guarantee.

## **Initial Measurement**

### **> Fair Value Objective**

**460-10-30-2** Except as indicated in paragraphs 460-10-30-3 through ~~30-5~~ 30-4, the objective of the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. For example:

- a. If a guarantee is issued in a standalone arm's-length transaction with an unrelated party, the liability recognized at the inception of the guarantee shall be the premium received or receivable by the guarantor as a practical expedient.
- b. If a guarantee is issued as part of a transaction with multiple elements with an unrelated party (such as in conjunction with selling an asset), the liability recognized at the inception of the guarantee should be an estimate of the guarantee's fair value. In that circumstance, a guarantor shall consider what premium would be required by the guarantor to issue the same guarantee in a standalone arm's-length transaction with an unrelated party as a practical expedient.
- c. If a guarantee is issued as a contribution to an unrelated party, the liability recognized at the inception of the guarantee shall be measured at its fair value, consistent with the requirement to measure the contribution made at fair value, as prescribed in Section 720-25-30. For related implementation guidance, see paragraph 460-10-55-14.

### **> ~~Probable Contingent Losses for Which the Amount of Loss Can Be Reasonably Estimated~~**

### **> Guarantees Not within the Scope of Subtopic 326-20**

**460-10-30-3** In the event that, at the inception of the guarantee, the guarantor is required to recognize a liability under Section 450-20-25 for the related

contingent loss, the liability to be initially recognized for that guarantee shall be the greater of the following:

- a. The amount that satisfies the fair value objective as discussed in the preceding paragraph
- b. The contingent liability amount required to be recognized at inception of the guarantee by Section 450-20-30.

**460-10-30-4** For many guarantors, it would be unusual at the inception of the guarantee for the contingent liability amount under (b) in the preceding paragraph to exceed the amount that satisfies the fair value objective under (a) in the preceding paragraph. An example of that unusual circumstance is a guarantee for which, at inception, there is a high (**probable**) likelihood that the guarantor will be required to pay the maximum potential settlement at the end of the six-month term and a low likelihood that the guarantor will not be required to make any payment at the end of the six-month term. The amount that satisfies the fair value objective would include consideration of the low likelihood that no payment will be required, but the accrual of the contingent loss under Section 450-20-30 would be based solely on the best estimate of the settlement amount whose payment is probable (the maximum potential settlement amount in this case). This example is considered to be an unusual circumstance because of the high likelihood at inception that the maximum potential settlement amount will be paid, resulting in a substantial initial fair value for that guarantee. Another example in which the contingent liability amount required to be recognized under (b) in the preceding paragraph exceeds the fair value at inception under (a) in the preceding paragraph would involve an undiscounted accrual under Subtopic 450-20 for a guarantee payment that is expected to occur many years in the future.

### **> Guarantees within the Scope of Subtopic 326-20**

**460-10-30-5** At the inception of a guarantee within the scope of Subtopic 326-20 on financial instruments measured at amortized cost, the guarantor is required to recognize both of the following as liabilities:

- a. The amount that satisfies the fair value objective in accordance with paragraph 460-10-30-2
- b. The contingent liability related to the expected credit loss for the guarantee measured under Subtopic 326-20.

### **Subsequent Measurement**

**460-10-35-2** Depending on the nature of the guarantee, the guarantor's release from risk has typically been recognized over the term of the guarantee using one of the following three methods:

- a. Only upon either expiration or settlement of the guarantee
- b. By a systematic and rational amortization method

- c. As the fair value of the guarantee changes.

Although those three methods are currently being used in practice for subsequent accounting, this Subsection does not provide comprehensive guidance regarding the circumstances in which each of those methods would be appropriate. A guarantor is not free to choose any of the three methods in deciding how the liability for its obligations under the guarantee is measured subsequent to the initial recognition of that liability. A guarantor shall not use fair value in subsequently accounting for the liability for its obligations under a previously issued guarantee unless the use of that method can be justified under generally accepted accounting principles (GAAP). For example, fair value is used to subsequently measure guarantees accounted for as derivative instruments under Topic 815.

~~**460-10-35-3** Paragraph superseded by Accounting Standards Update No. 2016-13. For guidance on credit losses for financial instruments with off-balance sheet credit risk (including financial guarantees and **financial standby letters of credit**), see paragraphs 825-10-35-2 through 35-3.~~

**460-10-35-4** The discussion in paragraph 460-10-35-2 about how a guarantor typically reduces the liability that it initially recognized does not encompass the recognition and subsequent adjustment of the contingent liability related to the contingent loss for the guarantee. The contingent aspect of the guarantee shall be accounted for in accordance with Subtopic 450-20 unless the guarantee is accounted for as a derivative instrument under Topic 815 or the guarantee is within the scope of Subtopic 326-20 on financial instruments measured at amortized cost. For guarantees within the scope of Subtopic 326-20, the expected credit losses (the contingent aspect) of the guarantee shall be accounted for in accordance with that Subtopic in addition to and separately from the fair value of the guarantee liability (the noncontingent aspect) accounted for in accordance with paragraph 460-10-30-5.

## Other Presentation Matters

**460-10-45-1** Paragraph ~~326-20-45-2~~ ~~825-10-35-4~~ states that an accrual for credit loss on a financial instrument with off-balance-sheet risk (including financial guarantees and **financial standby letters of credit**) shall be a liability that is recorded separate from a valuation account related to a recognized financial instrument and provides related guidance.

## Disclosure

> **Information about Each Guarantee or Group of Similar Guarantees**

> > **Disclosures about a Guarantor's Obligation**

**460-10-50-4** A guarantor shall disclose all of the following information about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor's having to make any payments under the guarantee is remote:

- c. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee (including the amount, if any, recognized under Section 450-20-30 or Subtopic 326-20 on financial instruments measured at amortized cost), regardless of whether the guarantee is freestanding or embedded in another contract

### > **Effect of the Guarantee Disclosure Requirements on the Disclosure Requirements of Other Topics**

**460-10-50-5** The disclosures required by this Subsection do not eliminate or affect the following disclosure requirements:

- a. The requirements in the General Subsection of Section 825-10-50 that certain entities disclose the fair value of their financial guarantees issued
- b. The requirements in paragraphs 450-20-50-3 through 50-4 that an entity disclose a contingent loss that has a reasonable possibility of occurring
- c. The requirements in the Disclosure Sections of Topic 815, which apply to guarantees that are accounted for as derivatives
- d. The requirements in Section 275-10-50 that an entity disclose information about risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term. See Example 1 (paragraph 460-10-55-25) for an illustration of the required disclosure.
- e. The requirements in Section 326-20-50 that an entity disclose information on the measurement of credit loss.

## **Implementation Guidance and Illustrations**

### > **Implementation Guidance**

#### > > **Recognition and Measurement Guidance—Overall Guidance**

**460-10-55-21** In many cases, the one-time premium received by a guarantor for issuing a guarantee will be an appropriate practical expedient for the initial measurement of the guarantee obligation (see paragraph 460-10-30-2[a]). However, if a one-time premium is specified for a guarantee that is issued in conjunction with another transaction (such as the sale of assets by the guarantor), the specified premium may not be an appropriate initial measurement of the guarantor's liability because the amount specified as being applicable to the guarantee may or may not be its fair value (see paragraph 460-10-30-2[b]).

**460-10-55-22** In accordance with paragraph 460-10-30-2, a liability shall be recognized at the inception of the guarantee even if the guarantor does not receive a separately identified premium when it issues the guarantee. For example, in conjunction with the cash sale of equipment to a customer, a manufacturer may issue to its customer's bank a guarantee of the customer's loan for which the proceeds are used to pay for the equipment. There is no separately identified premium for the guarantee, although the sales arrangement may impound an implicit premium. The manufacturer may simply view the guarantee as an accommodation to its customer. ~~Although the recognition requirements in Section 450-20-25 pertaining only to loss contingencies have not been met at the inception of the guarantee, the~~ The seller-guarantor has incurred an obligation identical to the obligation it would incur if it required its customer to pay an explicit premium for the guarantee. Thus, the seller-guarantor shall immediately recognize a liability for its obligations under a newly issued guarantee, even if a separately identified premium was not received. If an entity guaranteed a customer's bank loan purely as an accommodation to an important longstanding customer, unrelated to a specific transaction, the liability for the entity's obligations under the guarantee should be recognized.

## Amendments to Subtopic 470-60

22. Amend paragraphs 470-60-15-3 and 470-60-15-12, with a link to transition paragraph 326-10-65-1, as follows:

### Debt —Troubled Debt Restructurings by Debtors

#### Scope and Scope Exceptions

##### > Other Considerations

**470-60-15-3** This Subtopic establishes standards of financial accounting and reporting by the debtor for a troubled debt restructuring. Subtopic 310-40 addresses a creditor's financial accounting and reporting for a troubled debt restructuring. Together, the two Subtopics establish tests for applicability that are not symmetrical between the debtor and the creditor if the debtor's **carrying amount** and the creditor's ~~recorded investment~~ **amortized cost basis** differ. A debtor may have a troubled debt restructuring under this Subtopic even though the related creditor does not have a troubled debt restructuring under the same tests in Subtopic 310-40. The debtor and creditor shall individually apply the tests to the specific facts and circumstances to determine whether a troubled debt restructuring has occurred. The guidance in paragraphs 470-60-15-5 through 15-13 establishes whether a troubled debt restructuring has occurred from the debtor's perspective.

## > > Troubled Debt Restructuring

**470-60-15-12** A debt restructuring is not necessarily a troubled debt restructuring for purposes of this Subtopic even if the debtor is experiencing some financial difficulties. For example, a troubled debt restructuring is not involved if any of the following circumstances exist:

- a. The **fair value** of cash, other assets, or an equity interest accepted by a creditor from a debtor in full satisfaction of its receivable at least equals the creditor's **amortized cost basis in the receivable** ~~recorded investment in the receivable~~.
- b. The fair value of cash, other assets, or an equity interest transferred by a debtor to a creditor in full settlement of its payable at least equals the debtor's carrying amount of the payable.
- c. The creditor reduces the effective interest rate on the debt primarily to reflect a decrease in market interest rates in general or a decrease in the risk so as to maintain a relationship with a debtor that can readily obtain funds from other sources at the current market interest rate.
- d. The debtor issues in exchange for its debt new marketable debt having an effective interest rate based on its market price that is at or near the current market interest rates of debt with similar maturity dates and stated interest rates issued by nontroubled debtors.

## Amendments to Subtopic 606-10

23. Amend paragraphs 606-10-45-3 through 45-4, 606-10-50-4, 606-10-55-108 through 55-109, 606-10-55-231, 606-10-55-237, and 606-10-55-239, with a link to transition paragraph 326-10-65-1, as follows:

### Revenue from Contracts with Customers—Overall

#### Other Presentation Matters

**606-10-45-3** If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a **contract asset**, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. An entity shall assess a contract asset for credit losses ~~impairment~~ in accordance with Subtopic 326-20 on financial instruments measured at amortized cost, ~~Topic 340 on receivables~~. ~~An impairment~~ A credit loss of a contract asset shall be measured, presented, and disclosed in accordance with Subtopic 326-20, ~~Topic 340~~ (see also paragraph 606-10-50-4(b)).

**606-10-45-4** A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognize a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with Topic 310 and Subtopic 326-20. Upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with ~~Topic 310~~ Subtopic 326-20 and the corresponding amount of **revenue** recognized shall be presented as an a credit loss expense (~~for example, as an impairment loss~~).

## Disclosure

### > Contracts with Customers

**606-10-50-4** An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income (statement of activities) in accordance with other Topics:

- a. **Revenue** recognized from **contracts** with **customers**, which the entity shall disclose separately from its other sources of revenue
- b. ~~Any impairment~~ Credit losses recorded ~~recognized~~ (in accordance with Subtopic 326-20 on financial instruments measured at amortized cost ~~Topic 310 on receivables~~) on any receivables or **contract assets** arising from an entity's contracts with customers, which the entity shall disclose separately from ~~impairment~~ credit losses from other contracts.

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Identifying the Contract

#### > > > Example 4—Reassessing the Criteria for Identifying a Contract

**606-10-55-106** An entity licenses a patent to a customer in exchange for a usage-based royalty. At contract inception, the contract meets all the criteria in paragraph 606-10-25-1, and the entity accounts for the contract with the customer in accordance with the guidance in this Topic. The entity recognizes revenue when the customer's subsequent usage occurs in accordance with paragraph 606-10-55-65.

**606-10-55-107** Throughout the first year of the contract, the customer provides quarterly reports of usage and pays within the agreed-upon period.

**606-10-55-108** During the second year of the contract, the customer continues to use the entity's patent, but the customer's financial condition declines. The customer's current access to credit and available cash on hand are limited. The entity continues to recognize revenue on the basis of the customer's usage throughout the second year. The customer pays the first quarter's royalties but makes nominal payments for the usage of the patent in quarters 2–4. The entity accounts for any ~~impairment of credit losses on~~ the existing receivable in accordance with Subtopic 326-20 on financial instruments measured at amortized cost ~~Topic 310 on receivables~~.

**606-10-55-109** During the third year of the contract, the customer continues to use the entity's patent. However, the entity learns that the customer has lost access to credit and its major customers and thus the customer's ability to pay significantly deteriorates. The entity therefore concludes that it is unlikely that the customer will be able to make any further royalty payments for ongoing usage of the entity's patent. As a result of this significant change in facts and circumstances, in accordance with paragraph 606-10-25-5, the entity reassesses the criteria in paragraph 606-10-25-1 and determines that they are not met because it is no longer probable that the entity will collect the consideration to which it will be entitled. Accordingly, the entity does not recognize any further revenue associated with the customer's future usage of its patent. The entity accounts for additional credit losses on any impairment of the existing receivable in accordance with Subtopic 326-20 ~~Topic 310 on receivables~~.

## > > The Existence of a Significant Financing Component in the Contract

### > > > Example 26—Significant Financing Component and Right of Return

**606-10-55-227** An entity sells a product to a customer for \$121 that is payable 24 months after delivery. The customer obtains control of the product at contract inception. The contract permits the customer to return the product within 90 days. The product is new, and the entity has no relevant historical evidence of product returns or other available market evidence.

**606-10-55-228** The cash selling price of the product is \$100, which represents the amount that the customer would pay upon delivery for the same product sold under otherwise identical terms and conditions as at contract inception. The entity's cost of the product is \$80.

**606-10-55-229** The entity does not recognize revenue when control of the product transfers to the customer. This is because the existence of the right of return and the lack of relevant historical evidence means that the entity cannot conclude that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur in accordance with paragraphs 606-10-32-11 through 32-13. Consequently, revenue is recognized after three months when the right of return lapses.

**606-10-55-230** The contract includes a significant financing component, in accordance with paragraph 606-10-32-15 through 32-17. This is evident from the difference between the amount of promised consideration of \$121 and the cash selling price of \$100 at the date that the goods are transferred to the customer.

**606-10-55-231** The contract includes an implicit interest rate of 10 percent (that is, the interest rate that over 24 months discounts the promised consideration of \$121 to the cash selling price of \$100). The entity evaluates the rate and concludes that it is commensurate with the rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. The following journal entries illustrate how the entity accounts for this contract in accordance with paragraphs 606-10-55-22 through 55-29:

- a. When the product is transferred to the customer, in accordance with paragraph 606-10-55-23.

Asset for right to recover product to be returned	\$80 <sup>(a)</sup>	
Inventory		\$80

(a) This Example does not consider expected costs to recover the asset.

- b. During the three-month right of return period, no interest is recognized in accordance with paragraph 606-10-32-20 because no contract asset or receivable has been recognized.

- c. When the right of return lapses (the product is not returned).

Receivable	\$100 <sup>(b)</sup>	
Revenue		\$100
Cost of sales	\$80	
Asset for product to be returned		\$80

(b) The receivable recognized would be measured in accordance with Subtopic 326-20 ~~Topic 310 on receivables~~. This Example does not consider the credit loss impairment accounting for the receivable.

## >>> Example 28—Determining the Discount Rate

### >>>> Case A—Contractual Discount Rate Reflects the Rate in a Separate Financing Transaction

**606-10-55-236** In evaluating the discount rate in the contract that contains a significant financing component, the entity observes that the 5 percent

contractual rate of interest reflects the rate that would be used in a separate financing transaction between the entity and its customer at contract inception (that is, the contractual rate of interest of 5 percent reflects the credit characteristics of the customer).

**606-10-55-237** The market terms of the financing mean that the cash selling price of the equipment is \$1 million. This amount is recognized as revenue and as a loan receivable when control of the equipment transfers to the customer. The entity accounts for the receivable in accordance with Topic 310 on receivables, Subtopic 326-20 on financial instruments measured at amortized cost, and Subtopic 835-30 on the imputation of interest.

### > > > Case B—Contractual Discount Rate Does Not Reflect the Rate in a Separate Financing Transaction

**606-10-55-238** In evaluating the discount rate in the contract that contains a significant financing component, the entity observes that the 5 percent contractual rate of interest is significantly lower than the 12 percent interest rate that would be used in a separate financing transaction between the entity and its customer at contract inception (that is, the contractual rate of interest of 5 percent does not reflect the credit characteristics of the customer). This suggests that the cash selling price is less than \$1 million.

**606-10-55-239** In accordance with paragraph 606-10-32-19, the entity determines the transaction price by adjusting the promised amount of consideration to reflect the contractual payments using the 12 percent interest rate that reflects the credit characteristics of the customer. Consequently, the entity determines that the transaction price is \$848,357 (60 monthly payments of \$18,871 discounted at 12 percent). The entity recognizes revenue and a loan receivable for that amount. The entity accounts for the loan receivable in accordance with ~~Topic 310~~ Subtopic 310-10 on receivables, Subtopic 326-20 on financial instruments measured at amortized cost, and Subtopic 835-30 on the imputation of interest.

## Amendments to Subtopic 805-20

24. Amend paragraphs 805-20-30-2, 805-20-30-4, 805-20-30-10, 805-20-30-12, and 805-20-35-4B and add paragraphs 805-20-30-4A through 30-4B and 805-20-30-26 and its related heading, with a link to transition paragraph 326-10-65-1, as follows:

### **Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest**

## Initial Measurement

### > Measurement Principle

**805-20-30-2** Exceptions to the measurement principle are identified and their accounting treatment is addressed in paragraphs 805-20-30-10 through 30-26 ~~30-23~~.

### > > Assets with Uncertain Cash Flows (Valuation Allowances)

**805-20-30-4** The acquirer shall not recognize a separate valuation allowance as of the **acquisition date** for assets acquired in a business combination that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure, unless the assets acquired are financial assets for which the acquirer shall refer to the guidance in paragraphs 805-20-30-4A through 30-4B. ~~For example, because this Subtopic requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values, the acquirer does not recognize a separate valuation allowance for the contractual cash flows that are deemed to be uncollectible at that date.~~

**805-20-30-4A** For acquired financial assets that are not purchased financial assets with credit deterioration, the acquirer shall record the purchased financial assets at the acquisition-date fair value. Additionally, for these financial assets within the scope of Topic 326, an allowance shall be recorded with a corresponding charge to credit loss expense as of the reporting date.

**805-20-30-4B** For assets accounted for as purchased financial assets with credit deterioration (which includes beneficial interests that meet the criteria in paragraph 325-40-30-1A), an acquirer shall recognize an allowance in accordance with Topic 326 with a corresponding increase to the amortized cost basis of the financial asset(s) as of the acquisition date.

### > Exceptions to the Measurement Principle

**805-20-30-10** Paragraph 805-20-25-16 notes that the Business Combinations Topic provides limited exceptions to the recognition and measurement principles applicable to business combinations. Paragraphs 805-20-30-12 through 30-26 ~~30-25~~ specify the types of identifiable assets and liabilities that include items for which this Subtopic provides limited exceptions to the paragraph 805-20-30-1 measurement principle. The acquirer shall apply the specified GAAP or the specified requirements rather than that measurement principle to determine how to measure the assets or liabilities identified in paragraphs 805-20-30-12 through 30-26 ~~30-25~~. That will result in some items being measured at an amount other than their acquisition-date fair values.

**805-20-30-12** Guidance is presented on all of the following exceptions to the measurement principle:

- a. Income taxes
- b. Employee benefits
- c. Indemnification assets
- d. Reacquired rights
- e. Share-based payment awards
- f. Assets held for sale
- g. Certain assets and liabilities arising from contingencies.
- h. Leases.
- i. **Purchased financial assets with credit deterioration.**

### **> > Purchased Financial Assets with Credit Deterioration**

**805-20-30-26** An acquirer shall recognize **purchased financial assets with credit deterioration** (including beneficial interests meeting the conditions in paragraph 325-40-30-1A) in accordance with Section 326-20-30 for financial instruments measured at amortized cost or Section 326-30-30 for available-for-sale debt securities. Paragraphs 326-20-55-57 through 55-78 illustrate how the guidance is applied for purchased financial assets with credit deterioration measured at amortized cost. Paragraphs 326-30-55-5 through 55-7 illustrate how the guidance is applied to available-for-sale debt securities. An acquirer shall not accrete into interest income the credit losses embedded in the purchase price for purchased financial assets with credit deterioration.

## **Subsequent Measurement**

### **> Guidance on Specific Business-Combination-Related Items**

#### **> > Indemnification Assets**

##### **> > > Indemnification Assets Arising from Government-Assisted Acquisitions of a Financial Institution**

**805-20-35-4B** An indemnification asset recognized at the acquisition date in accordance with paragraphs 805-20-25-27 through 25-28 as a result of a government-assisted acquisition of a financial institution involving an indemnification agreement shall be subsequently measured on the same basis as the indemnified item. ~~In certain circumstances, the effect of the change in expected cash flows of the indemnification agreement shall be amortized. Any amortization of changes in value shall be limited to the lesser of the contractual term of the indemnification agreement and the remaining life of the indemnified assets. For example, for indemnified assets accounted for under paragraph 310-30-35-10, if the expected cash flows on the indemnified assets increase (and~~

~~there is no previously recorded valuation allowance), an entity shall account for the associated decrease in the indemnification asset by amortizing the change over the lesser of the contractual term of the indemnification agreement and the remaining life of the indemnified assets. Alternatively, For example, if the expected cash flows on the indemnified assets increase such that a previously recorded valuation allowance is reversed, an entity shall account for the associated decrease in the indemnification assets asset immediately in earnings. Any remaining decrease in the indemnification asset shall be amortized over the lesser of the contractual term of the indemnification agreement and the remaining life of the indemnified assets.~~

## Amendments to Subtopic 810-10

25. Amend paragraph 810-10-30-8C, with a link to transition paragraph 326-10-65-1, as follows:

### **Consolidation—Overall**

#### **Initial Measurement**

#### **Variable Interest Entities**

**810-10-30-8C** The measurement alternative in the preceding paragraph does not obviate the need for the primary beneficiary to recognize any accrued ~~interest, interest or record~~ an allowance for credit losses, ~~or other than temporary impairment~~, as appropriate. Other assets, liabilities, or noncontrolling interests, if any, that do not have an unpaid principal balance, and any items that are required to be carried at fair value under other applicable standards, shall be measured at fair value.

## Amendments to Subtopic 815-10

26. Amend paragraph 815-10-35-5, with a link to transition paragraph 326-10-65-1, as follows:

### **Derivatives and Hedging—Overall**

#### **Subsequent Measurement**

#### **Certain Contracts on Debt and Equity Securities**

**815-10-35-5** Forward contracts and purchased options on debt securities within the scope of this Subsection shall be measured subsequently according to their initial classification as follows:

- a. Held to maturity:
  1. Changes in the **fair value** of the forward contract or purchased option shall not be recognized ~~unless a decline in the fair value of the underlying securities is other than temporary, in which case a loss shall be recognized in earnings.~~ Credit losses on the underlying securities in a forward contract shall be recorded through an allowance for credit losses in accordance with Subtopic 326-20 on financial instruments measured at amortized cost. Credit losses on the underlying securities in a purchased option shall be recorded through an allowance for credit losses in accordance with Subtopic 326-20 and shall be limited by the amount of the option premium.
  2. Debt securities purchased under a forward contract shall be recorded at the forward contract price at the settlement date.
  3. Debt securities purchased by exercising an option shall be recorded at the option strike price plus any remaining carrying amount for the option premium at the exercise date.
  4. If an option expires worthless and the same debt security is purchased in the market, the security shall be recorded at its market price plus any remaining carrying amount for the option premium.
  5. If an entity does not take delivery under the forward contract or purchase the same security in the market if the option expires worthless, the entity's intent to hold other debt securities instruments to maturity will be called into question.
- b. Available for sale:
  1. Changes in the fair value of the forward contract or purchased option shall be recognized as part of the separate component of shareholders' equity under Topic 320 as they occur ~~unless a decline in the fair value of the underlying securities is other than temporary.~~ Credit losses on the underlying securities in a forward contract shall be recorded through an allowance for credit losses in accordance with Subtopic 326-30 on measuring credit losses on available-for-sale debt securities. Credit losses on the underlying securities in a purchased option shall be recorded through an allowance for credit losses in accordance with Subtopic 326-30 and shall be limited by the amount of the option premium.
  2. Debt securities purchased under a forward contract shall be recorded at their fair values at the settlement date.
  3. Debt securities purchased by exercising an option shall be recorded at the option strike price plus the fair value of the option at the exercise date.

4. If the option expires worthless and the same debt security is purchased in the market, the security shall be recorded at its market price plus any remaining carrying amount for the option premium.
- c. **Trading:**
1. Changes in the fair value of the forward contract or purchased option shall be recognized in earnings as they occur.
  2. Debt securities purchased under a forward contract or by exercising an option shall be recorded at their fair values at the settlement date.

## Amendments to Subtopic 815-15

27. Amend paragraph 815-15-25-5, with a link to transition paragraph 326-10-65-1, as follows:

### **Derivatives and Hedging—Embedded Derivatives**

#### **Recognition**

##### **> Fair Value Election for Hybrid Financial Instruments**

**815-15-25-5** The fair value election shall be supported by concurrent documentation or a preexisting documented policy for automatic election. That recognized hybrid financial instrument could be an asset or a liability and it could be acquired or issued by the entity. The fair value election is also available when a previously recognized **financial instrument** is subject to a **remeasurement event (new basis event)** and the separate recognition of an embedded derivative. The fair value election may be made instrument by instrument. For purposes of this paragraph, a remeasurement event (new basis event) is an event identified in generally accepted accounting principles, other than the ~~recording of a credit loss under Topic 326 recognition of an other than temporary impairment~~, or measurement of an impairment loss through earnings under Topic 321 on equity investments, that requires a financial instrument to be remeasured to its fair value at the time of the event but does not require that instrument to be reported at fair value on a continuous basis with the change in fair value recognized in earnings. Examples of remeasurement events are business combinations and significant modifications of debt as defined in Subtopic 470-50.

## Amendments to Subtopic 815-25

28. Amend paragraphs 815-25-35-10 through 35-12 and their related headings, 815-25-55-85 and its related heading, and 815-25-55-88 through 55-89, with a link to transition paragraph 326-10-65-1, as follows:

## **Derivatives and Hedging—Fair Value Hedges**

### **Subsequent Measurement**

#### **> > Impairment or Credit Losses of Hedged Item**

**815-25-35-10** An asset or liability that has been designated as being hedged and accounted for pursuant to this Section remains subject to the applicable requirements in generally accepted accounting principles (GAAP) for assessing impairment or credit losses for that type of asset or for recognizing an increased obligation for that type of liability. Those impairment or credit loss requirements shall be applied after hedge accounting has been applied for the period and the carrying amount of the hedged asset or liability has been adjusted pursuant to paragraph 815-25-35-1(b). Because the hedging instrument is recognized separately as an asset or liability, its fair value or expected cash flows shall not be considered in applying those impairment or credit loss requirements to the hedged asset or liability.

#### **> > > Interaction with Measurement of Credit Losses ~~Loan Impairment~~**

**815-25-35-11** This Subtopic implicitly affects the measurement of credit losses impairment under ~~Section 340-10-35~~ Subtopic 326-20 on financial instruments measured at amortized cost by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted amortized cost basis ~~recorded investment~~ in a hedged loan. Paragraph ~~326-20-55-9~~ ~~340-10-35-34~~ requires that, when the amortized cost basis ~~recorded investment~~ of a loan has been adjusted under fair value hedge accounting, the effective rate is the discount rate that equates the present value of the loan's future cash flows with that adjusted amortized cost basis ~~recorded investment~~. That paragraph states that the adjustment under fair value hedge accounting of the loan's carrying amount for changes in fair value attributable to the hedged risk under this Subtopic shall be considered to be an adjustment of the loan's amortized cost basis ~~recorded investment~~. As discussed in that paragraph, the loan's original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value. Because paragraph 815-25-35-10 requires that the loan's carrying amount be adjusted for hedge accounting before the ~~impairment~~ requirements of Subtopic ~~326-20~~ ~~340-40~~ are applied, this Subtopic implicitly supports using the new effective rate and the adjusted amortized cost basis ~~recorded investment~~.

**815-25-35-12** This guidance applies to all entities applying Subtopic 326-20 340-40 to financial assets that are hedged items in a fair value hedge, regardless of whether those entities have delayed amortizing to earnings the adjustments of the loan's carrying amount arising from fair value hedge accounting until the hedging relationship is dedesignated. The guidance on recalculating the effective rate is not intended to be applied to all other circumstances that result in an adjustment of a loan's carrying amount.

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 14: Interaction with Measurement of Credit Losses Loan Impairment

**815-25-55-85** This Example illustrates the application of paragraph 815-25-35-11 involving the interaction of hedge accounting and measurement of credit losses in Subtopic 326-20 on financial instruments measured at amortized cost loan impairment accounting.

**815-25-55-86** Entity A formally documents a qualifying fair value hedge (for fair value changes attributable to changes in the designated benchmark interest rate) between a fixed-rate loan receivable from Entity B and an interest rate swap. The 5-year, fixed-rate loan to Entity B has a principal amount of \$1,000,000 payable at maturity and interest payable annually at a 10 percent rate. One year after inception of the hedging relationship, the change in the hedged item's fair value attributable to changes in the LIBOR swap rate (the designated benchmark interest rate) is a gain of \$16,022. (See row B in the table in paragraph 815-25-55-90, which presents calculations—at the end of the first year of the loan's term—of the net present value of contractual cash flows based on the loan's original effective interest rate adjusted for a 50 basis point decrease in the LIBOR swap rate.)

**815-25-55-87** In addition, one year after inception of the hedging relationship, both of the following conditions exist:

- a. The market interest rates for debtors of Entity B's original credit sector have decreased to 9.2 percent (50 basis points related to changes in the LIBOR swap rate and 30 basis points related to changes in sector spread).
- b. There has been an adverse change to Entity B's creditworthiness.

**815-25-55-88** Assume that the repayment of the loan is not dependent on the underlying collateral. In applying the requirements of Subtopic 326-20 340-40 to the loan, Entity A evaluates the loan for credit losses on an individual basis because it does not have similar risk characteristics with other loans in the

portfolio and uses a discounted cash flow approach. Entity A determines that ~~the loan is impaired and that~~ the present value of expected future cash flows discounted at the loan's effective interest rate at inception of the loan is \$930,000. (See row C in the table in paragraph 815-25-55-90, which presents calculations—at the end of the first year of the loan's term—of the net present value of current estimates of expected future cash flows based on the loan's original effective interest rate.)

**815-25-55-89** After adjusting the carrying amount of the hedged loan by \$16,022 (pursuant to paragraph 815-25-35-1(b)) for the increase in the hedged item's fair value attributable to changes in the benchmark interest rate, Entity A should apply the guidance in ~~Section 310-10-35~~ Subtopic 326-20 by doing both of the following:

- a. Comparing the ~~recorded investment~~ amortized cost basis of the loan after the effect of the fair value hedge, or \$1,016,022, to the \$944,901 present value of expected future cash flows discounted using the rate that reflects the rate of return implicit in the loan after adjusting the carrying amount of the hedged loan pursuant to paragraph 815-25-35-1(b) (that is, 9.5 percent)
- b. ~~Recognizing~~ Recording an impairment by ~~creating a valuation allowance for credit losses~~ (with the offsetting entry charged to expense) for the difference of \$71,121 (\$1,016,022 – \$944,901).

**815-25-55-90** Following are calculations (at the end of the first year of the loan's term) of the net present value of the contractual cash flows and the creditor's best estimate of expected future cash flows based on the loan's original effective interest rate and the new implicit rate.

	Rate	Net Present Value at End	Assumed Cash Flow in Year			
		of Year 1	2	3	4	5
A. Original cash flows and original effective date	10.0%	\$ 1,000,000	\$100,000	\$100,000	\$100,000	\$1,100,000
B. Original cash flows and new implicit rate	9.5%	\$ 1,016,022	\$100,000	\$100,000	\$100,000	\$1,100,000
C. Expected future cash flows and original effective rate	10.0%	\$ 930,000	\$ 93,000	\$ 93,000	\$ 93,000	\$1,023,000
D. Expected future cash flows and new implicit rate	9.5%	\$ 944,901	\$ 93,000	\$ 93,000	\$ 93,000	\$1,023,000

## Amendments to Subtopic 815-30

29. Amend paragraphs 815-30-35-42 through 35-43 and their related heading, with a link to transition paragraph 326-10-65-1, as follows:

### **Derivatives and Hedging—Cash Flow Hedges**

#### **Subsequent Measurement**

##### **> > Interaction with Impairment and Credit Loss Principles**

**815-30-35-42** Existing requirements in generally accepted accounting principles (GAAP) for assessing asset impairment or credit losses or recognizing an increased obligation apply to an asset or liability that gives rise to variable cash flows (such as a variable-rate **financial instrument**) for which the variable cash flows (the forecasted transactions) have been designated as being hedged and accounted for pursuant to paragraphs 815-30-35-3 and 815-30-35-38 through 35-41. Those impairment or credit loss requirements shall be applied each period after hedge accounting has been applied for the period, pursuant to those paragraphs. The fair value or expected cash flows of a hedging instrument shall not be considered in applying those requirements. The gain or loss on the hedging instrument in accumulated other comprehensive income shall, however, be accounted for as discussed in paragraphs 815-30-35-38 through 35-41.

**815-30-35-43** If, under existing requirements in GAAP, an asset impairment loss or writeoff due to credit losses is recognized on an asset or an additional obligation is recognized on a liability to which a hedged forecasted transaction relates, any offsetting or corresponding net gain related to that transaction in accumulated other comprehensive income shall be reclassified immediately into earnings. Similarly, if a recovery is recognized on the asset or liability to which the forecasted transaction relates, any offsetting net loss that has been accumulated in other comprehensive income shall be reclassified immediately into earnings.

## Amendments to Subtopic 820-10

30. Amend paragraph 820-10-55-92, with a link to transition paragraph 326-10-65-1, as follows:

### **Fair Value Measurement—Overall**

#### **Implementation Guidance and Illustrations**

##### **> Illustrations**

##### **> > Example 8: Measuring Fair Value When the Volume or Level of Activity for an Asset or a Liability Has Significantly Decreased**

**820-10-55-92** Because there is little, if any, trading activity to support a valuation technique using a market approach, Entity A decides to use an income approach using the discount rate adjustment technique described beginning in paragraph 820-10-55-10 to measure the fair value of the residential mortgage-backed security at the measurement date. (See also paragraphs 820-10-35-36 through 35-36A.) Entity A uses the contractual cash flows from the residential mortgage-backed security. The discount rate adjustment technique described beginning in paragraph 820-10-55-10 would not be appropriate when determining whether there has been ~~an other than temporary impairment~~ a credit loss and/or a change in yield in accordance with paragraph 325-40-35-4 when that technique uses contractual cash flows rather than most likely cash flows.

## Amendments to Subtopic 825-10

31. Amend paragraphs 825-10-05-2, 825-10-25-4, 825-10-55-8, and 825-10-55-10 and supersede paragraphs 825-10-35-1 through 35-3 and their related heading, with a link to transition paragraph 326-10-65-1, as follows:

### **Financial Instruments—Overall**

#### **Overview and Background**

##### **General**

**825-10-05-2** The Overall Subtopic presents guidance in the following Subsections:

- a. General

b. Fair Value Option.

The General Subsections provide guidance on the fair value option—credit losses on financial instruments with off-balance sheet credit risk and certain disclosures about financial instruments.

## Recognition

### Fair Value Option

#### > Overall Guidance

#### >> Election Dates

**825-10-25-4** An entity may choose to elect the fair value option for an eligible item only on the date that one of the following occurs:

- a. The entity first recognizes the eligible item.
- b. The entity enters into an eligible **firm commitment**.
- c. Financial assets that have been reported at fair value with unrealized gains and losses included in earnings because of specialized accounting principles cease to qualify for that specialized accounting (for example, a transfer of assets from a subsidiary subject to Subtopic 946-10 to another entity within the consolidated reporting entity not subject to that Subtopic).
- d. The accounting treatment for an investment in another entity changes because the investment becomes subject to the equity method of accounting.
  1. Subparagraph superseded by Accounting Standards Update No. 2016-01.
  2. Subparagraph superseded by Accounting Standards Update No. 2016-01.
- e. An event that requires an eligible item to be measured at fair value at the time of the event but does not require fair value measurement at each reporting date after that, excluding the recognition of impairment under lower-of-cost-or-market accounting or ~~other than temporary impairment~~ or accounting for equity securities in accordance with either Topic 321 on investments—equity securities or Topic 326 on measurement of credit losses.

## Subsequent Measurement

### ~~> Credit Losses on Financial Instruments with Off-Balance Sheet Credit Risk~~

~~825-10-35-1 Paragraph superseded by Accounting Standards Update No. 2016-13. An accrual for credit loss on a **financial instrument** with off balance sheet risk shall be recorded separate from a valuation account related to a recognized financial instrument. [Content moved to paragraph 326-20-45-2]~~

~~825-10-35-2 Paragraph superseded by Accounting Standards Update No. 2016-13. Credit losses for off balance sheet financial instruments shall be deducted from the liability for credit losses in the period in which the liability is settled. [Content moved to paragraph 326-20-45-2]~~

~~825-10-35-3 Paragraph superseded by Accounting Standards Update No. 2016-13. Off balance sheet financial instruments refers to off balance sheet loan commitments, standby letters of credit, financial guarantees, and other similar instruments with off balance sheet credit risk except for instruments within the scope of Subtopic 815-10.~~

## Implementation Guidance and Illustrations

### Fair Value Option

#### > Illustrations

#### >> Example 1: Fair Value Measurements and Changes in Fair Values Included in Current-Period Earnings

**825-10-55-8** The statement of financial position for Entity XYZ as of December 31, 20X1, is provided to assist in understanding the illustrative fair value disclosures in Cases A and B.

(\$ in 000s)

Description	At December 31, 20X1
<b>Assets</b>	
Cash and due from banks	\$ 38
Deposits with banks	22
Fed funds sold and securities purchased under resale agreements	134
Securities borrowed	75
Trading debt securities	115
Debt securities available-for-sale <u>(net of allowance for credit losses of \$3)</u>	75
Debt securities held-to-maturity	<u>\$ 34</u> 32
<u>Allowance for credit losses on held-to-maturity debt securities</u>	<u>(2)</u>
<u>Debt securities held-to-maturity, net of allowance for credit losses</u>	<u>32</u>
Loans and lease receivables (\$150 at fair value)	\$560
<u>Allowance for credit <del>loan and lease</del> losses on loan and lease receivables</u>	<u>(10)</u>
<u>Loans and lease receivables, net of allowance for credit <del>loan and lease</del> losses</u>	550
Derivatives	60
Equity investments	125
Premises and equipment	10
Other assets	20
<b>Total assets</b>	<u>\$ 1,256</u>
<b>Liabilities</b>	
Non-interest-bearing deposits	\$ 143
Interest-bearing deposits	412
Fed funds purchased and securities sold under repurchase agreements	130
Accounts payable	110
Short-term borrowings	128
Long-term debt (\$60 at fair value)	<u>200</u>
<b>Total liabilities</b>	<u>1,123</u>
<b>Shareholders' equity</b>	
Common stock (authorized 5,000,000 shares; issued 3,550,000 shares)	4
Capital surplus	88
Retained earnings	42
Accumulated other comprehensive income (loss)	<u>(1)</u>
<b>Total shareholders' equity</b>	<u>133</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 1,256</u>

## > > Case A: Disclosures with Voluntary Integration

**825-10-55-9** The objective is to provide information about all of the following:

- a. Assets and liabilities measured at fair value on a recurring basis (as required by Subtopic 820-10)
- b. Changes in fair values of assets and liabilities for which the fair value option has been elected in a manner that relates to the statement of financial position (as required by this Subtopic)

- c. Fair value estimates and corresponding carrying amounts for major categories of assets and liabilities that include items measured at fair value on a recurring basis (in accordance with the General Subsection of 825-10-50).

**825-10-55-10** The following table represents the fair value tabular disclosure required by paragraph 820-10-50-2(b), supplemented to do both of the following:

- a. Provide information about where in the income statement changes in fair values of assets and liabilities reported at fair value are included in earnings
- b. Voluntarily integrate selected disclosures required annually by the General Subsection of 825-10-50.

Disclosures required by paragraphs 825-10-50-28(c) and 825-10-50-30(a) are illustrated in the narrative disclosure that follows the table.

Description	Fair Value Measurements at December 31, 20X1, Using		Changes in Fair Values for the 12-Month Period Ended December 31, 20X1, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option									
	Total Carrying Amount in Statement of Financial Position	Assets or Liabilities Measured at Fair Value 12/31/20X1	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Trading Gains and Losses	Other Gains and Losses	Interest Income on Loans	Interest Expense on Long-Term Debt	Changes in Fair Values Included in Current Period Earnings	Total Changes in Fair Values Included in Other Comprehensive Income	
Trading debt securities	\$ 115	\$ 115	\$ 105	\$ 10	\$ -	\$ 10	\$ -	\$ -	\$ -	\$ 10	\$ -	
Available-for-sale debt securities, net	75	75	75	-	-	-	-	-	-	7	-	
Loans, net	400	412	150	100	50	5	(3)	10	-	7	-	
Derivatives	60	60	25	15	20	5	(c)	-	-	5	-	
Equity investments	125	125	50	25	50	-	(18)	-	-	(18)	-	
Long-term debt	(200)	(206)	(60)	(40)	(20)	-	13	(4)	-	5	4	

(\*) Includes investments that would otherwise be accounted for under the equity method of accounting.

Loans are included in loans and lease receivables in the statement of financial position. As of December 31, 20X1, approximately \$160,000 of lease receivables are included in loans and lease receivables in the statement of financial position and are not eligible for the fair value option.

(a) This column discloses carrying amount information required annually by this Subtopic only for major categories of assets and liabilities that include items measured at fair value.

(b) This column discloses fair value estimates required annually by this Subtopic only for major categories of assets and liabilities that include items measured at fair value. This Subtopic requires an entity to disclose fair value estimates and related carrying amounts for all financial instruments within the scope of this Subtopic. Paragraph 825-10-50-12 requires that if an entity discloses the fair value of financial instruments in more than a single note, one of the notes include a summary table (not presented in this Example).

(c) This Subtopic does not require disclosure of the amounts in the Trading Gains and Losses column nor does it preclude disclosure of these amounts. These amounts are shown for completeness.

## Amendments to Subtopic 830-20

32. Amend paragraph 830-20-35-6 and supersede paragraph 830-20-35-7, with a link to transition paragraph 326-10-65-1, as follows:

### Foreign Currency Matters—Foreign Currency Transactions

#### Subsequent Measurement

##### > Transaction Gains and Losses

##### > > Available-for-Sale Debt Securities

**830-20-35-6** Paragraph 320-10-35-36 requires that the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities not related to the allowance for credit losses be reported in other comprehensive income. See Subtopic 326-30 for guidance on measuring credit losses for available-for-sale debt securities.

~~**830-20-35-7** Paragraph superseded by Accounting Standards Update No. 2016-13. Paragraph 320-10-35-37 explains that an entity holding a foreign-currency-denominated available-for-sale debt security is required to consider, among other things, changes in market interest rates and foreign exchange rates since acquisition in determining whether an other-than-temporary impairment has occurred.~~

## Amendments to Subtopic 835-10

33. Supersede paragraphs 835-10-60-2 through 60-3, with a link to transition paragraph 326-10-65-1, as follows:

### Interest—Overall

#### Relationships

##### > Receivables

~~**835-10-60-2** Paragraph superseded by Accounting Standards Update No. 2016-13. For guidance on interest income recognition on impaired loans, see paragraph 310-10-35-39.~~

~~835-10-60-3 Paragraph superseded by Accounting Standards Update No. 2016-13. For guidance on interest income recognition on loans with evidence of deterioration of credit quality since origination that are acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable, see Subtopic 310-30.~~

## Amendments to Subtopic 842-30

34. Amend paragraphs 842-30-25-2, 842-30-25-6, 842-30-25-9, 842-30-35-3 and its related heading, and 842-30-40-2, with a link to transition paragraph 326-10-65-1, as follows:

### Leases—Lessor

#### Recognition

##### > Sales-Type Leases

**842-30-25-2** After the commencement date, a lessor shall recognize all of the following:

- a. Interest income on the net investment in the lease, measured in accordance with paragraph 842-30-35-1(a)
- b. **Variable lease payments** that are not included in the net investment in the lease as income in profit or loss in the period when the changes in facts and circumstances on which the variable lease payments are based occur
- c. ~~Impairment of~~ Credit losses on the net investment in the lease (as described in paragraph 842-30-35-3).

**842-30-25-6** If collectibility is probable at the commencement date for a **sales-type lease** or for a **direct financing lease**, a lessor shall not reassess whether collectibility is probable. Subsequent changes in the credit risk of the lessee shall be accounted for in accordance with the credit loss impairment guidance applicable to the net investment in the lease in paragraph 842-30-35-3.

##### > Direct Financing Leases

**842-30-25-9** After the commencement date, a lessor shall recognize all of the following:

- a. Interest income on the net investment in the lease, measured in accordance with paragraph 842-30-35-1(a)
- b. **Variable lease payments** that are not included in the net investment in the lease as income in profit or loss in the period when the changes in

facts and circumstances on which the variable lease payments are based occur

- c. ~~Impairment of~~ Credit losses on the net investment in the lease (as described in paragraph 842-30-35-3).

## Subsequent Measurement

### > Sales-Type and Direct Financing Leases

#### > > Impairment of Credit losses on the Net Investment in the Lease

**842-30-35-3** A lessor shall determine credit losses impairment related to the **net investment in the lease** and shall ~~record~~ recognize any credit losses impairment in accordance with Subtopic 326-20 on financial instruments measured at amortized cost ~~Topic 310 on receivables (as described in paragraphs 310-10-35-46 through 35-30)~~. When determining the loss allowance for a net investment in the lease, a lessor shall take into consideration the collateral relating to the net investment in the lease. The collateral relating to the net investment in the lease represents the cash flows that the lessor would expect to derive from the **underlying asset** during the remaining **lease term** ~~(for example, from sale of the asset or release of the asset for the remainder of the lease term)~~, which excludes the cash flows that the lessor would expect to derive from the underlying asset following the end of the lease term (for example, cash flows from leasing the asset after the end of the lease term).

## Derecognition

### > Sales-Type and Direct Financing Leases

#### > > Lease Termination

**842-30-40-2** If a **sales-type lease** or a **direct financing lease** is terminated before the end of the **lease term**, a lessor shall do all of the following:

- a. ~~Test~~ Measure the **net investment in the lease** for credit losses impairment in accordance with Subtopic 326-20 on financial instruments measured at amortized cost ~~Topic 310 on receivables~~ and ~~record~~ recognize any credit impairment loss identified
- b. Reclassify the net investment in the lease to the appropriate category of asset in accordance with other Topics, measured at the sum of the carrying amounts of the **lease receivable** (less any amounts still expected to be received by the lessor) and the residual asset
- c. Account for the **underlying asset** that was the subject of the **lease** in accordance with other Topics.

## Amendments to Subtopic 842-50

35. Amend paragraphs 842-50-50-2, with a link to transition paragraph 326-10-65-1, as follows:

### Leases—Leveraged Lease Arrangements

#### Disclosure

**842-50-50-2** For guidance on disclosures about financing receivables, which include receivables relating to a lessor's rights to payments from leveraged leases, see the guidance ~~beginning in Subtopic 326-20 on financial instruments measured at amortized cost and paragraph paragraphs 310-10-50-5A, 310-10-50-27, and 310-10-50-31.~~

## Amendments to Subtopic 855-10

36. Amend paragraphs 855-10-55-1 through 55-2, with a link to transition paragraph 326-10-65-1, as follows:

### Subsequent Events—Overall

#### Implementation Guidance and Illustrations

##### > Implementation Guidance

##### > > Recognized Subsequent Events

**855-10-55-1** The following are examples of recognized **subsequent events** addressed in paragraph 855-10-25-1:

- a. If the events that gave rise to litigation had taken place before the balance sheet date and that litigation is settled after the balance sheet date but before the **financial statements are issued** or are **available to be issued**, for an amount different from the liability recorded in the accounts, then the settlement amount should be considered in estimating the amount of liability recognized in the financial statements at the balance sheet date.
- b. Subsequent events affecting the realization of assets, such as ~~receivables and inventories~~ **inventories**, or the settlement of estimated liabilities, should be recognized in the financial statements when those events represent the culmination of conditions that existed over a

~~relatively long period of time. For example, a loss on an uncollectible trade account receivable as a result of a customer's deteriorating financial condition leading to bankruptcy after the balance sheet date but before the financial statements are issued or are available to be issued ordinarily will be indicative of conditions existing at the balance sheet date. Thus, the effects of the customer's bankruptcy filing shall be considered in determining the amount of uncollectible trade accounts receivable recognized in the financial statements at balance sheet date.~~

## > > Nonrecognized Subsequent Events

**855-10-55-2** The following are examples of nonrecognized subsequent events addressed in paragraph 855-10-25-3:

- a. Sale of a bond or capital stock issued after the balance sheet date but before financial statements are issued or are available to be issued
- b. A business combination that occurs after the balance sheet date but before financial statements are issued or are available to be issued (Topic 805 requires specific disclosures in such cases.)
- c. Settlement of litigation when the event giving rise to the claim took place after the balance sheet date but before financial statements are issued or are available to be issued
- d. Loss of plant or inventories as a result of fire or natural disaster that occurred after the balance sheet date but before financial statements are issued or are available to be issued
- e. ~~Losses~~ Changes in estimated credit losses on receivables ~~resulting from conditions (such as a customer's major casualty)~~ arising after the balance sheet date but before financial statements are issued or are available to be issued
- f. Changes in the fair value of assets or liabilities (financial or nonfinancial) or foreign exchange rates after the balance sheet date but before financial statements are issued or are available to be issued
- g. Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the balance sheet date but before financial statements are issued or are available to be issued.

## Amendments to Subtopic 860-20

37. Amend paragraphs 860-20-30-2, 860-20-35-3, 860-20-35-9, 860-20-50-5, and 860-20-55-19, with a link to transition paragraph 326-10-65-1, as follows:

## Transfers and Servicing—Sales of Financial Assets

### Initial Measurement

**860-20-30-2** The transferee shall initially measure, at fair value, any asset or liability recognized under paragraph 860-20-25-3, unless it is a purchased financial asset with credit deterioration or is a beneficial interest that meets the criteria in paragraph 325-40-30-1A, in which case the transferee shall apply the guidance in Topic 326 on measurement of credit losses to determine the initial amortized cost basis.

## Subsequent Measurement

### > Financial Assets Subject to Prepayment

**860-20-35-3** Interest-only strips and similar interests that are not in the form of securities are not within the scope of Topic 320 but shall be measured like investments in debt securities classified as available for sale or trading. In that circumstance, all of the measurement provisions of that Topic, ~~including those addressing recognition and measurement of impairment, as well as the provisions of Topic 326 on measurement of credit losses,~~ shall be followed. However, other provisions of ~~that Topic~~ Topics 320 and 326, such as those addressing disclosures, are not required to be applied. Paragraph 320-10-15-9 explains that, for debt securities within its scope, Subtopic 325-40 provides incremental guidance on accounting for and reporting discounts and credit losses impairment.

### > Beneficial Interests

**860-20-35-9** Beneficial interests shall be evaluated ~~periodically~~ for credit losses possible impairment, including at the time paragraphs 860-20-25-8 through 25-10 are applied. See Section 325-40-35 for ~~impairment~~ on credit losses applicable to beneficial interests in securitized financial assets.

## Disclosure

### > > Sales of Loans and Trade Receivables

**860-20-50-5** The aggregate amount of gains or losses on sales of loans or trade receivables (including adjustments to record loans held for sale at the lower of amortized cost basis cost or fair value) shall be presented separately in the financial statements or disclosed in the notes to financial statements. See Topic 310 on receivables and Topic 326 on measurement of credit losses for a full discussion of disclosure requirements for loans and trade receivables.

## Implementation Guidance and Illustrations

## > Implementation Guidance

### > > Accrued Interest Receivable

**860-20-55-17** The receivables for accrued fee and finance charge income on an investors' portion of the transferred credit card receivables, whether billed but uncollected or accrued but unbilled, are commonly referred to as accrued interest receivable. The following addresses how the accrued interest receivable related to securitized and sold receivables should be accounted for and reported under this Subtopic. This guidance applies to credit card securitizations as well as other kinds of securitizations.

**860-20-55-18** The right to receive the accrued interest receivable, if and when collected, is transferred to the securitization trust. Generally, if a securitization transaction meets the criteria for sale treatment and the accrued interest receivable is subordinated either because the asset has been isolated from the transferor (see paragraph 860-10-40-5) or because of the operation of the cash flow distribution (or waterfall) through the securitization trust, the total accrued interest receivable should be considered to be one of the components of the sale transaction. Therefore, under the circumstances described, the accrued interest receivable asset should be accounted for as a transferor's interest. It is inappropriate to report the accrued interest receivable related to securitized and sold receivables as loans receivable or other terminology implying that it has not been subordinated to the senior interests in the securitization.

**860-20-55-19** While, under the circumstances described, the accrued interest receivable is a transferor's interest, it is not required to be subsequently measured like an investment in debt securities classified as available for sale or trading under Topic 320 or the Transfers and Servicing Topic because the accrued interest receivable cannot be contractually prepaid or settled in such a way that the owner would not recover substantially all of its recorded investment. Entities should follow existing applicable accounting standards, including Topic 326 on measurement of credit losses ~~Topic 450~~, in subsequent accounting for the accrued interest receivable asset.

## Amendments to Subtopic 942-230

38. Amend paragraphs 942-230-55-2 and 942-230-55-4, with a link to transition paragraph 326-10-65-1, as follows:

### **Financial Services—Depository and Lending—Statement of Cash Flows**

#### **Implementation Guidance and Illustrations**

## **> Illustrations**

### **> > Example 1: Statement of Cash Flows Under the Direct Method for a Financial Institution**

**942-230-55-2** Presented below is a statement of cash flows for Financial Institution, Inc., a U.S. corporation that provides a broad range of financial services. This statement of cash flows illustrates the direct method of presenting cash flows from operating activities, as encouraged in paragraph 230-10-45-25.

**FINANCIAL INSTITUTION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 19X1**

Cash flows from operating activities:		
Interest received	\$ 5,350	
Fees and commissions received	1,320	
Proceeds from sales of trading securities	20,550	
Purchase of trading securities	(21,075)	
Financing revenue received under leases	60	
Interest paid	(3,925)	
Cash paid to suppliers and employees	(795)	
Income taxes paid	(471)	
Net cash provided by operating activities		\$ 1,014
Cash flows from investing activities:		
Proceeds from sales of investment securities	2,225	
Purchase of investment securities	(4,000)	
Net increase in credit card receivables	(1,300)	
Net decrease in customer loans with maturities of 3 months or less	2,250	
Principal collected on longer term loans	26,550	
Longer term loans made to customers	(36,300)	
Purchase of assets to be leased	(1,500)	
Principal payments received under leases	107	
Capital expenditures	(450)	
Proceeds from sale of property, plant, and equipment	260	
Net cash used in investing activities		(12,158)
Cash flows from financing activities:		
Net increase in demand deposits, negotiable order of withdrawal accounts, and savings accounts	3,000	
Proceeds from sales of certificates of deposit	63,000	
Payments for maturing certificates of deposit	(61,000)	
Net increase in federal funds purchased	4,500	
Net increase in 90-day borrowings	50	
Proceeds from issuance of nonrecourse debt	600	
Principal payment on nonrecourse debt	(20)	
Proceeds from issuance of 6-month note	100	
Proceeds from issuance of long-term debt	1,000	
Repayment of long-term debt	(200)	
Proceeds from issuance of common stock	350	
Payments to acquire treasury stock	(175)	
Dividends paid	(240)	
Net cash provided by financing activities		10,965
Net decrease in cash and cash equivalents		(179)
Cash and cash equivalents at beginning of year		6,700
Cash and cash equivalents at end of year		<u>\$ 6,521</u>
<b>Reconciliation of net income to net cash provided by operating activities:</b>		
Net income		\$ 1,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	\$ 100	
Provision for probable credit losses	300	
Provision for deferred taxes	58	
Loss on sale of investment securities	75	
Gain on sale of equipment	(50)	
Increase in trading securities (including unrealized appreciation of \$25)	(700)	
Increase in taxes payable	175	
Increase in interest receivable	(150)	
Increase in interest payable	75	
Decrease in fees and commissions receivable	20	
Increase in accrued expenses	55	
Total adjustment		(42)
Net cash provided by operating activities		<u>\$ 1,014</u>
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Conversion of long-term debt to common stock		<u>\$ 500</u>

**942-230-55-4** Summarized below is financial information for the current year for Financial Institution, Inc., which provides the basis for the statement of cash flows presented in paragraphs 942-230-55-2 through 55-3.

**FINANCIAL INSTITUTION, INC.  
STATEMENT OF FINANCIAL POSITION**

	<u>1/1/X1</u>	<u>12/31/X1</u>	<u>Change</u>
<b>Assets:</b>			
Cash and due from banks	\$ 4,400	\$ 3,121	\$ (1,279)
Federal funds sold	2,300	3,400	1,100
Total cash and cash equivalents	6,700	6,521	(179)
Trading securities	4,000	4,700	700
<del>Investment securities</del> Available-for-sale debt securities	5,000 5,100	6,700 6,800	1,700
<u>Allowance for credit losses on available-for-sale debt securities</u>	<u>(100)</u>	<u>(100)</u>	<u>-</u>
<u>Available-for-sale debt securities, net</u>	<u>5,000</u>	<u>6,700</u>	<u>1,700</u>
Credit card receivables	8,500	9,800	1,300
Loans	28,000	35,250	7,250
<u>Allowance for credit losses on loans and credit card receivables</u>	<u>(800)</u>	<u>(850)</u>	<u>(50)</u>
<u>Loans and credit card receivables, net</u>	<u>35,700</u>	<u>44,200</u>	<u>8,500</u>
Interest receivable	600	750	150
Fees and commissions receivable	60	40	(20)
Investment in direct financing lease	-	421	421
Investment in leveraged lease	-	392	392
Plant, property, and equipment, net	525	665	140
<b>Total assets</b>	<b><u>\$ 52,585</u></b>	<b><u>\$ 64,389</u></b>	<b><u>\$ 11,804</u></b>
<b>Liabilities:</b>			
Deposits	\$38,000	\$43,000	\$ 5,000
Federal funds purchased	7,500	12,000	4,500
Short-term borrowings	1,200	1,350	150
Interest payable	350	425	75
Accrued expenses	275	330	55
Taxes payable	75	250	175
Dividends payable	-	80	80
Long-term debt	2,000	2,300	300
Deferred taxes	-	58	58
Total liabilities	49,400	59,793	10,393
<b>Stockholders' equity:</b>			
Common stock	1,250	2,100	850
Treasury stock	-	(175)	(175)
Retained earnings	1,935	2,671	736
Total stockholders' equity	3,185	4,596	1,411
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 52,585</u></b>	<b><u>\$ 64,389</u></b>	<b><u>\$ 11,804</u></b>

**FINANCIAL INSTITUTION, INC.  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 19X1**

Revenues:		
Interest income	\$5,500	
Fees and commissions	1,300	
Net gain on sales of trading and investment securities	75	
Unrealized appreciation of trading securities	25	
Lease income	60	
Gain on sale of equipment	50	
Total revenues	\$7,010	\$7,010
Expenses:		
Interest expense	4,000	
Provision for probable credit losses	300	
Operating expenses	850	
Depreciation	100	
Total expenses	5,250	5,250
Income before income taxes		1,760
Provision for income taxes		704
Net income		\$1,056

## Amendments to Subtopic 942-310

39. Amend paragraphs 942-310-05-1, 942-310-35-1, and 942-310-55-1 and supersede paragraphs 942-310-05-4 and 942-310-25-1 and its related heading, with a link to transition paragraph 326-10-65-1, as follows:

### Financial Services—Depository and Lending—Receivables

#### Overview and Background

**942-310-05-1** This Subtopic provides guidance on accounting for debt-equity swap programs concerning the recognition of impairment on a receivable at the date of origination and subsequently.

**942-310-05-4** Paragraph superseded by Accounting Standards Update No. 2016-13. See Section 310-10-35 for additional guidance on recognition and measurement of loan impairment.

#### Recognition

##### > Loan Impairment at Origination

**942-310-25-1** Paragraph superseded by Accounting Standards Update No. 2016-13. Generally, a loan would be impaired at origination only if a faulty credit granting decision has been made or loan credit review procedures are

~~inadequate or overly aggressive, in which case, the loss shall be recognized at the date of loan origination.~~

## **Subsequent Measurement**

### **> Loans to Financially Troubled Countries**

~~**942-310-35-1** Bank loans to financially troubled countries may meet the conditions in Subtopic 326-20 on financial instruments measured at amortized cost paragraph 450-20-25-2 for recording of credit losses accrual of loss contingencies. As a result, a bank shall establish loan loss allowances for such loans by charges to income. ~~Although placing a loan in a nonaccrual status, including loans accruing at a reduced rate, does not necessarily indicate that the principal of the loan is uncollectible in whole or in part, it generally warrants reevaluation of collectibility of principal and previously accrued interest.~~~~

## **Implementation Guidance and Illustrations**

### **> Debt-Equity Swap Programs**

~~**942-310-55-1** Management may decide to dispose (by sale of swap) of loans prior to maturity for a number of reasons, including liquidity needs, tax considerations, portfolio diversification objectives, and management practices of generating loans specifically for disposition, in which case the loans shall be carried at the lower of amortized cost basis ~~cost (amortized historical cost less loan write-offs)~~ or fair value.~~

## **Amendments to Subtopic 944-20**

40. Amend paragraph 944-20-55-37, with a link to transition paragraph 326-10-65-1, as follows:

## **Financial Services—Insurance—Insurance Activities**

## **Implementation Guidance and Illustrations**

### **Reinsurance Contracts**

#### **> Implementation Guidance**

#### **> > Obligatory Retrospective Rating Provision**

~~944-20-55-37~~ Similarly, under ~~Subtopic 450-20~~ even if there is a high probability that an asset will be impaired in the future or a liability incurred in the future, the conditions for accrual have not been met because there is no present impairment or obligation to be recognized. Consistent with this principle, the The guidance on multiple-year retrospectively rated contracts in the Reinsurance Contracts Subsections of this Subtopic does not permit recognition of the effects of retrospective rating provisions unless those provisions are obligatory.

## Amendments to Subtopic 944-80

41. Amend paragraphs 944-80-25-9, 944-80-55-11, and 944-80-55-16, with a link to transition paragraph 326-10-65-1, as follows:

### **Financial Services—Insurance—Separate Accounts**

#### **Recognition**

##### **> Proportionate Interest in a Separate Account**

**944-80-25-6** Assets underlying an insurance entity's proportionate interest in a separate account (**seed money** or other investment) do not represent contract holder funds, and thus do not qualify for separate account accounting and reporting.

**944-80-25-7** The insurance entity shall look through the separate account for purposes of accounting for its interest therein, and account for and classify the assets of the separate account underlying that interest based on their nature as if the assets of the separate account underlying the insurance entity's proportionate interest were held directly by the general account rather than through the separate account structure. Example 2 (see paragraph 944-80-55-4) illustrates the application of this guidance.

**944-80-25-8** The guidance in the following paragraph applies if a separate account arrangement meets the criteria in paragraphs 944-80-25-2 through 25-3 and either of the following conditions exists:

- a. The terms of the contract allow the contract holder to invest in additional units in the separate account.
- b. The insurance entity is marketing contracts that permit funds to be invested in the separate account.

**944-80-25-9** If the conditions in the preceding paragraph are met, the assets of the separate account underlying the insurance entity's proportionate interest in the separate account shall be accounted for in a manner consistent with the

accounting for similar assets held by the general account that the insurance entity may be required to sell. For example:

- a. For a debt security, ~~the guidance in Topic 326 shall be followed for the measurement of credit losses with an unrealized loss, the loss shall be accounted for as an other than temporary impairment under the guidance in Subtopic 320-10 and recognized immediately in the statement of operations as a realized loss.~~
- b. The guidance in Subtopic 360-10 shall be followed for both real estate that is held for sale and real estate that is not held for sale. For real estate that does not meet that Subtopic's held-for-sale criteria, the impairment test shall be performed solely using undiscounted cash flows assuming immediate disposition.

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 2: Proportionate Interest in a Separate Account

**944-80-55-11** The XYZ separate account's balances for net investment income and gains and losses follow.

	XYZ Separate Account Total	Insurer's Interest	Apportioned Values	General Account Classification
Net investment income	\$ 65	10%	6.5	Revenue
Realized gains and losses	20	10%	2.0	Revenue
Unrealized gains and losses:				Revenue or other (a)
Debt securities	8	10%	0.8	comprehensive income
Equity securities	25	10%	2.5	Revenue
Mortgage loans	5	10%	0.5	Not recognized (b)
Real estate	2	10%	0.2	Not recognized (b)
Total net investment income and gains and losses	<u>\$ 125</u>		<u>12.5</u>	

- (a) Unrealized gains shall be included in revenue or other comprehensive income depending on security classification as trading or available for sale. ~~Credit losses~~ ~~Unrealized losses result in other than temporary impairments,~~ as noted in paragraph 944-80-25-9(a), and shall be measured in accordance with Topic 326. ~~recognized immediately.~~
- (b) Unrealized gains are not recognized. ~~Cumulative unrealized losses may result in recognition of an other than temporary impairment.~~

**944-80-55-16** The accounting for the seed money change for the quarter follows.

Amount due to proportionate interest in revenue	2.3
Gain recognition on dilution of interest	4.2 <sup>(a)</sup>

- (a) Fair value of separate account less general account value of separate account multiplied by dilution,  $(\$1,090 - \$1,007) \times 5\%$ . This is the gain on mortgage loans and real estate, assuming debt securities have been classified as trading. If debt securities had been classified as available for sale, the gain or loss on dilution would also be calculated using the amortized cost basis of debt securities.

## Amendments to Subtopic 944-310

42. Amend paragraphs 944-310-35-3 through 35-4, 944-310-35-6, and 944-310-45-4 and supersede paragraph 944-310-45-4A and its related heading, with a link to transition paragraph 326-10-65-1, as follows:

### Financial Services—Insurance—Receivables

#### Subsequent Measurement

##### General

##### > Mortgage Loans

**944-310-35-3** Paragraph 944-310-45-4 states that changes in the allowance for ~~estimated uncollectible amounts~~ credit losses relating to mortgage loans shall be included in income as prescribed in Subtopic 326-20 on financial instruments measured at amortized cost ~~340-10~~.

##### Reinsurance Contracts

##### > Reinsurance Receivables

**944-310-35-4** Because the valuation of **reinsurance** receivables depends on the terms of the reinsurance contract and on estimates used in measuring the liabilities relating to the reinsured contracts, this Subtopic does not stipulate a specific valuation method. An entity shall measure contingent losses relating to disputed amounts in accordance with Subtopic 450-20 on loss contingencies. However, the **ceding entity** shall ~~assess the collectibility of these receivables~~ measure expected credit losses relating to reinsurance receivables in

accordance with Subtopic 326-20 on financial instruments measured at amortized cost 450-20.

## **Financial Guarantee Insurance Contracts**

### **> Unearned Premium Revenue**

#### **>> Receivable for Future Premiums**

**944-310-35-6** An insurance entity shall measure expected credit losses relating to the premium receivable in accordance with Subtopic 326-20 on financial instruments measured at amortized cost ~~adjust the premium receivable for uncollectible premiums~~ with a corresponding adjustment to earnings. The insurance entity shall consider as part of its assessment of recognition and measurement of the claim liability (see the Financial Guarantee Insurance Contracts Subsections in Subtopic 944-40) whether the premiums expected to be collected (the premium receivable) are fully collectible.

## **Other Presentation Matters**

### **> Mortgage Loans**

**944-310-45-4** Changes in the allowance for ~~credit losses estimated uncollectible amounts~~ relating to mortgage loans shall be included in income as prescribed in Subtopic 326-20 on financial instruments measured at amortized cost 340-40.

### **> ~~Other Than Temporary Impairment~~**

**944-310-45-4A** ~~Paragraph superseded by Accounting Standards Update No. 2016-13. Losses arising from an other than temporary impairment shall be presented in accordance with Subtopic 320-10.~~

## **Amendments to Subtopic 948-310**

43. Amend paragraphs 948-310-30-1, 948-310-30-4, 948-310-35-1 through 35-3, and 948-310-50-1, supersede paragraph 948-310-35-5, and add paragraph 948-310-35-5A, with a link to transition paragraph 326-10-65-1, as follows:

## **Financial Services—Mortgage Banking—Receivables**

### **Initial Measurement**

## > **Affiliated Transactions**

**948-310-30-1** The carrying amount of mortgage loans to be sold to an **affiliated entity** shall be adjusted to the lower of amortized cost basis ~~cost~~ or fair value of the loans as of the date management decides that a sale to an affiliated entity will occur. The date shall be determined based on, at a minimum, formal approval by an authorized representative of the purchaser, issuance of a commitment to purchase the loans, and acceptance of the commitment by the selling entity. The amount of any adjustment shall be charged to income.

## > **Loans Held as Long-Term Investments**

**948-310-30-4** A mortgage loan transferred to a long-term-investment classification shall be measured upon transfer at the lower of amortized cost basis ~~cost~~ or fair value on the transfer date.

## **Subsequent Measurement**

### > **Loans Held for Sale**

**948-310-35-1** Mortgage loans held for sale shall be reported at the lower of amortized cost basis ~~cost~~ or fair value, determined as of the balance sheet date. If a mortgage loan has been the hedged item in a fair value hedge (as addressed in Topic 815), the loan's amortized cost basis used in lower-of-amortized-cost-basis-or-fair ~~lower-of-cost-or-fair~~ value accounting shall reflect the effect of the adjustments of its carrying amount made pursuant to paragraph 815-25-35-1.

**948-310-35-2** The amount by which amortized cost basis ~~cost~~ exceeds fair value shall be accounted for as a valuation allowance. Changes in the valuation allowances shall be included in the determination of net income of the period in which the change occurs. Purchase discounts on mortgage loans shall not be amortized as interest revenue during the period the loans or securities are held for sale.

**948-310-35-3** The **fair value** of mortgage loans and **mortgage-backed securities** held for sale shall be measured by type of loan. At a minimum, the fair value of residential (one- to four-family dwellings) and commercial mortgage loans shall be measured separately. Either the aggregate or individual loan basis may be used in determining the lower of amortized cost basis ~~cost~~ or fair value for each type of loan. Fair value for loans subject to investor purchase commitments (committed loans) and loans held on a speculative basis (uncommitted loans) shall be measured separately as follows:

- a. Committed loans. Mortgage loans covered by investor commitments shall be based on the fair values of the loans.
- b. **Uncommitted loans.** Fair value for uncommitted loans shall be based on **principal market** or, in the absence of a principal market, in the **most advantageous market** (see paragraphs 820-10-35-5 through 35-6C). That determination relies on the principles in Topic 820 and would include consideration of the following:
  - 1. Market prices and yields sought by market participants in the principal or most advantageous market
  - 2. Quoted **Government National Mortgage Association (GNMA)** security prices or other public market quotations for long-term mortgage loan rates
  - 3. **Federal Home Loan Mortgage Corporation (FHLMC)** and **Federal National Mortgage Association (FNMA)** current delivery prices.
- c. Subparagraph superseded by Accounting Standards Update No. 2012-04.

### > Loans Held as Long-Term Investments

948-310-35-5 Paragraph superseded by Accounting Standards Update No. 2016-13. ~~If ultimate recovery of the carrying amount of a mortgage loan held as a long-term investment is doubtful and the impairment is considered to be other than temporary, the carrying amount of the loan shall be reduced to its expected collectible amount, which becomes the new cost basis. The amount of the reduction shall be reported as a loss. A recovery from the new cost basis shall be reported as a gain only at the sale, maturity, or other disposition of the loan.~~

948-310-35-5A See Subtopic 326-20 for guidance on the measurement of credit losses for financial instruments measured at amortized cost basis.

### Disclosure

**948-310-50-1** The method used in determining the lower of amortized cost basis cost or fair value of mortgage loans (that is, aggregate or individual loan basis) shall be disclosed.

### Amendments to Subtopic 954-225

44. Amend paragraph 954-225-45-8, with a link to transition paragraph 326-10-65-1, as follows:

### Health Care Entities—Income Statement

## Other Presentation Matters

### > Performance Indicators and Intermediate Operating Measures

**954-225-45-8** Investment return (including realized and unrealized gains and losses) not restricted by donors or by law shall be classified as changes in unrestricted net assets as follows:

- a. Included in the performance indicator are:
  1. Dividend, interest, and other similar investment income
  2. Realized gains and losses
  3. Unrealized gains and losses on trading debt securities (trading securities are defined in Topic 320)
  4. Credit loss expense (see Topic 326) ~~Other than temporary impairment losses.~~
  5. Unrealized gains and losses and impairments on equity investments accounted for under Topic 321.
- b. Excluded from the performance indicator are unrealized gains and losses on debt securities, unless the debt security is a trading debt security.

## Amendments to Subtopic 954-310

45. Amend paragraphs 954-310-30-1 and 954-310-35-1, with a link to transition paragraph 326-10-65-1, as follows:

### Health Care Entities—Receivables

#### Initial Measurement

**954-310-30-1** Contractual adjustments and discounts are variable consideration and shall be measured in accordance with paragraphs 606-10-32-5 through 32-14. An allowance for credit losses uncollectibles shall be recorded in accordance with Topic 326 on measurement of credit losses ~~340~~.

#### Subsequent Measurement

**954-310-35-1** Contractual adjustments and discounts shall be subsequently measured in accordance with paragraphs 606-10-32-5 through 32-14 and paragraphs 606-10-32-42 through 32-45. An allowance for credit losses uncollectibles shall be subsequently recorded ~~measured~~ in accordance with Topic 326 on measurement of credit losses ~~340~~.

## Amendments to Subtopic 958-320

46. Amend paragraph 958-320-55-5, with a link to transition paragraph 326-10-65-1, as follows:

### **Not-for-Profit Entities—Investments—Debt and Equity Securities**

#### **Implementation Guidance and Illustrations**

##### **> Illustrations**

##### **> > Example 1: An NFP that Separates Investment Return into Operating and Nonoperating Amounts**

**958-320-55-4** This Example illustrates the disclosures required by paragraph 958-320-50-1 and a statement of activities that reports a portion of investment return within a measure of operations.

**958-320-55-5** This Example is illustrative only; it does not indicate a preferred method of reporting investment return or defining operations (see paragraph 958-225-45-9). An NFP may separate investment return into operating and nonoperating amounts in ways that it believes will provide meaningful information to users of its financial statements. Distinctions may be based on any of the following:

- a. The nature of the underlying transactions, such as classifying realized amounts as operating and unrealized amounts as nonoperating
- b. Budgetary designations, such as classifying amounts computed under a **spending-rate** or **total return** policy as operating and the remainder of investment return as nonoperating
- c. The reporting requirements for categories of investments used in Topic 320 on investments in debt securities, such as classifying investment income, realized gains and losses, unrealized gains and losses on trading securities, and credit losses on debt securities under Topic 326 ~~and other than temporary impairment losses on securities~~ (that is, all items included in net income of a business entity) as operating and classifying the remainder of investment return as nonoperating
- d. Other characteristics that provide information that is relevant and understandable to donors, creditors, and other users of financial statements.

## Amendments to Subtopic 958-325

47. Amend paragraphs 958-325-30-1 and 958-325-35-1, with a link to transition paragraph 326-10-65-1, as follows:

## **Not-for-Profit Entities—Investments—Other**

### **Initial Measurement**

**958-325-30-1** Other investments shall be initially measured at their acquisition cost (including brokerage and other transaction fees) if they are purchased. They shall be initially measured at **fair value** if they are received as a **contribution** or through an **agency transaction**. Credit losses on financial instruments within the scope of Topic 326 shall be measured in accordance with that Topic.

### **Subsequent Measurement**

#### **> Institutions of Higher Education**

**958-325-35-1** Institutions of higher education, including colleges, universities, and community or junior colleges, shall subsequently report other investments at either of the following measures:

- a. Carrying value—that is, those that were acquired by purchase are reported at cost, and those that were contributed are reported at their **fair value** at the date of the gift. However, the carrying value shall be reduced by an allowance for credit losses (if applicable) under Topic 326 ~~adjusted if there has been an impairment of value that is not considered to be temporary.~~
- b. Fair value.

## **Amendments to Subtopic 978-310**

48. Amend paragraphs 978-310-35-5 through 35-6, with a link to transition paragraph 326-10-65-1, as follows:

## **Real Estate—Time-Sharing Activities—Receivables**

### **Subsequent Measurement**

#### **> Collectibility of Receivable**

**978-310-35-5** When a time-sharing sale transaction has been recorded, accounting for the allowance for credit losses uncollectibles follows similar valuation principles as any receivable. Each reporting period and at least

quarterly a seller evaluates its receivables, estimates the amount it expects to ultimately collect, and evaluates the appropriateness ~~adequacy~~ of its allowance pursuant to Subtopic 326-20 on financial instruments measured at amortized cost ~~Section 310-10-35~~. The allowance is then adjusted in accordance with Subtopic 326-20 ~~Topic 310-10-35~~ on receivables. A corresponding adjustment is also made to cost of sales and inventory.

**978-310-35-6** The allowance for credit losses uncollectibles shall be determined based on consideration of expected credit losses uncollectibles by year of sale, as well as the aging of notes receivable and factors such as the location of the time-sharing units, contract terms, collection experience, economic conditions, reasonable and supportable forecasts, and other qualitative factors as appropriate in the circumstances.

## Amendments to Status Sections

49. Amend paragraph 210-10-00-1, by adding the following item to the table, as follows:

**210-10-00-1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
210-10-45-13	Amended	2016-13	06/16/2016

50. Amend paragraph 220-10-00-1, by adding the following items to the table, as follows:

**220-10-00-1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
<b>Available-for-Sale Securities</b>	Added	2016-13	06/16/2016
<b>Debt Security</b> (1 <sup>st</sup> def.)	Added	2016-13	06/16/2016
<b>Holding Gain or Loss</b>	Added	2016-13	06/16/2016
220-10-45-10A	Amended	2016-13	06/16/2016
220-10-45-16A	Superseded	2016-13	06/16/2016
220-10-55-15B	Amended	2016-13	06/16/2016

51. Amend paragraph 230-10-00-1, by adding the following item to the table, as follows:

**230-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
230-10-45-21	Amended	2016-13	06/16/2016

52. Amend paragraph 270-10-00-1, by adding the following items to the table, as follows:

**270-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Financial Asset</b> (1 <sup>st</sup> def.)	Added	2016-13	06/16/2016
<b>Financing Receivable</b>	Superseded	2016-13	06/16/2016
270-10-50-1	Amended	2016-13	06/16/2016

53. Amend paragraph 310-10-00-1, by adding the following items to the table, as follows:

**310-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Amortized Cost Basis</b>	Added	2016-13	06/16/2016
<b>Class of Financing Receivable</b>	Amended	2016-13	06/16/2016
<b>Collateral-Dependent Loan</b>	Superseded	2016-13	06/16/2016
<b>Credit Quality Indicator</b>	Superseded	2016-13	06/16/2016
<b>Effective Interest Rate</b>	Superseded	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Financial Asset</b> (1 <sup>st</sup> def.)	Added	2016-13	06/16/2016
<b>Portfolio Segment</b>	Amended	2016-13	06/16/2016
<b>Purchased Financial Assets with Credit Deterioration</b>	Added	2016-13	06/16/2016
<b>Related Parties</b>	Superseded	2016-13	06/16/2016
310-10-05-1	Amended	2016-13	06/16/2016
310-10-35-1 through 35-43	Superseded	2016-13	06/16/2016
310-10-35-44	Amended	2016-13	06/16/2016
310-10-35-46 through 35-48	Amended	2016-13	06/16/2016
310-10-35-49	Superseded	2016-13	06/16/2016
310-10-35-53A through 35-53C	Added	2016-13	06/16/2016
310-10-45-1	Amended	2016-13	06/16/2016
310-10-45-4A through 45-6	Superseded	2016-13	06/16/2016
310-10-50-1	Amended	2016-13	06/16/2016
310-10-50-2	Amended	2016-13	06/16/2016
310-10-50-4	Amended	2016-13	06/16/2016
310-10-50-4A	Superseded	2016-13	06/16/2016
310-10-50-5A through 50-10	Superseded	2016-13	06/16/2016
310-10-50-11A through 50-11C	Superseded	2016-13	06/16/2016
310-10-50-14 through 50-21	Superseded	2016-13	06/16/2016
310-10-50-24	Superseded	2016-13	06/16/2016
310-10-50-25	Amended	2016-13	06/16/2016
310-10-50-27 through 50-30	Superseded	2016-13	06/16/2016
310-10-50-32 through 50-34	Amended	2016-13	06/16/2016
310-10-55-1 through 55-11	Superseded	2016-13	06/16/2016
310-10-55-16	Superseded	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
through 55-22			

54. Amend paragraph 310-20-00-1, by adding the following items to the table, as follows:

**310-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Effective Interest Rate</b>	Amended	2016-13	06/16/2016
<b>Financial Asset (1<sup>st</sup> def.)</b>	Added	2016-13	06/16/2016
<b>Purchased Financial Assets with Credit Deterioration</b>	Added	2016-13	06/16/2016
310-20-15-3	Amended	2016-13	06/16/2016
310-20-15-4	Amended	2016-13	06/16/2016
310-20-35-9	Amended	2016-13	06/16/2016
310-20-60-1	Superseded	2016-13	06/16/2016
310-20-60-2	Amended	2016-13	06/16/2016

55. Amend paragraph 310-30-00-1, by adding the following items to the table, as follows:

**310-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Accretable Yield</b>	Superseded	2016-13	06/16/2016
<b>Cash Flows Expected at Acquisition</b>	Superseded	2016-13	06/16/2016
<b>Common Risk Characteristics</b>	Superseded	2016-13	06/16/2016
<b>Completion of a</b>	Superseded	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Transfer</b>			
<b>Contractually Required Payments Receivable</b>	Superseded	2016-13	06/16/2016
<b>Debt Security</b>	Superseded	2016-13	06/16/2016
<b>Effective Interest Rate</b>	Superseded	2016-13	06/16/2016
<b>Fair Value</b>	Superseded	2016-13	06/16/2016
<b>Initial Investment</b>	Superseded	2016-13	06/16/2016
<b>Loan (1<sup>st</sup> def.)</b>	Superseded	2016-13	06/16/2016
<b>Loan (2<sup>nd</sup> def.)</b>	Superseded	2016-13	06/16/2016
<b>Market Participants</b>	Superseded	2016-13	06/16/2016
<b>Nonaccretable Difference</b>	Superseded	2016-13	06/16/2016
<b>Orderly Transaction</b>	Superseded	2016-13	06/16/2016
<b>Probable</b>	Superseded	2016-13	06/16/2016
<b>Related Parties</b>	Superseded	2016-13	06/16/2016
<b>Revolving Privileges</b>	Superseded	2016-13	06/16/2016
310-30-05-1 through 05-3	Superseded	2016-13	06/16/2016
310-30-15-1 through 15-10	Superseded	2016-13	06/16/2016
310-30-25-1	Superseded	2016-13	06/16/2016
310-30-30-1	Superseded	2016-13	06/16/2016
310-30-30-2	Superseded	2016-13	06/16/2016
310-30-35-1 through 35-3	Superseded	2016-13	06/16/2016
310-30-35-5 through 35-15	Superseded	2016-13	06/16/2016
310-30-40-1	Superseded	2016-13	06/16/2016
310-30-40-2	Superseded	2016-13	06/16/2016
310-30-45-1	Superseded	2016-13	06/16/2016
310-30-50-1 through 50-3	Superseded	2016-13	06/16/2016
310-30-55-1 through 55-29	Superseded	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
310-30-60-1 through 60-3	Superseded	2016-13	06/16/2016

56. Amend paragraph 310-40-00-1, by adding the following items to the table, as follows:

**310-40-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Amortized Cost Basis</b>	Added	2016-13	06/16/2016
<b>Effective Interest Rate</b>	Amended	2016-13	06/16/2016
<b>Financial Asset (1<sup>st</sup> def.)</b>	Added	2016-13	06/16/2016
<b>Probable</b>	Superseded	2016-13	06/16/2016
<b>Purchased Financial Assets with Credit Deterioration</b>	Added	2016-13	06/16/2016
<b>Recorded Investment in the Receivable</b>	Superseded	2016-13	06/16/2016
310-40-15-11	Amended	2016-13	06/16/2016
310-40-15-12	Amended	2016-13	06/16/2016
310-40-35-7	Amended	2016-13	06/16/2016
310-40-35-8	Superseded	2016-13	06/16/2016
310-40-35-9	Superseded	2016-13	06/16/2016
310-40-35-10 through 35-12	Amended	2016-13	06/16/2016
310-40-40-3	Amended	2016-13	06/16/2016
310-40-50-2 through 50-4	Superseded	2016-13	06/16/2016
310-40-50-5	Amended	2016-13	06/16/2016
310-40-50-6	Superseded	2016-13	06/16/2016
310-40-55-7	Amended	2016-13	06/16/2016
310-40-55-13 through 55-15	Amended	2016-13	06/16/2016

57. Amend paragraph 320-10-00-1, by adding the following items to the table, as follows:

**320-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Amortized Cost Basis</b>	Amended	2016-13	06/16/2016
<b>Holding Gain or Loss</b>	Amended	2016-13	06/16/2016
320-10-15-4	Amended	2016-13	06/16/2016
320-10-15-9	Amended	2016-13	06/16/2016
320-10-15-10	Superseded	2016-13	06/16/2016
320-10-35-17 through 35-24	Superseded	2016-13	06/16/2016
320-10-35-30	Superseded	2016-13	06/16/2016
320-10-35-33A through 35-33I	Superseded	2016-13	06/16/2016
320-10-35-34A through 35-35A	Superseded	2016-13	06/16/2016
320-10-35-36	Amended	2016-13	06/16/2016
320-10-35-37	Superseded	2016-13	06/16/2016
320-10-35-43	Superseded	2016-13	06/16/2016
320-10-40-2	Amended	2016-13	06/16/2016
320-10-45-8A	Superseded	2016-13	06/16/2016
320-10-45-9	Amended	2016-13	06/16/2016
320-10-45-9A	Superseded	2016-13	06/16/2016
320-10-50-2	Amended	2016-13	06/16/2016
320-10-50-5	Amended	2016-13	06/16/2016
320-10-50-6 through 50-8B	Superseded	2016-13	06/16/2016
320-10-55-17	Amended	2016-13	06/16/2016
320-10-55-21A through 55-23	Superseded	2016-13	06/16/2016

58. Amend paragraph 321-10-00-1, by adding the following item to the table, as follows:

**321-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Holding Gain or Loss</b>	Amended	2016-13	06/16/2016

59. Amend paragraph 323-10-00-1, by adding the following items to the table, as follows:

**323-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
323-10-35-25	Amended	2016-13	06/16/2016
323-10-55-34	Amended	2016-13	06/16/2016
323-10-55-38	Amended	2016-13	06/16/2016
323-10-55-42	Amended	2016-13	06/16/2016
323-10-55-44	Amended	2016-13	06/16/2016
323-10-55-46	Amended	2016-13	06/16/2016

60. Amend paragraph 325-40-00-1, by adding the following items to the table, as follows:

**325-40-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Financial Asset (1<sup>st</sup> def.)</b>	Added	2016-13	06/16/2016
<b>Purchased Financial Assets with Credit Deterioration</b>	Added	2016-13	06/16/2016
325-40-15-3	Amended	2016-13	06/16/2016
325-40-15-4	Amended	2016-13	06/16/2016
325-40-25-2	Amended	2016-13	06/16/2016
325-40-30-1	Amended	2016-13	06/16/2016
325-40-30-1A	Added	2016-13	06/16/2016
325-40-30-2	Amended	2016-13	06/16/2016
325-40-35-2	Superseded	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
325-40-35-3	Amended	2016-13	06/16/2016
325-40-35-4	Amended	2016-13	06/16/2016
325-40-35-4A through 35-4C	Added	2016-13	06/16/2016
325-40-35-6	Amended	2016-13	06/16/2016
325-40-35-6A	Added	2016-13	06/16/2016
325-40-35-7	Amended	2016-13	06/16/2016
325-40-35-8	Superseded	2016-13	06/16/2016
325-40-35-9	Amended	2016-13	06/16/2016
325-40-35-10A	Amended	2016-13	06/16/2016
325-40-35-10B	Superseded	2016-13	06/16/2016
325-40-35-13	Superseded	2016-13	06/16/2016
325-40-35-14	Superseded	2016-13	06/16/2016
325-40-55-1	Superseded	2016-13	06/16/2016

61. Add paragraph 326-10-00-1 as follows:

**326-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Amortized Cost Basis</b>	Added	2016-13	06/16/2016
<b>Debt Security</b> (1 <sup>st</sup> def.)	Added	2016-13	06/16/2016
<b>Effective Interest Rate</b>	Added	2016-13	06/16/2016
<b>Financial Asset</b> (1 <sup>st</sup> def.)	Added	2016-13	06/16/2016
<b>Loan</b> (2 <sup>nd</sup> def.)	Added	2016-13	06/16/2016
<b>Not-for-Profit Entity</b>	Added	2016-13	06/16/2016
<b>Public Business Entity</b>	Added	2016-13	06/16/2016
<b>Purchased Financial Assets with Credit Deterioration</b>	Added	2016-13	06/16/2016
<b>Securities and</b>	Added	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Exchange Commission (SEC) Filer</b>			
<b>Troubled Debt Restructuring</b>	Added	2016-13	06/16/2016
326-10-05-1	Added	2016-13	06/16/2016
326-10-05-2	Added	2016-13	06/16/2016
326-10-15-1	Added	2016-13	06/16/2016
326-10-65-1	Added	2016-13	06/16/2016

62. Add paragraph 326-20-00-1 as follows:

**326-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Amortized Cost Basis</b>	Added	2016-13	06/16/2016
<b>Class of Financing Receivable</b>	Added	2016-13	06/16/2016
<b>Credit Quality Indicator</b>	Added	2016-13	06/16/2016
<b>Debt Security (1<sup>st</sup> def.)</b>	Added	2016-13	06/16/2016
<b>Effective Interest Rate</b>	Added	2016-13	06/16/2016
<b>Fair Value (2<sup>nd</sup> def.)</b>	Added	2016-13	06/16/2016
<b>Financial Asset (1<sup>st</sup> def.)</b>	Added	2016-13	06/16/2016
<b>Financing Receivable</b>	Added	2016-13	06/16/2016
<b>Freestanding Contract</b>	Added	2016-13	06/16/2016
<b>Line of Credit Arrangement</b>	Added	2016-13	06/16/2016
<b>Loan (2<sup>nd</sup> def.)</b>	Added	2016-13	06/16/2016
<b>Loan Commitment</b>	Added	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Market Participants</b>	Added	2016-13	06/16/2016
<b>Not-for-Profit Entity</b>	Added	2016-13	06/16/2016
<b>Orderly Transaction</b>	Added	2016-13	06/16/2016
<b>Portfolio Segment</b>	Added	2016-13	06/16/2016
<b>Public Business Entity</b>	Added	2016-13	06/16/2016
<b>Purchased Financial Assets with Credit Deterioration</b>	Added	2016-13	06/16/2016
<b>Reinsurance Receivable</b>	Added	2016-13	06/16/2016
<b>Related Parties</b>	Added	2016-13	06/16/2016
<b>Standby Letter of Credit</b>	Added	2016-13	06/16/2016
<b>Troubled Debt Restructuring</b>	Added	2016-13	06/16/2016
326-20-05-1	Added	2016-13	06/16/2016
326-20-15-1 through 15-3	Added	2016-13	06/16/2016
326-20-30-1 through 30-15	Added	2016-13	06/16/2016
326-20-35-1 through 35-10	Added	2016-13	06/16/2016
326-20-45-1 through 45-4	Added	2016-13	06/16/2016
326-20-50-1 through 50-22	Added	2016-13	06/16/2016
326-20-55-1 through 55-85	Added	2016-13	06/16/2016

63. Add paragraph 326-30-00-1 as follows:

**326-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Amortized Cost Basis</b>	Added	2016-13	06/16/2016
<b>Available-for-Sale Securities</b>	Added	2016-13	06/16/2016
<b>Debt Security</b> (1 <sup>st</sup> def.)	Added	2016-13	06/16/2016
<b>Effective Interest Rate</b>	Added	2016-13	06/16/2016
<b>Fair Value</b> (2 <sup>nd</sup> def.)	Added	2016-13	06/16/2016
<b>Financial Asset</b> (1 <sup>st</sup> def.)	Added	2016-13	06/16/2016
<b>Holding Gain or Loss</b>	Added	2016-13	06/16/2016
<b>Loan</b> (2 <sup>nd</sup> def.)	Added	2016-13	06/16/2016
<b>Market Participants</b>	Added	2016-13	06/16/2016
<b>Orderly Transaction</b>	Added	2016-13	06/16/2016
<b>Purchased Financial Assets with Credit Deterioration</b>	Added	2016-13	06/16/2016
<b>Related Parties</b>	Added	2016-13	06/16/2016
326-30-05-1	Added	2016-13	06/16/2016
326-30-15-1	Added	2016-13	06/16/2016
326-30-15-2	Added	2016-13	06/16/2016
326-30-30-1 through 30-4	Added	2016-13	06/16/2016
326-30-35-1 through 35-17	Added	2016-13	06/16/2016
326-30-45-1 through 45-3	Added	2016-13	06/16/2016
326-30-50-1 through 50-10	Added	2016-13	06/16/2016
326-30-55-1 through 55-9	Added	2016-13	06/16/2016

64. Amend paragraph 450-20-00-1, by adding the following items to the table, as follows:

**450-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
450-20-15-2	Amended	2016-13	06/16/2016
450-20-50-2A	Amended	2016-13	06/16/2016
450-20-60-2	Amended	2016-13	06/16/2016
450-20-60-3	Amended	2016-13	06/16/2016

65. Amend paragraph 460-10-00-1, by adding the following items to the table, as follows:

**460-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
460-10-25-2	Amended	2016-13	06/16/2016
460-10-25-3	Amended	2016-13	06/16/2016
460-10-30-2	Amended	2016-13	06/16/2016
460-10-30-3	Amended	2016-13	06/16/2016
460-10-30-5	Added	2016-13	06/16/2016
460-10-35-3	Superseded	2016-13	06/16/2016
460-10-35-4	Amended	2016-13	06/16/2016
460-10-45-1	Amended	2016-13	06/16/2016
460-10-50-4	Amended	2016-13	06/16/2016
460-10-50-5	Amended	2016-13	06/16/2016
460-10-55-22	Amended	2016-13	06/16/2016

66. Amend paragraph 470-60-00-1, by adding the following items to the table, as follows:

**470-60-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Amortized Cost Basis</b>	Added	2016-13	06/16/2016
<b>Recorded Investment in the Receivable</b>	Superseded	2016-13	06/16/2016
470-60-15-3	Amended	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
470-60-15-12	Amended	2016-13	06/16/2016

67. Amend paragraph 606-10-00-1, by adding the following items to the table, as follows:

**606-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
606-10-45-3	Amended	2016-13	06/16/2016
606-10-45-4	Amended	2016-13	06/16/2016
606-10-50-4	Amended	2016-13	06/16/2016
606-10-55-108	Amended	2016-13	06/16/2016
606-10-55-109	Amended	2016-13	06/16/2016
606-10-55-231	Amended	2016-13	06/16/2016
606-10-55-237	Amended	2016-13	06/16/2016
606-10-55-239	Amended	2016-13	06/16/2016

68. Amend paragraph 805-20-00-1, by adding the following items to the table, as follows:

**805-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Financial Assets (1<sup>st</sup> def.)</b>	Added	2016-13	06/16/2016
<b>Purchased Financial Assets with Credit Deterioration</b>	Added	2016-13	06/16/2016
805-20-30-2	Amended	2016-13	06/16/2016
805-20-30-4	Amended	2016-13	06/16/2016
805-20-30-4A	Added	2016-13	06/16/2016
805-20-30-4B	Added	2016-13	06/16/2016
805-20-30-10	Amended	2016-13	06/16/2016
805-20-30-12	Amended	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
805-20-30-26	Added	2016-13	06/16/2016
805-20-35-4B	Amended	2016-13	06/16/2016

69. Amend paragraph 810-10-00-1, by adding the following item to the table, as follows:

**810-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
810-10-30-8C	Amended	2016-13	06/16/2016

70. Amend paragraph 815-10-00-1, by adding the following items to the table, as follows:

**815-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Loan Commitment</b>	Amended	2016-13	06/16/2016
815-10-35-5	Amended	2016-13	06/16/2016

71. Amend paragraph 815-15-00-1, by adding the following items to the table, as follows:

**815-15-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Remeasurement Event</b>	Amended	2016-13	06/16/2016
815-15-25-5	Amended	2016-13	06/16/2016

72. Amend paragraph 815-25-00-1, by adding the following items to the table, as follows:

**815-25-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
815-25-35-10 through 35-12	Amended	2016-13	06/16/2016
815-25-55-85	Amended	2016-13	06/16/2016
815-25-55-88	Amended	2016-13	06/16/2016
815-25-55-89	Amended	2016-13	06/16/2016

73. Amend paragraph 815-30-00-1, by adding the following items to the table, as follows:

**815-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
815-30-35-42	Amended	2016-13	06/16/2016
815-30-35-43	Amended	2016-13	06/16/2016

74. Amend paragraph 820-10-00-1, by adding the following item to the table, as follows:

**820-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
820-10-55-92	Amended	2016-13	06/16/2016

75. Amend paragraph 825-10-00-1, by adding the following items to the table, as follows:

**825-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
825-10-05-2	Amended	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
825-10-25-4	Amended	2016-13	06/16/2016
825-10-35-1 through 35-3	Superseded	2016-13	06/16/2016
825-10-55-8	Amended	2016-13	06/16/2016
825-10-55-10	Amended	2016-13	06/16/2016

76. Amend paragraph 830-20-00-1, by adding the following items to the table, as follows:

**830-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
830-20-35-6	Amended	2016-13	06/16/2016
830-20-35-7	Superseded	2016-13	06/16/2016

77. Amend paragraph 835-10-00-1, by adding the following items to the table, as follows:

**835-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
835-10-60-2	Superseded	2016-13	06/16/2016
835-10-60-3	Superseded	2016-13	06/16/2016

78. Amend paragraph 842-30-00-1, by adding the following items to the table, as follows:

**842-30-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
842-30-25-2	Amended	2016-13	06/16/2016
842-30-25-6	Amended	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
842-30-25-9	Amended	2016-13	06/16/2016
842-30-35-3	Amended	2016-13	06/16/2016
842-30-40-2	Amended	2016-13	06/16/2016

79. Amend paragraph 842-50-00-1, by adding the following item to the table, as follows:

**842-50-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
842-50-50-2	Amended	2016-13	06/16/2016

80. Amend paragraph 855-10-00-1, by adding the following items to the table, as follows:

**855-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
855-10-55-1	Amended	2016-13	06/16/2016
855-10-55-2	Amended	2016-13	06/16/2016

81. Amend paragraph 860-20-00-1, by adding the following items to the table, as follows:

**860-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Financial Asset</b> (1 <sup>st</sup> def.)	Added	2016-13	06/16/2016
<b>Purchased Financial Assets with</b>	Added	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Credit Deterioration</b>			
860-20-30-2	Amended	2016-13	06/16/2016
860-20-35-3	Amended	2016-13	06/16/2016
860-20-35-9	Amended	2016-13	06/16/2016
860-20-50-5	Amended	2016-13	06/16/2016
860-20-55-19	Amended	2016-13	06/16/2016

82. Add paragraph 942-230-00-1 as follows:

**942-230-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
942-230-55-2	Amended	2016-13	06/16/2016
942-230-55-4	Amended	2016-13	06/16/2016

83. Amend paragraph 942-310-00-1, by adding the following items to the table, as follows:

**942-310-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
942-310-05-1	Amended	2016-13	06/16/2016
942-310-05-4	Superseded	2016-13	06/16/2016
942-310-25-1	Superseded	2016-13	06/16/2016
942-310-35-1	Amended	2016-13	06/16/2016
942-310-55-1	Amended	2016-13	06/16/2016

84. Amend paragraph 944-20-00-1, by adding the following item to the table, as follows:

**944-20-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
944-20-55-37	Amended	2016-13	06/16/2016

85. Amend paragraph 944-80-00-1, by adding the following items to the table, as follows:

**944-80-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
944-80-25-9	Amended	2016-13	06/16/2016
944-80-55-11	Amended	2016-13	06/16/2016
944-80-55-16	Amended	2016-13	06/16/2016

86. Amend paragraph 944-310-00-1 as follows:

**944-310-00-1** The following table identifies the changes made to this Subtopic. ~~No updates have been made to this Subtopic.~~

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
944-310-35-3	Amended	2016-13	06/16/2016
944-310-35-4	Amended	2016-13	06/16/2016
944-310-35-6	Amended	2016-13	06/16/2016
944-310-45-4	Amended	2016-13	06/16/2016
944-310-45-4A	Superseded	2016-13	06/16/2016

87. Amend paragraph 948-310-00-1, by adding the following items to the table, as follows:

**948-310-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
948-310-30-1	Amended	2016-13	06/16/2016
948-310-30-4	Amended	2016-13	06/16/2016

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
948-310-35-1 through 35-3	Amended	2016-13	06/16/2016
948-310-35-5	Superseded	2016-13	06/16/2016
948-310-35-5A	Added	2016-13	06/16/2016
948-310-50-1	Amended	2016-13	06/16/2016

88. Amend paragraph 954-225-00-1, by adding the following item to the table, as follows:

**954-225-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
954-225-45-8	Amended	2016-13	06/16/2016

89. Amend paragraph 954-310-00-1, by adding the following items to the table, as follows:

**954-310-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
954-310-30-1	Amended	2016-13	06/16/2016
954-310-35-1	Amended	2016-13	06/16/2016

90. Amend paragraph 958-320-00-1, by adding the following item to the table, as follows:

**958-320-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-320-55-5	Amended	2016-13	06/16/2016

91. Amend paragraph 958-325-00-1, by adding the following items to the table, as follows:

**958-325-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
958-325-30-1	Amended	2016-13	06/16/2016
958-325-35-1	Amended	2016-13	06/16/2016

92. Amend paragraph 978-310-00-1, by adding the following items to the table, as follows:

**978-310-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
978-310-35-5	Amended	2016-13	06/16/2016
978-310-35-6	Amended	2016-13	06/16/2016

*The amendments in this Update were adopted by the affirmative vote of five members of the Financial Accounting Standards Board. Messrs. Kroeker and Smith dissented.*

Messrs. Kroeker and Smith dissent from the issuance of this Accounting Standards Update because they disagree with the requirement to recognize a credit loss at origination or purchase, at an amount equal to the “lifetime expected credit loss” for financial assets. Messrs. Kroeker and Smith believe that recognition of lifetime expected credit losses as an expense at inception or purchase reflects the risk of loss (that is, credit risk) through the income statement and is inconsistent with the definition of an expense included in FASB Concepts Statement No. 6, *Elements of Financial Statements*. Messrs. Kroeker and Smith believe that this conceptual shortcoming of this Update thereby results in financial reporting that does not faithfully reflect the economics of lending activities.

Messrs. Kroeker and Smith acknowledge the overwhelming feedback from financial statement users that information about lifetime expected losses is a significant improvement to the information available for the evaluation of financial statements of entities holding financial assets; therefore, they support the transparency provided by the requirement to determine and report lifetime

expected credit losses. However, they would have provided that transparency differently. Messrs. Kroeker and Smith believe that the transparency of reporting lifetime expected credit losses can be provided without recording a Day-1 loss in a manner that represents a substantial improvement when compared with the current accounting requirements as applied under today's incurred loss model. They believe that there are several models that could have been developed to provide the transparency of providing information about lifetime expected losses and improve the existing incurred loss model while reflecting the risk of loss in a manner that attempts to correspond to the compensation for bearing the related credit risk. Consequently, they do not support the issuance of this Update, despite the transparency of providing information about lifetime expected losses, because the reporting of operating results under the current expected credit loss model is a poorer reflection of the economics of lending activities than the existing incurred loss model. However, while they disagree with the accounting result as articulated above, they believe that the model developed is operable.

### **Credit Risk versus Credit Loss**

Recording a credit loss at initial recognition (along with a related allowance for loan losses) results in a balance sheet presentation that reflects the credit risk twice; it is reflected in the price paid (which is based on the terms of the instrument, including the stated interest rate) and it is reflected in the allowance for loan losses. In an arm's-length transaction (assuming appropriate diligence in underwriting, absence of fraud, and so forth), whether it is a bank extending credit to a homebuyer or an investor purchasing a debt security or a portfolio of loans as an investment, an entity would not be expected to incur an economic loss on the day a loan is made or the security is purchased. The loan or debt security could be sold at the date of origination or purchased at an amount reasonably consistent with the transaction price without incurring a loss. Nevertheless, the Board specifically acknowledged and agreed to this point in paragraph BC81 by incorporating the use of a fair value floor for the allowance for available-for-sale debt securities. Any newly originated or purchased financial asset can be sold at fair value to limit recognition of credit losses required by application of this Update that cause the balance (net of allowance) to be less than the fair value of the net asset. This Update contradicts that economic reality by requiring the recognition of a loss for taking on risk. This is one reason why Messrs. Kroeker and Smith disagree with the Board's conceptual justification of the Day 1 loss model (referenced in paragraph BC42 of this Update). They also disagree with it because the bad-debt expense that is recorded on Day 1 is inconsistent with the definition of an expense included in Concepts Statement 6.

The absence of an appropriate conceptual justification for the initial undervaluation of the asset has the potential to confuse preparers, auditors, and users of financial statements. For example, respondents to the proposed Update expressed the belief that the incremental loss that would be recognized under the Update is not based on the economics of the transaction but rather on a

prudential desire to have a higher level of loan loss reserves reflected in financial reports to investors. Messrs. Kroeker and Smith believe that requiring an initial loss at an amount equal to expected credit losses contradicts the concept of neutrality that is fundamental to the FASB's own Conceptual Framework. They are unaware of any other area of financial reporting for which a loss and a related valuation allowance are immediately established to reduce the value of a recognized asset that is purchased or originated on market terms. Messrs. Kroeker and Smith agree that in the unusual circumstance in which a financial asset is purchased at a price that exceeds fair value or is originated with an initial interest rate that is too low considering the degree of credit risk, an initial loss and measurement of the asset at an amount below the transaction price likely would be appropriate; in fact, they believe that would be the appropriate accounting under today's incurred loss model. This conceptual shortcoming in the Update may lead some readers to conclude that the Board had a specific prudential policy objective when it approved it. Messrs. Kroeker and Smith do not believe that it is appropriate for the Board to ignore the concept of neutrality in its standards.

Messrs. Kroeker and Smith believe that this Update is inconsistent with paragraph 41(b) of FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, which addresses present value (discounted) measures. Messrs. Kroeker and Smith recognize that Concepts Statement 7 was written from the perspective of describing the use of present value when arriving at a fair value estimate. Regardless, a fundamental premise of Concepts Statement 7 is that when performing a present value calculation of future cash flows, it is inappropriate to reflect credit risk in both the expected future cash flows and the discount rate because doing so effectively double counts the reflection of credit risk in that present value calculation. If estimates of future cash flows reflect the risk of nonpayment, then the discount rate should be closer to risk-free. If estimates of future cash flows are based on contractual amounts (and thus do not reflect a nonpayment risk), the discount rate should be higher to reflect assumptions about future defaults. However, when a discounted cash flow method is used, the amendments in this Update require expected cash flows (that is, contractual cash flows that are adjusted for expected defaults) to be discounted at the loan's original borrowing rate (which by definition reflects assumptions about future defaults).

### **A Less Meaningful Measure of Economic Performance**

Today's incurred loss model reflects in the statement of financial performance losses that were incurred during the period. The allowance balance, therefore, reflects an estimate of past losses even if those losses have not yet been "realized." In contrast, the expected credit loss model in this Update requires recognition of losses (and a corresponding allowance for credit losses) to be reflected before those losses are incurred. Therefore, under the expected credit loss model, actual credit deterioration would not be reflected in the income

statement in the period of that deterioration unless the loss was unexpected. Instead, the loss provision in the performance statement will reflect expected credit losses in the period of origination or acquisition of the financial asset, with changes in expectations reflected in later periods. The result of applying the Update is that on Day 1 of an origination or purchase, the income statement is charged with an expense so that (assuming expectations of credit losses are met) the future interest income stream will reflect the original contractual (or purchased) yield. Messrs. Kroeker and Smith believe that this is an inappropriate reflection of the true economics of lending. The compensation for making a loan or an investment is in the future streams of cash flows. They believe that a change from the current incurred loss approach to an expected loss approach should be accompanied by a consideration of the way in which compensation for bearing credit risk (the credit risk premium embedded in the effective interest rate) is recognized. In other words, they believe that both interest income and expected credit losses should be recognized over time. Absent that change, the expected credit loss model results in potentially less meaningful statements of financial performance for financial statement users.

Originating a loan is typically a positive event for a lending institution and in successful organizations it is fundamental to long-term profitability. However, under the expected credit loss model, a growing portfolio of loans (whether through purchase or origination) will have a negative effect on profitability because of the requirement to record full lifetime expected losses when the loans are originated. Messrs. Kroeker and Smith find this result puzzling and counterintuitive. Furthermore, recognizing full lifetime losses on loans (in a manner inconsistent with the underlying economics) could have unintended implications to lending institutions' willingness to lend under certain circumstances and to certain types of borrowers. Messrs. Kroeker and Smith believe that this illustrates a significant flaw in the model, which results from the lack of neutral financial reporting under the amendments in this Update.

### **Purchased Financial Assets with More-Than-Insignificant Credit Deterioration**

The amendments in this Update require that no loss be recorded for expected credit losses for the subset of financial assets for which credit has deteriorated by a more-than-insignificant amount (since origination) when the assets are acquired in a purchase transaction. Messrs. Kroeker and Smith agree with the approach for those assets, which is, in effect, the same as the method they suggest should be applied to other financial assets. However, they question why it is deemed necessary to require a Day-1 loss at an amount equal to expected credit losses for the vast majority of less risky assets when no such loss is recorded for the riskier credit deteriorated assets. This seems to be an acknowledgement that recognition of Day-1 losses is not a fundamentally sound basis of accounting. Messrs. Kroeker and Smith fully support the result of the model required for assets that have experienced a more-than-insignificant credit

deterioration, and they see no reason (conceptually or otherwise) that the model should be applied only to purchased financial assets with credit deterioration. They agree fully with the conclusion of the Board in paragraph BC85 that “purchased assets and originated assets should follow the same model.” However, the amendments in this Update do not accomplish that objective but rather establish two models for accounting for purchased financial assets.

Messrs. Kroeker and Smith believe that the Update’s requirement to segment all purchased loans at the acquisition date and make a determination whether a financial asset has experienced a “more-than-insignificant credit deterioration” is operably difficult and impractical and introduces needless cost and complexity. It will be very difficult for an entity to properly apply the model when large acquisitions occur close to the end of a reporting period. Additionally, the accounting benefit provided by assessing a loan as a purchased financial asset with credit deterioration (that is, a “PCD” asset with no initial loss recognition) introduces a significant incentive to conclude that there has been some credit deterioration, and setting the threshold at such a low level (that is, more than insignificant) just exacerbates the incentive to judge purchased loans as PCD assets. Consequently, the amendments in this Update will result in very similar loans (originated versus purchased) being accounted for very differently. It also will provide an accounting incentive for entities to change their business model from a loan origination model to a loan purchase model, although whether that in fact happens remains to be seen.

### **Preferred Approach**

Messrs. Kroeker and Smith believe that transparent reporting of lifetime expected credit losses is a significant improvement to current incurred loss requirements. While they disagree with recognizing a loss at inception in an amount equal to the expected credit losses, they believe that a reasonable, cost-effective approach could be developed to address their concerns that would better reflect the economics of lending than the model proposed in this Update.

Messrs. Kroeker and Smith believe that moving to an expected loss model for recognizing the expected credit losses on financial assets can be justified only if the interest income and the related impairment charge are considered together. They recognize there may be operability difficulties in fully implementing such an approach if the objective is to attempt to perfectly reflect a “loss emergence period.” However, they believe that the mismatch created by the amendments in this Update can be mitigated. Furthermore, while the IASB considered a similar model in its November 2009 Exposure Draft, *Financial Instruments: Amortised Cost and Impairment*, which was criticized by many as being operationally complex, they believe that a simplified approach to that model could be developed without abandoning the overall objective of reflecting expectations in the measurement of the loss altogether.

Messrs. Kroeker and Smith believe that there are different models that could be considered, all of which would incorporate the concept of either disclosing or including on the face of the balance sheet full lifetime expected losses. In any of those models, a method of recording the losses in the income statement would have to be developed. Messrs. Kroeker and Smith believe that developing a model that incorporates (1) the transparency of displaying full lifetime expected losses and (2) a method of recording interest income along with related expected credit loss provisions would result in a more faithful reflection of the economics of lending (under a value realization approach). Contrary to the view of the FASB, Messrs. Kroeker and Smith believe that this approach would not create significantly more operability challenges compared with the model in this Update. They acknowledge some of the operability challenges some people have cited if the objective of the model is to perfectly reflect losses in the income statement when those losses are incurred. They believe that is one of the most challenging aspects of the current incurred loss model in GAAP and they would be open to the development of practical expedients that could be applied to ensure that such a model is implemented in a cost-beneficial way. They observe that this method is currently used when applying GAAP to the accounting of loan origination costs and that systems already are in place to deal with this accounting that could be extended to accommodate credit losses that are estimated at the time that a financial asset is originated or purchased. They also observe that the requirements of the model included in this Update require this accounting for purchased credit deteriorated impaired assets. Thus, the vast majority of entities will be required to implement that system in any case.

*Members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*  
James L. Kroeker, *Vice Chairman*  
Daryl E. Buck  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others. Throughout the following, the term *model* may be used interchangeably with *methodology* and should not be interpreted to mean a complex computer application.

## Benefits and Costs

BC2. Paragraph OB2 of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting, Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information*, states the following:

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit. [Footnote reference omitted.]

BC3. The objective of this Update, which is based on the objective of general purpose financial reporting, is to provide financial statement users with more decision-useful information about the expected credit losses on financial assets and other commitments to extend credit held by a reporting entity at each reporting date. Users criticized previous GAAP because the thresholds required to recognize credit losses delayed the recognition until the credit losses were probable, even if an entity may have had an expectation of a future loss. Diversity also existed in application of when the "probable" threshold had been reached. The combined effect of delayed recognition and diversity resulted in a misalignment between accounting standards and the market's perception of credit risk as evidenced by a significant disparity in market value as compared with book value of creditors, most evident in stressed economic environments. As a result, users supported an approach for the allowance for credit losses based on management's expectations of credit losses over the contractual life of the financial assets (considering the effect of prepayments) with an explanation

of inputs and assumptions and changes in those inputs and assumptions from the prior reporting period. Also, recognizing the subjective nature of estimating credit losses, users supported additional disclosures that would facilitate users' assessment of management's initial credit loss estimate for newly originated loans as well as subsequent changes to those estimates.

BC4. In conjunction with the due process that led to the issuance of this Update, the Board conducted extensive outreach activities with users, preparers, and auditors of financial statements to obtain information about specific deficiencies in the previous GAAP accounting requirements for credit losses. Input was received both before the project was added to the Board's technical agenda and throughout the project.

BC5. The FASB's Rules of Procedure states that the mission of the FASB is to:

Establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports.

BC6. In fulfilling that mission, the Board follows certain precepts, including the issuing of standards only when the expected benefits of the resulting information justify the expected costs. The Board strives to determine that a standard will fill a significant need and that the costs imposed to meet that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC7. On the basis of extensive due process and significant input received from financial statement users and preparers, the Board concluded that the guidance in this Update will provide users of financial statements with more decision-useful information about the credit risk inherent in financial assets and the change in expected credit losses occurring during the period. The Board developed the amendments in this Update to provide users of financial statements with relevant information. The Board expects this updated guidance to accomplish the following:

- a. Result in an earlier measurement of credit losses
- b. Result in greater transparency about the extent of expected credit losses on financial assets held at the reporting date
- c. Improve a user's ability to understand the realizability of assets held at each reporting period
- d. Improve a user's ability to understand changes in expected credit losses that have taken place during the period

- e. Improve a user's ability to understand purchased financial assets with credit deterioration by enhancing the comparability of the reporting with that of originated assets, while also reducing the cost and complexity of accounting for those assets
- f. Provide greater transparency to the user in assessing the credit quality indicators of a financial asset portfolio and changes in composition of the financial asset portfolio over time.

BC8. The Board recognizes that the amendments in this Update may require significant effort for many entities to gather the necessary data for estimating expected credit losses. The Board also recognizes that the guidance will require additional effort to review, audit, and examine financial statements. During the course of developing the amendments, the Board sought to minimize the cost of implementing the credit loss guidance and its complexity by developing an approach that:

- a. Permits an entity to utilize its current internal credit-risk management approaches and systems as a framework for applying the new measurement objective
- b. Does not include multiple measurement objectives that would have required different measures of credit losses depending on whether credit deterioration for financial assets has occurred for assets measured on an amortized cost basis
- c. Does not prescribe specific estimation methods to be used in any specific circumstance but, rather, allows an entity to apply judgment to develop estimation methods that are appropriate, practical, and consistent with the principles of the guidance
- d. Does not change the guidance for writing off uncollectible assets
- e. Does not change interest income reporting for originated loans on the basis of feedback received that preparers manage and users seek separate reporting of credit risk and interest income separately
- f. Requires an entity to consider forward-looking information rather than limiting consideration to current and past events, at the date of the statement of financial position
- g. Allows an entity to revert to historical loss information, with a straight-line or immediate reversion both being acceptable methods if the expected contractual term of financial assets goes beyond periods for which reasonable and supportable forecasts can be obtained
- h. Makes targeted improvements to the impairment of available-for-sale debt securities, which was supported by both users and preparers
- i. Provides transition relief for a prospective transition approach for assets for which the guidance in previous GAAP (Subtopic 310-30) had been applied and for assets for which an other-than-temporary impairment had been recognized before the effective date.

BC9. The Board understands that some stakeholders are of the view that a requirement to record the full estimate of expected losses may inhibit lending,

particularly to less creditworthy borrowers or during an economically stressed environment. However, the amendments in this Update do not change the economics of lending. In other words, the same loss ultimately will be recorded, regardless of the accounting requirements. What changes is an accounting threshold for the recognition of credit losses, which affects only the timing of when to record credit losses, not the ultimate amount realized on the financial assets. The guidance on credit losses should provide information that is useful in making business and economic decisions, and that guidance on credit losses should provide information that faithfully reports the economics of a transaction, regardless of any perceived positive or negative impact of reporting that information in the financial statements (that is, “neutrality”) has on business and policy decisions. This information will assist users in making their own decisions based on the financial information.

BC10. Some stakeholders may interpret Topic 326 as recognition guidance; however, Topic 326 is measurement guidance. The recognition event occurs when the financial asset is recognized on the statement of financial position through origination or purchase. Recognition is limited to assets and liabilities because the conceptual framework places primacy on those accounts. Expenses and losses in the Conceptual Framework are secondary because they represent changes in balance sheet accounts. Therefore, an expense is a remeasurement of an asset after its recognition. The amendments in this Update provide guidance for the measurement of expected credit losses for recognized financial assets and off-balance-sheet commitments. Following the Conceptual Framework, the measurements of credit losses for recognized financial assets are reported in the income statement as an expense.

BC11. In this context, the Board observes that Topic 326 better aligns the accounting guidance with underwriting decisions because expected losses (rather than only incurred losses) generally are considered when underwriting a loan or other financial asset. The Board acknowledges that a growing business involving riskier credits could give rise to measurement of incremental credit losses in the period the loans were originated. However, the Board was concerned about the inconsistency of an accounting standard that measures only incurred losses, whereas the underwriting process considers the expectation of credit losses (that is, the economics of a transaction that are reflected in the underwriting are not reflected in an incurred loss accounting model). The Board concluded that it would have been inappropriate to defer credit losses that were expected by the entity, which would result in the recognition of overstated financial assets.

BC12. The Board considered feedback that the cost of implementation will not be known completely until all implementation issues are identified. Although the Board’s entire due process procedures are designed to gather information about costs and benefits, the analysis of costs and benefits is unavoidably more qualitative than quantitative. The Board has created a Transition Resource Group (TRG) to assist with issues relating to circumstances that arise during

implementation. The Board believes that the TRG will be in a position to monitor implementation efforts and provide support as needed. The Board has considered the role of the TRG when assessing costs and benefits. The Board also observes that the shortcomings of current GAAP create a need for users to derive their own estimates of expected credit losses. Therefore, the amendments in this Update will reduce costs for users. The Board acknowledges that some of those costs will shift to preparers but notes that the costs to the system as a whole should be reduced because management is in a position to make a more informed estimate based on information used in assessing collectibility and underwriting decisions. The Board made efforts to minimize the costs of compliance for preparers as noted in paragraph BC8.

BC13. Notwithstanding the potential additional costs described above, the Board concluded that the benefits of more timely measurement of expected credit losses justify the costs.

## Background Information

BC14. In October 2008, as part of a joint approach to dealing with the reporting issues arising from the global financial crisis, the FASB and the IASB created the Financial Crisis Advisory Group (FCAG). FCAG considered how improvements in financial reporting could enhance investors' confidence in financial markets. In its report issued on July 28, 2009, FCAG identified delayed recognition of losses associated with loans (and other financial instruments) and the complexity of multiple impairment approaches as primary weaknesses in accounting standards and application of those standards. FCAG recommended exploring alternatives to the incurred loss model that would use more forward-looking information because the incurred loss model delays recognition of credit losses until it is probable a loss has been incurred.

BC15. In November 2009, the IASB issued its Exposure Draft, *Financial Instruments: Amortised Cost and Impairment* (the IASB's original Exposure Draft on this subject), which proposed requirements for amortized cost measurement including the impairment of financial assets. That Exposure Draft aimed to provide information about the effective return on a financial asset by allocating interest revenue over the expected life of the asset. To accomplish this objective, the Exposure Draft proposed that an entity should measure the amortized cost at the expected (credit-adjusted) cash flows discounted at the original credit-adjusted interest rate (that is, the effective interest rate adjusted for the initial expected credit losses).

BC16. Certain respondents supported this model because it would have distinguished between the effect of initial estimates of expected credit losses and subsequent changes in those estimates. They noted that such a distinction would provide information about changes in credit risk and the resulting economic losses. Other respondents said the proposal would result in significant

operational challenges. In particular, they highlighted challenges with the following:

- a. Estimating the full expected cash flow for all financial instruments
- b. Applying a credit-adjusted effective interest rate to those cash flow estimates
- c. Maintaining information about the initial estimate of expected credit losses.

BC17. In May 2010, the FASB issued the proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*, which included proposals on classification and measurement, credit impairment, and hedge accounting. With regard to credit impairment, the Board’s objective was to ensure that the allowance balance reflected all estimated credit losses for the remaining life of a financial instrument. To accomplish that objective, the FASB proposed that an entity should measure credit impairment when the entity does not expect to collect all contractual amounts due. The credit loss would not need to be considered “probable” to be recorded under the proposed Update. For purposes of measuring credit impairment, the proposed Update would have required that an entity assume that the economic conditions existing at the reporting date would remain unchanged for the remaining life of the financial assets. Furthermore, the FASB proposed that interest income should be recognized based on applying the effective interest rate to the amortized cost basis net of any allowance for credit losses.

BC18. The Board performed extensive outreach to obtain feedback on the May 2010 Exposure Draft from all stakeholders, including users, preparers, auditors, and regulators. Stakeholders provided feedback through public comment letters, investor questionnaires, field visits with preparers, in-person meetings, and public roundtable meetings. More than 2,800 comment letters were received and posted on the FASB’s website. Approximately 2,000 of those comment letters were submitted by banking institutions. The Board and staff completed eight field visits with various entities to discuss the operability and the costs and benefits of the Exposure Draft. Field visit participants included banking institutions of various sizes, nonfinancial entities, and an insurance company. The Board and staff received feedback from 120 investors and other users of financial statements employed by more than 60 firms through in-person meetings and calls with individual investors and groups of investors representing a variety of perspectives. Users included buy-side analysts employing long-only and long-short strategies, sell-side analysts specializing in either the bank- or insurance-related sectors, as well as analysts from ratings agencies. The Board and staff also received feedback on the Exposure Draft through 5 public roundtable meetings held with more than 65 participants, including users, preparers, regulators, auditors, and others representing various perspectives.

BC19. Many respondents to the May 2010 Exposure Draft agreed with recording the entire credit loss in the period estimated. Furthermore, superseding the probable threshold for recognizing credit losses was widely supported. Many investors noted that the probable threshold that had existed for recognizing credit losses prevented financial institutions from recognizing credit losses that were imminent in 2007 and 2008. While most stakeholders supported the objective of a single impairment model, some asserted that the proposed Update retained three different impairment models (that is, one for pools, one for individual assets, and one for purchased assets). Additionally, stakeholders expressed concern about the requirement to assume that economic conditions as of the reporting date would remain unchanged in the future because it would limit the information that is considered to past events and current conditions. Respondents noted that restricting the ability to include future conditions would generate significant volatility in the income statement and the amount of reserves would be procyclical (overstated reserves at the trough of a cycle and understated reserves at the peak of a cycle) and, thus, could have severe, unfavorable effects on the overall economy. Finally, stakeholders (including users) opposed the proposal that interest income should be recognized based on applying the effective interest rate to the amortized cost basis net of any allowance for credit losses, preferring instead to maintain the approach in current GAAP that measures interest income and credit losses separately. Many of those respondents stated that the primary issue is delayed recognition of impairment losses in net income as opposed to the interest recognition model. Respondents noted that the proposed model would decrease transparency to users because users generally want interest income and net interest margin based on the effective interest method with credit losses reported separately. Users stated that the proposal would negatively affect their abilities to analyze net interest margin, a key metric for analysis of a financial institution's performance. Many users stated that the interest income model would make many products look the same based on their reported yields because products that have a high effective contractual interest rate due to credit would reflect a similar net interest margin as that of products with a lower rate and little expected credit losses. Therefore, users stated that the current interest income recognition model that reflects an effective interest rate based on the contractual terms gives investors an indication of the risk characteristics of the underlying asset.

BC20. In redeliberating their original impairment proposals, both the Board and the IASB developed a model for impairment accounting that was a variant of their original proposals. The Board and the IASB sought to achieve a common solution to this important issue and, as a result, in January 2011, the FASB and the IASB jointly issued a Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment*. This proposal would have eliminated any initial recognition threshold but introduced two different measurement objectives for the credit impairment allowance. For the “good book” (or performing loans), an entity would have recorded the higher of the time-proportionate expected credit loss or

credit losses expected to occur within the foreseeable future. For the “bad book” (or nonperforming loans), an entity would have recorded the entire amount of expected credit losses. An asset would have transferred from the good book to the bad book when the collectibility of a financial asset became so uncertain that the entity’s credit risk management objective changed from receiving the regular payments from the debtor to recovery of a portion of the financial asset.

BC21. The Board received more than 200 comment letters in response to the Supplementary Document. Additionally, during the comment letter period for the Supplementary Document, the FASB and IASB staff performed extensive outreach with preparers, regulators, auditors, users, and other interested parties. The outreach included stakeholders from across various jurisdictions, including North America (the United States, Canada, and Mexico), Europe, Asia, Oceania, and South America. The outreach was in the form of in-person meetings, phone calls, video conferences, and group forums. The outreach program included commentary from more than 1,000 stakeholders, representing more than 100 different organizations.

BC22. Generally, U.S. preparers and auditors supported the development of an impairment model that would address the “too little, too late” concern. The procyclicality of reserving also was an overriding concern of those stakeholders. Furthermore, they supported moving away from the “probable” threshold that was required to recognize credit losses. Many respondents to the Supplementary Document indicated that the condition for when to transfer an asset between the good book and bad book needed to be further refined for the proposed amendments to be operable. Some suggested that a bright line be established to promote consistent application. Many preparers and auditors noted that without stronger definitions of the important terms, the model would not be operable, auditable, or understandable, and comparability would not be achieved. Additionally, respondents said that the concept of “foreseeable future period” was vague and could lead to counterintuitive results (such as, the foreseeable future being shortened during a downturn in the economy, thereby potentially decreasing the credit impairment allowance overall). Finally, many nonfinancial institutions stated that they do not manage their financial assets in the same way as financial institutions and, therefore, they found the good book and bad book proposal unfamiliar and inconsistent with their current practices. In addition, U.S. preparers understood the objective of linking the pricing of the asset to the measurement of credit losses but argued that reporting of credit losses in a ratable fashion would not reflect actual loss experience. Some preparers noted that the greatest exposure to losses exists as the loan is originated and credit risk is reduced over the life of the loan and that the allowance balance should follow a similar pattern. Those stakeholders argued that the objective of linking the pricing of the asset to the measurement of credit loss would not reconcile to the objectives of the “too little, too late” concern.

BC23. Leveraging the feedback received from June 2011 through July 2012, the FASB and the IASB jointly developed a “three bucket” impairment model.

Similar to the model in the Supplementary Document, the three-bucket model would have eliminated any initial recognition threshold but utilized two different measurement objectives for the allowance for credit losses, depending on the extent of credit deterioration (or recovery) since origination or acquisition. For Bucket 1, an entity would have recorded an allowance for credit losses equal to 12 months of expected credit losses (sometimes referred to as “12 months of expected losses”). For Bucket 2 and Bucket 3, an entity would have recorded all lifetime expected credit losses. Bucket 2 would have included financial assets evaluated collectively. Bucket 3 would have included financial assets evaluated individually. Based on decisions reached through July 2012, an asset would “transfer” from Bucket 1 to Bucket 2 (or Bucket 3) when both (a) there has been a more-than-insignificant deterioration in credit quality and (b) it is at least reasonably possible that some or all of the cash flows may not be collected.

BC24. While developing application guidance for the three-bucket model, the Board received requests to clarify a number of principles in the model, including the Bucket 1 measurement objective and the “transfer criteria” that trigger a change in the measurement of credit losses. Many stakeholders viewed the proposed transfer criteria as reintroducing an incurred loss recognition threshold for a full lifetime loss estimate. From April 2012 through July 2012, the FASB staff and individual Board members held detailed working sessions with stakeholders (including users, preparers, auditors, and regulators) to address the application issues through additional clarifying guidance. Despite those efforts, stakeholders continued to express significant concerns about whether the three-bucket impairment model was operable, auditable, and understandable. The most significant operability concerns related to the use of two different measurement objectives—a portion of total expected losses for some assets and a full measurement approach for assets that have exhibited significant deterioration since origination or acquisition. Concerns were raised about (a) the ambiguity of the criteria for determining which measurement objective to utilize, (b) the potential for earnings management relating to the timing of the transfers between measurement objectives, and (c) the potential “cliff effect” of moving from an approach that measures a portion of total expected losses for some assets to a full measurement approach, and vice versa. Many stated that the model would result in inconsistent application and would not provide users with comparable or transparent results. Furthermore, users expressed concern about interpreting any model that utilizes two different measurement objectives to arrive at the allowance for credit losses recognized on the balance sheet.

BC25. As a result of the pervasive feedback from U.S. stakeholders about the three-bucket model, in July 2012, the Board decided to revisit some previous tentative decisions on the impairment project, primarily relating to the use of two different measurement objectives. In doing so, the Board developed the current expected credit loss (CECL) model that retained certain concepts from the jointly developed credit loss model that were sound, while at the same time avoiding other concepts that U.S. stakeholders considered complex, inoperable, or

otherwise problematic. The Board exposed this single measurement objective model for public comment in December 2012 with the issuance of its proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15)*.

BC26. In March 2013, the IASB issued an Exposure Draft, *Financial Instruments: Expected Credit Losses*. In July 2014, the IASB issued final guidance by adding to IFRS 9 the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. The impairment requirements retained a dual measurement based on the level of credit deterioration.

BC27. The Board received significant input on the December 2012 Exposure Draft through comment letters and through direct outreach with numerous preparers, auditors, and users of financial statements. Since redeliberations began in July 2013, the Board received more than 360 comment letters. It also obtained feedback through investor meetings with more than 70 analysts and investors. In addition, the Board conducted 17 field visits with preparers (including multinational and domestic, financial and nonfinancial, and public and private institutions). The Board held various roundtables with preparers, investors, and regulators to discuss the Exposure Draft. In addition, outreach was performed with 265 preparers (in the form of comment letters, phone calls, and roundtables), of which approximately 60 percent were small banks or credit unions. The Board considered the feedback from stakeholders during its redeliberations at public meetings held in 2013, 2014, 2015, and 2016. The amendments in this Update are a result of those redeliberations.

BC28. The Board observed that investors and other users strongly preferred a model that records the full amount of expected credit losses (as opposed to maintaining a threshold that must be met before all expected credit losses are recognized or permitting the recognition of only some of the expected credit losses before the threshold is met). Investors stated that they saw no point in recognizing different amounts of expected credit losses on the basis of whether default events are expected within a specific time frame. They also disagreed with the idea of using any other type of trigger for determining the amount of expected credit losses recognized, which they asserted would add another layer of subjectivity into an already subjective estimate. The majority of investors agreed that past, current, and reasonable and supportable forecasts should be used to develop the estimate. Investors noted that a gross presentation of the allowance for purchased assets with credit deterioration would reduce complexity and enable better analysis. Investors had mixed views on the application of the 2012 Exposure Draft to available-for-sale debt securities because some investors questioned whether there was a need for a separate model for reporting credit losses through net income in light of the fact that the market's view of credit already is reflected in fair value and other comprehensive income for available-for-sale debt securities.

BC29. The Board observed that once preparers understood what the Board intended with regard to estimating expected credit losses, nearly all preparers participating in the field visits and outreach sessions indicated that past, current, and reasonable and supportable forecasts should be used to develop the loss estimate to make the measurement of expected credit losses operable. However, many preparers expressed concern about any requirement to forecast economic conditions over the estimated life of the assets in the portfolio. Those preparers preferred a model that either measured only some of the expected credit losses or maintained a threshold that must be met before all expected credit losses are measured. Preparers generally disagreed with the approach for available-for-sale debt securities and some preferred to maintain the existing other-than-temporary impairment (OTTI) model for debt securities, while others recommended modifying the practical expedient provided in the December 2012 Exposure Draft.

BC30. The Board received significant feedback from community banks, credit unions, and their respective industry groups relating to the potential complexity and operability of the proposed Update. To be responsive to the concerns of those preparers, the Board held a public meeting with representatives of community banks and credit unions, bank industry groups, regulators, and auditors to discuss the concerns about the proposed Update and the expected costs of implementation. The Board responded to the feedback received at that meeting by helping stakeholders understand the requirements of the final Update in order to address their concerns. For example, the Board clarified that the amendments would not require complex modeling and would allow various estimation methods. After the meeting, the staff continued to work with certain community bank representatives to develop examples that illustrate the implementation of the final Update in a noncomplex environment.

BC31. The Board also met with the Private Company Council (PCC) to discuss its views on applying an expected credit loss model. The PCC requested additional clarification on how an expected credit loss model would apply to trade receivables and how one would measure expected credit losses for certain related-party loans. Some related-party loans may be viewed as a capital contribution rather than a loan to be repaid. The Board responded to those concerns by providing an illustration to show how the amendments in this Update should be applied to trade receivables and removing from the scope those loans among counterparties that are under common control.

## Consideration of Measurement Attribute on Credit Loss Models

BC32. The decisions in this Update reached by the Board are consistent with the decisions reached in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. First, the amendments in Update 2016-01 require that equity securities be measured at fair value, with changes in fair

value included in net income in the period of the change, except for investments in consolidated subsidiaries and those that qualify for the equity method of accounting. The Board placed weight on the fact that equity securities have no maturity and that the primary way to realize their total value (beyond periodic dividends) is through sale. Thus, an entity is not required to record credit losses from other changes in fair value for these instruments because value ultimately is realized through sale (that is, the entity will not realize value only by collection). The same measurement attribute applies to all trading securities since value is expected through sale, and any credit losses are reflected through changes in fair value recorded in earnings. For this reason, financial instruments classified as trading and equity securities do not require a separate credit loss model.

BC33. Second, financial assets recorded at amortized cost, including loans and debt securities classified as held to maturity, are recorded at their amortized cost basis because under the measurement approach in Accounting Standards Update 2016-01, an entity represents that the total value of the financial asset is expected to be realized through collection of the amortized cost basis. For these assets, changes in fair value from non-credit-related factors do not affect the collection of the amortized cost basis. However, changes due to credit-related factors would affect collection of the amortized cost basis. Therefore, a credit loss measurement to reduce the carrying value of these assets to the amount expected to be collected reflects the value expected to be realized for these assets. The Board believes that measurement of those assets at the amount expected to be collected, which may be different from fair value, is necessary for these assets because collection of the amortized cost basis is the economic phenomena that this measurement attribute is intended to reflect. Additionally, in developing the CECL model, the Board considered feedback from users that presentation of interest income separate from credit losses provides more relevant information. The Board concluded that the economics of lending are faithfully represented under this approach because entities manage loans on a collective basis where the interest income recognized on good loans over time offsets the credit losses of bad loans that are commonly frontloaded.

BC34. Third, the Board acknowledged that available-for-sale debt securities are recorded at fair value with changes in fair value included in other comprehensive income because under the measurement approach in Accounting Standards Update 2016-01, an entity represents that it may realize the total value of the securities either through collection or through sales of the securities. For these assets, a credit loss model is required in order to recognize in earnings any changes in fair value due to credit-related factors because those losses are expected to be realized regardless of whether the entity will realize value through collection or through sale. However, the Board decided that an allowance for credit losses on available-for-sale debt securities should be limited by the amount that fair value is less than amortized cost because an entity can sell its investment at fair value to avoid realization of credit losses.

## Measurement Objective and Initial Recognition Threshold for Financial Assets Measured at Amortized Cost

BC35. Stakeholders provided extensive feedback on whether the credit loss measurement for performing assets should differ from the credit loss measurement for assets that exhibited credit deterioration. Some stakeholders stated that the credit losses that an entity anticipated at acquisition or origination should be recorded in a pattern similar to the recognition of the related revenue (that is, interest income) on the basis that this compensates the entity for undertaking this risk. Those individuals often support a proportionate or time-based approach to recording credit losses or noted that no credit losses should be recorded until credit deterioration has occurred. Others stated that instruments measured using an amortized cost measurement attribute should be reflected in the balance sheet at each reporting date at an amount that reflects the present value of cash flows expected to be collected, discounted at the original effective interest rate. They noted that for instruments measured at amortized cost, it is potentially misleading to investors to allow the balance sheet to reflect an amount greater than the amount expected to be collected.

BC36. The Board considered, but rejected, various alternatives to the CECL model when considering the feedback from stakeholders that primarily advocated for the gross-up model and models that were an abbreviated version of the CECL model.

BC37. The gross-up model incorporated an approach under which an allowance for credit loss estimate would be calculated consistently with the requirements of the CECL model. Supporters of this approach stated that recording the life of loan expected loss as an allowance addresses users' primary criticism of existing GAAP. It also provides users with the primary information they require, that is, an estimate of the lifetime expected losses of recorded assets.

BC38. However, an entity would recognize a corresponding amount as a debit to the balance sheet that would reflect the expected credit losses that have been included in the pricing of the financial asset. The entity would amortize that debit (as credit loss expense) over time. Alternatively, a model could be developed such that interest income is not recognized for the gross-up adjustment included in the amortized cost basis of the asset. This model would have attempted to address certain Board members' concerns about the immediate reporting of expected credit losses in net income, concerns that reporting Day-1 expected credit losses does not match the timing of credit losses with the timing of interest income, as well as concerns that the interest rates on financial assets already reflect a creditor's compensation for credit risk.

BC39. Abbreviated versions of the CECL model, for example, a truncated model, under which an allowance would be recorded for credit losses expected over a reasonable and supportable period, or for expected credit losses related

to assets that have experienced significant credit deterioration, also were considered in response to preparers' concerns about measuring expected credit losses over the estimated life of financial assets. However, the Board viewed those alternatives as complex and having shortcomings similar to the incurred loss model that has received criticism for being too complex and for reporting credit losses that are too late. The Board decided between these fundamentally different alternatives based on five key economic and practical considerations (see paragraphs BC40–BC44).

BC40. First, the Board understands from evidence on historical credit loss experience that credit losses are not realized ratably throughout the life of a loan. Rather, credit losses often are very low shortly after origination, rise rapidly in the early years of a loan, and then taper to a lower rate until maturity. As a result, the Board concluded that there is a fundamental disconnect between the economics of lending (that is, the “lumpy” pattern of actual credit losses) and a time-based accounting approach that attempts to link the reporting of credit losses anticipated at origination or acquisition with the recognition of interest income. Additionally, under the gross-up model, the Board would have had to determine the timing, period, and methods (accelerated amortization or straight line) to record the amortization of the gross-up debit. The Board could have decided to amortize the gross-up debit over the loss emergence period or some other period over which the credit deterioration occurred. The Board observed that challenges exist when identifying the timing of loss events under an incurred loss model that would be carried forward to a gross-up model. Those challenges resulted in diversity in how a loss event is defined across varying institutions and varying loan products. Board members observed that there could be significant complexity associated with consistently identifying a loss event and, therefore, having consistent application of the gross-up model. It also was unclear to certain Board members how one would account for changes in the loss emergence period. For example, it was unclear whether subsequent deterioration would be recognized in the period that expectations changed or whether the subsequent deterioration would be amortized over the remaining life of the asset in a manner consistent with how expected losses identified at origination would be amortized. In addition, it was unclear where the unamortized debit should be reported on the balance sheet. The debit does not meet the definition of an asset and reporting the debit in other comprehensive income has no conceptual foundation.

BC41. Second, the Board understands that financial assets are priced (a credit spread is established) on the basis of a number of factors, including competitive forces in the marketplace, the extent of the existing or desired relationship with the borrower, and the extent of security or collateral. Clearly, a borrower's creditworthiness is a key factor in pricing the financial asset. Nevertheless, given the multitude of factors that affect pricing, it is impractical (if not impossible) to reliably isolate and measure the portion of the credit spread intended to compensate a lender for undertaking the credit risk from the portion of the credit spread that results from these other factors (particularly because credit losses

rarely emerge in a linear fashion and, therefore, the portion of the credit spread compensating the lender for undertaking the credit risk may change over time). Furthermore, the Board understands that even the creditworthiness evaluation that influences pricing is based on historical experience for groups of similar assets. As a result, while the credit spread charged on the lender's overall portfolio of individual financial assets may be expected to compensate the entity for credit losses for a large portfolio of assets over time, the credit spread on any individual asset is not established in a way that necessarily compensates the lender for credit losses on that individual asset. It is the interest income on performing assets that compensates for the credit losses on nonperforming assets. As a result, the Board concluded that it is impractical to link accurately the reporting of credit losses anticipated at origination or acquisition with the compensation paid to the lender (interest) for undertaking that risk.

BC42. Third, the Board concluded that an entity should present the allowance for credit losses as a contra-asset account to reduce the net amortized cost of the asset to an amount that is expected to be collected. When the Board considered truncated models or other models that limited the measurement of credit losses to a specific time period, it observed that the allowance for credit losses would not represent a complete estimate of an entity's expectations. Additionally, if the measurement objective is based on a trigger for recording expected credit losses, an added layer of subjectivity and complexity would be added when identifying the assets that met a particular trigger. As a result of those operability concerns for financial assets, the net amortized cost basis (net of allowance) would be measured at an amount greater than the amount expected to be collected. The Board concluded that the amendments in this Update are more aligned with FASB Concepts Statement No. 6, *Elements of Financial Statements*, which states that "a separate item that reduces or increases the carrying amount of an asset is sometimes found in financial statements. For example, an estimate of uncollectible amounts reduces receivables to the amount expected to be collected. . . . Those 'valuation accounts' are part of the related assets and are neither assets in their own right nor liabilities" (paragraph 34). The guidance in this Update relates to the measurement (rather than recognition of an asset or liability in its own right) on the basis that Concepts Statement 6 highlights that the valuation accounts are part of the related assets and liabilities. The Board concluded that it is misleading to investors to allow the balance sheet to reflect an amount greater than the amount expected to be collected for instruments measured using amortized cost, which would be the result of an approach that records only incurred losses or some other threshold for recording a portion of the expected credit losses. The amortized cost basis of an asset (which excludes the allowance for credit losses) generally reflects the present value of contractual cash flows, discounted at the original effective interest rate. The effective interest rate is the best rate for recognizing interest income because the effective interest rate provides decision-useful information about the level of credit risk a lender took on when it originated or purchased a financial asset. Throughout this project investors supported this

view, and a primary reason for their preference is to have interest income and credit losses measured separately. As a result, the Board concluded that it is more decision useful to present the net carrying amount on the balance sheet for the amount expected to be collected. The Board determined that the accounting of credit losses is not a recognition principle, it is a measurement principle. What is recognized are the financial assets on the balance sheet. Those recognized financial assets should then be measured for credit losses, which fundamentally also should occur in the period in which the assets are recognized.

BC43. Fourth, the Board compared the CECL model with other models under various hypothetical economic scenarios while also considering the varying effects of increasing, decreasing, and stable loan growth. The Board observed that there are three ways to record expected credit losses: up-front, over time, or when the loss is realized. The Board noted that under all considered models, the amount of credit loss reported in the income statement over the life of the financial asset is ultimately the same. In addition, the various models resulted in comparable income statement amounts in periods of stable loan growth. The models that limited losses to a reasonable or supportable truncated period or until significant deterioration occurred had an effect of showing a sharp increase in losses later in the assets' economic lives. The Board observed that models that limited losses would not address the concerns relating to models that could result in procyclical outcomes, as highlighted in paragraph BC17 of the May 2010 Exposure Draft.

BC44. Fifth, the Board decided to measure expected losses using a single measurement objective to facilitate users' abilities to understand and compare estimated expected credit losses within and across entities over time. Alternative models that measure expected losses on the basis of credit deterioration or truncated reasonable and supportable periods result in variations in the total allowance for credit losses that make it challenging for users to analyze and understand the factors causing changes in expected credit losses across entities and over time.

BC45. As a result, the Board decided that at each reporting date, the net amortized cost balance in an entity's balance sheet should reflect the amount expected to be collected. The Board decided not to record only a portion of total expected credit losses because the resulting net amortized cost would not reflect the amount expected to be collected. Rather, that net amortized cost would include some amounts that are not expected to be collected. Furthermore, the Board concluded that concerns about the reliability of the estimate as a result of the potential uncertainty of the timing of the losses should not be the primary driver of whether the credit losses should be recorded.

BC46. The Board concluded that the measurement of credit losses should be based on an entity's expectations about the collectibility of financial assets held at the reporting date. Even though an entity must estimate credit losses over the entire contractual term of the financial assets (recognizing that expected

prepayments affect the estimated life), the Board decided not to characterize expected credit losses as “lifetime” expected credit losses. The use of the term *lifetime* is interpreted in many different ways and may lead some to believe that an entity must identify the exact amount and timing of uncollectible cash flows in each year of the asset’s life for use in a discounted cash flow technique to estimate expected credit losses. For others, the term *lifetime* suggests the measurement of a stress-case (or worst-case) credit loss scenario after a default has occurred. Also, the term *lifetime* may lead some to believe that estimating expected credit losses must be done on an individual asset basis rather than having the ability to estimate expected credit losses on a collective (pool) basis.

BC47. The Board concluded that an entity’s expectations about the collectibility of a financial asset should consider available information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that inform the entity about the estimated collectibility of the asset. In considering past events, an entity should consider changes in financial asset underwriting practices, including their effects on the assessments of business plans and strategies. In considering current conditions and forecasts about the future, an entity should consider both the economic environment and the forecasted direction of the economic environment because that best reflects the economic environment facing the borrower as of the reporting date. The Board also included forecasts about the future to respond to feedback on the 2010 proposed Update, which would have required locking in estimates as of the balance sheet date. Preparers indicated that ignoring reasonable, supportable forecasts would have resulted in a misleading expected loss estimate.

BC48. The Board considered retaining an initial recognition threshold (such as probable) for recording credit losses. The Board concluded, however, that the model for recording credit losses should not be based on a notion of “incurred” losses because it would interfere with the timely measurement of changes in expected credit losses and the reporting of credit losses. Similarly, an entity should not automatically conclude that there are no expected credit losses simply because all of the amounts due have been received to date. The amendments in this Update would differ from an incurred loss model because measurement of credit losses would not be based on a specific triggering event or threshold. Removing the probable threshold would result in a more timely measurement of expected credit losses because losses can be expected before they are probable (as that term is used in Topic 450) of occurring (or have occurred). The Board concluded that the relevance of balance sheet amounts that reflect expected collectibility without consideration of a recognition threshold outweighs potential concerns about the subjective nature of the estimate. Furthermore, eliminating the probable threshold would be consistent with the Board’s decisions in FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, issued in April 2009, which modified the impairment guidance for debt securities. One of the changes made by that FSP

was to remove the probable threshold for assessing whether a debt security is other-than-temporarily impaired. The Board made that change to clarify that an entity should not wait for an event of default or other actual shortfall of cash flows to conclude that a credit impairment exists.

BC49. If observers of the Board's approach focus on individual assets rather than groups of similar assets, they might incorrectly interpret the Board's approach as recording losses prematurely and in noneconomic amounts. However, financial institutions manage many financial assets on a collective basis, wherein new financial assets are originated, existing financial assets are paid down, and some financial assets may be purchased and some financial assets may be sold. In addition, many users analyze financial asset portfolios of financial institutions on a collective basis. The estimate of credit losses under this Update is based on the current assessment of credit risk of the assets on a collective basis and the entity's loss experience (and expectation) with assets of similar risk characteristics. For example, if a group of similar assets is fully performing at the end of a reporting period, the entity's experience might reflect that it typically suffers minimal losses. Conversely, if a group of similar assets exhibits increased credit risk, the entity's experience might suggest that it typically suffers more significant losses. Credit losses for assets without similar risk characteristics would be measured individually. Each period, the entity would reassess the credit risk and expected performance of its assets and revise its estimate of expected losses accordingly. Because there is no "trigger" for recognition, the method should reflect changes in the status of the assets, as well as changes in the entity's experience and expectations in a timely manner, and the allowance should be commensurate with the expected losses inherent in the assets held at the reporting date.

## Measurement of Expected Credit Losses for Financial Assets Measured at Amortized Cost

BC50. The Board acknowledges that any approach to estimating the collectibility of financial assets is subjective. The Board has permitted entities to estimate expected credit losses using various methods because the Board believes entities manage credit risk differently and should have flexibility to best report their expectations. The Board recognizes that different methods may result in a range of acceptable outcomes. Given the subjective nature of this estimate and certain fact patterns, one methodology's consideration of time value may have a more direct impact on the estimate of expected credit losses than other methods. Some entities may be able to forecast over the entire estimated life of an asset, while other entities may forecast over a shorter period. The complexity of the portfolio, size of the entity, access to information, and management of the portfolio may result in approaches with varying degrees of sophistication. Because entities may have different levels of sophistication, the Board did not prescribe one type of methodology for measuring expected credit losses for

financial assets measured at amortized cost. The Board concluded that different outcomes for expected credit losses due to these and other factors are acceptable under the amendments in this Update. Furthermore, using terms such as *reasonable* and *supportable* does not imply a single conclusion or methodology upon which an entity must base its estimate. Different parties using different methodologies do not make a particular estimate unreasonable. While the range of reasonable outcomes is not unlimited, the Board concluded that it is rare that there will only be one acceptable choice in estimating credit losses. Estimates of credit losses may not precisely predict actual future events and, therefore, subsequent events may not be indicative of the reasonableness of those estimates.

BC51. The Board also concluded that investors understand the subjective nature of credit loss estimates. The amendments in this Update require that an entity base its estimate on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the reported amount of financial assets. In doing so, the Board expects that an entity should not ignore relevant data when considering historical experience or when considering qualitative adjustments for current conditions and reasonable and supportable forecasts. However, an entity should not default to using only the most observable external data if its internal data are sufficient. An entity must use judgment in considering the relative effect of conflicting forecasts about the future and their implications for expected credit losses. The Board expects that the adjustment for current conditions and reasonable and supportable forecasts will be the most subjective aspect of the estimate and, therefore, decided to require in paragraph 326-20-50-11 specific disclosure about those factors. The Board concluded that removing any recognition trigger of the expected loss estimate removes a significant element of discretion from GAAP and from alternatives previously considered. That is, because the measurement objective is the same every period, there is no need to identify when an asset has deteriorated enough to warrant full measurement of expected credit losses.

BC52. The Board also acknowledges that estimating expected credit losses over longer periods of time (such as the contractual term of financial assets) requires a significant amount of judgment, especially when using discounted cash flow techniques. Although an entity must estimate credit losses over the entire contractual term of the financial assets (considering the effect of prepayments), the Board recognizes that as the forecast horizon increases, the degree of judgment involved in estimating expected credit losses also increases because the availability of detailed inputs to estimates for periods in the future decreases. An entity should not ignore available information that is relevant to the estimated collectibility of the reported amount.

BC53. The Board concluded that it is not decision useful to assign a credit loss estimate of zero to certain periods merely because an entity is unable to precisely estimate future economic conditions for those periods. Rather, historical

information about losses is a relevant metric upon which to base an entity's current estimate of credit losses for those periods beyond which the entity believes it is able to develop or obtain reasonable and supportable forecasts. Furthermore, an approach that does not record some expected losses (for example, those that are expected to occur after some prescribed forecast period) would fail to reflect the amount that an entity expects to collect, which is the Board's measurement objective for financial assets. Additionally, that approach would introduce noncomparability in expected credit losses across instrument types, time periods, and entities. Therefore, the Board decided to provide additional guidance on how to measure expected credit losses as an entity moves into periods of increasing uncertainty and decreasing precision. The reversion to an entity's historical loss information emphasizes the relevance of known losses that have occurred in the past on similar financial instruments and addresses preparer's concerns about the reliability of measuring those credit losses in periods of declining precision. Stakeholders informed the Board that some entities will use this reversion technique, while others may have the systems and processes in place to forecast over the estimated life of the financial asset on a reasonable and supportable basis.

BC54. The Board considered including specific guidance that would have prescribed when credit losses should be estimated on an individual asset basis (such as a triggering event) or on a collective (or pool) basis. The Board decided not to specify the unit of measurement or require certain methods to be followed in specific circumstances. Instead, the Board decided to provide a consistent set of measurement principles that could be implemented for both individual assets and groups of similar assets, understanding that estimation techniques might differ.

## Use of Amortized Cost When Estimating Credit Losses

BC55. Concepts Statement 6 highlights that a valuation account, such as the allowance for credit losses, must not be viewed as independent from the related asset or liability. The Board concluded that the underlying assets are what should be measured when estimating credit losses, rather than attempting to measure a valuation account that is separate and distinct from the asset to which the valuation account relates. Therefore, a financial asset's amortized cost net of the allowance for credit losses represents the amount of amortized cost expected to be collected.

BC56. Financial information for financial assets measured at amortized cost is presented on an amortized cost basis. Therefore, it would be inappropriate to base the estimate of expected credit losses solely on the unpaid principal balance when amortized cost amounts reported on the balance sheet may differ because of items such as deferred fees or costs, premium, or discount.

BC57. The Board also considered current practice for financial assets measured at amortized cost and observed that while diversity exists, current practice generally records writeoffs of amortized cost (including net deferred fees or costs, premium, or discount) through the allowance for credit losses. Therefore, historical data that are used as a basis for estimating credit losses frequently would already incorporate writeoffs of these components of amortized cost.

BC58. As a result, the Board decided that the allowance for credit losses should be estimated and presented such that amortized cost net of the allowance for credit losses represents the amount of amortized cost expected to be collected. Therefore, it would be inappropriate to limit the estimate of the allowance for credit losses by only considering the unpaid principal balance because that may not be the amount recognized for the financial assets.

BC59. Consistent with the Board's intent not to prescribe specific methods or approaches and to facilitate the operability of the amendments in this Update where possible, the amendments allow entities to develop their estimate of expected credit loss on the amortized cost basis in two steps: by first estimating the expected credit losses on the unpaid principal balances, then by adjusting that estimated credit loss for the impact of other elements of the amortized cost basis not expected to be collected (including net deferred fees or costs, premium, or discount). Such an approach may help entities leverage historical loss information based on unpaid principal balances.

BC60. The Board considered how the use of amortized cost basis may affect financial assets recorded with a premium; for example, if a loan was recorded at \$102 upon origination and the entity expected a credit loss of \$2 at maturity, whether the allowance would require a full write-down of the premium upon origination. That approach would be an inappropriate application of the amendments in this Update because amortized cost inherently considers both the timing and amount of the expected credit loss. For example, if a principal loss was expected at the maturity date, the premium would be fully amortized at that time and no allowance would be necessary for the premium upon origination. The loss rate would reflect the expected loss of the amortized cost basis in the numerator, and implicitly consider the timing of future amortization of premiums and discounts. Separately, use of amortized cost also can be reflected in a loss-rate approach that has a par amount in the denominator as long as that loss rate is then applied against the par amount of the financial asset. There are two key considerations. First, the numerator should consider the expected credit loss of the amortized cost basis of the financial asset. Second, the basis in the denominator (amortized cost or par amount) and the basis of the financial asset to which the loss rate is applied (amortized cost or par amount) are the same.

BC61. The Board observed that upon origination the amortized cost basis of a financial asset is equal to principal and interest cash flows discounted at the original effective interest rate. As a result, the amortized cost amount implicitly

reflects the time value of money. The amendments in this Update do not require that a discounted cash flow model be used that explicitly considers the time value of money. An entity should have the flexibility to utilize estimation techniques that are practical and relevant to its circumstance. For example, an entity may develop loss statistics on the basis of the amortized cost amount written off and use those loss statistics to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Methods that indirectly consider the time value of money may include loss-rate methods, roll-rate methods, probability-of-default methods, and an aging schedule using loss factors. Although there may be a range of acceptable outcomes between the various models based on assumptions utilized, the Board decided that methods using amortized cost information are acceptable because the amortized cost basis of a financial asset implicitly reflects the time value of money.

BC62. Consistent with the basis for conclusions in FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, the Board concluded that a financial asset's effective interest rate should be the rate used to discount expected cash flows when expected credit losses are estimated using a discounted cash flow method. The Board also concluded that the credit loss measurement should reflect only expected credit losses. The Board decided that the credit loss measurement should not reflect changes in market rates of interest, because that would fundamentally change the measurement method from amortized cost. The Board observed that the amortized cost basis of a financial asset is the present value of the contractual future cash inflows—both those designated as principal and those as interest—discounted at the financial instrument's effective interest rate. Thus, the measurement basis for credit losses will be the same as the measurement basis for the amortized cost basis of the same financial asset.

## Approach to Estimating Credit Losses for Financial Assets Measured at Amortized Cost

BC63. The Board decided that an entity should consider the expected risk of loss, even if that risk is remote, and that an entity need not measure an expected credit loss when historical information adjusted for current conditions and reasonable and supportable forecasts results in an expectation that the risk of nonpayment of the amortized cost basis is zero. The Board decided not to explicitly state which financial assets are appropriate to have a zero allowance for expected credit losses. The Board understands that an expectation of zero loss is entirely based on the nature and characteristics of a financial asset, which may change over time. As a result, the Board concluded that a "bright-line" approach would be inappropriate for all facts and circumstances and decided not to provide explicit guidance on what specific assets are appropriate for zero expected credit losses. The Board decided that an entity should determine at the

reporting date an estimate of credit loss that best reflects its expectations (or its best estimate of expected credit loss).

BC64. The Board decided that measurement approaches for collateral-dependent financial assets (assets whose collection is substantially from the sale or operation of the collateral when the borrower is experiencing financial difficulty) in which expected credit losses are estimated by comparing the amortized cost basis with the fair value of collateral are acceptable practical expedients for estimating expected credit losses because fair value reflects the amount expected to be collected.

BC65. The Board also understands that to some stakeholders, the collateral-dependent practical expedient should be based on liquidation value rather than fair value. However, the Board decided to retain the fair value measurement concept because fair value is well understood and applied in current practice. The Board concluded that an additional measurement method of liquidation value would add complexity. In addition, in many situations the fair value of collateral is not significantly different from the amount that the entity would receive upon the sale of the collateral, even in situations in which the collateral is a foreclosed property. The Board concluded that when measuring fair value, an entity should consider the characteristics that a market participant would take into account when valuing the asset. Therefore, in the case of foreclosed property, the fair value should reflect the fact that it is a foreclosed property. As a result, the fair value of a foreclosed property may not be significantly different from the estimated cash an entity would collect upon the sale of the foreclosed property.

## Collective Evaluation When Similar Risk Characteristics Exist for Financial Assets Measured at Amortized Cost

BC66. The Board understands that many entities measure credit losses on financial assets measured at amortized cost by aggregating assets with similar risk characteristics. Therefore, the Board anchored its analysis on the expected losses for groups of similar financial assets rather than a particular financial asset held by the entity.

BC67. The December 2012 Exposure Draft would have required an estimate of expected credit losses to consider multiple outcomes. That is, when developing an estimate of expected credit losses, the estimate would have always had to reflect both the possibility that a credit loss results and the possibility that no credit loss results. The Board initially favored this approach because it believed that individual financial assets generally are priced assuming an estimated likelihood of credit losses on similar assets, although the entity initially expected to collect all contractual cash flows on each individual asset. Accordingly, the December 2012 Exposure Draft would have prohibited an entity from determining the estimate of expected credit losses solely on the basis of the statistical mode, or

most likely outcome. Therefore, the use of a “mean” for each asset was viewed to be a better predictor of actual results for the entity.

BC68. The Board received feedback that a requirement to use multiple outcomes would lead to the measurement of an expected credit loss on financial assets, even though there may be no expectation of a credit loss because of collateral protection or other credit enhancements. The Board also heard that the multiple outcome approach could be interpreted as requiring complex modeling techniques. The Board considered this feedback and decided to replace the requirement to consider multiple outcomes with a requirement to estimate losses on a collective basis if similar risk characteristics exist.

BC69. The Board concluded that financial assets generally are priced assuming an estimated likelihood of credit losses on similar assets, although an entity initially expects to collect all of the contractual cash flows on each individual asset. Similarly, while an entity might not currently expect a loss on an individual asset, it ordinarily would expect some level of losses in a group of assets with similar risk characteristics. Therefore, an estimate of expected credit losses should reflect a collective assessment if similar risk characteristics exist for assets measured at amortized cost. Credit losses on those assets should be measured individually if similar risk characteristics do not exist for assets measured at amortized cost.

BC70. The Board also concluded that an entity should utilize estimation techniques that are practical and relevant to its circumstance, if the techniques are consistent with the principles for measuring expected credit losses. The Board acknowledges that some measurement methods (such as a loss-rate method, a roll-rate method, a probability-of-default method, and an aging schedule) rely on an extensive population of actual loss data as an input when estimating credit losses. Therefore, these inherently reflect collective evaluation in a manner consistent with the principle because the population of actual loss data is considered on a collective basis, even when the loss rates are applied to individual assets.

BC71. During the redeliberations of the December 2012 Exposure Draft, the Board noted that it would be inappropriate to measure credit losses for financial assets on an individual basis to arrive at a zero expected credit loss when a pool of financial assets with similar risk characteristics exists that would indicate otherwise. Separately, if pools of financial assets were redefined to create certain pools that have similar risk characteristics but demonstrate that while there is risk of loss, nonpayment of the amortized cost basis would be zero, the Board would expect the entity to remeasure the loss information for the remaining pools. An adjustment should be made because their expectation of credit loss may have changed as a result of the change in the composition of the new pool(s).

## Use of a Valuation Allowance for Expected Credit Losses for Financial Assets Measured at Amortized Cost

BC72. The Board decided that expected credit losses for all financial assets should be reflected through a valuation allowance rather than a direct adjustment to the cost basis of the asset. However, the Board also decided that an entity should write off a financial asset (or portion of a financial asset) when the entity determines that it is uncollectible.

BC73. The Board retained the requirements to write off assets if they are deemed uncollectible. The December 2012 Exposure Draft proposed that the assets be written off when there is no reasonable expectation of recovery. The Board received feedback that writing off an asset when there is no reasonable expectation of recovery could be considered to be a significant delay from the point when an asset is deemed uncollectible. This concern was due in part to regulatory guidance that stated that the designation as an uncollectible asset does not mean that it has no recovery or salvage value. The Board did not intend to delay the point at which assets are written off and, therefore, decided to retain the requirement that assets are written off if they are deemed to be uncollectible.

BC74. Previous impairment guidance for loans that existed before the issuance of this Update required the recognition of an allowance (a contra-asset) and permitted an entity to reverse a previously recognized allowance if there is an upward change in expectations about the collection of future cash flows. In contrast, previous impairment guidance for debt securities required impairment to be recorded as an adjustment to the amortized cost basis of the security if an entity identified an other-than-temporary impairment. Any subsequent increases in the amount expected to be collected would be reflected in net income on a prospective basis as interest income through an adjustment of the effective interest rate. The requirement to adjust the effective interest rate on a prospective basis sometimes resulted in an unusually high effective rate if a large credit impairment was recorded and there were significant subsequent increases in expectations about the collection of cash flows.

BC75. Some stakeholders expressed concerns that the requirement to adjust the amortized cost basis of a security when an entity recorded an other-than-temporary impairment distorted yields because those amounts are recognized as interest income in future periods. As a result, the Board decided that expected credit losses should be recorded through an allowance for credit losses for all financial assets that are held for the collection of contractual cash flows and the allowance (as opposed to the yield) should be adjusted if credit loss expectations subsequently improve. This decision was supported by both preparers and users. Preparers often cited the complexity of continually adjusting the yield on those securities on a prospective basis. Users preferred the reversal of credit losses to be reflected in the allowance account and not in interest income because this

effect distorted yields significantly, was not transparent, and inhibited the ability to compare interest incomes of similar financial institutions.

## Measurement of Credit Losses for Available-for-Sale Debt Securities

BC76. The December 2012 Exposure Draft proposed that available-for-sale debt securities utilize the same credit loss measurement model as financial assets that are measured at amortized cost. However, the Board recognized that expected credit losses for available-for-sale debt securities may be measured more frequently on an individual asset basis because the business model involves selling individual assets. Therefore, in an effort to minimize the cost of compliance when expected credit losses are insignificant, the December 2012 Exposure Draft stated that if an entity meets two conditions, then it may apply the practical expedient and would not be required to apply the model to the available-for-sale debt security being evaluated. The two conditions were (a) the fair value of the financial asset is greater than or equal to its amortized cost basis and (b) credit losses on the financial asset are expected to be insignificant.

BC77. Respondents acknowledged the Board's intent to develop a single impairment model for all financial assets. However, some respondents stated that the OTTI model is well understood by investors and is applied consistently by preparers. Some suggested that applying the credit losses model in the proposed Update would result in less decision-useful information as compared with the information resulting from applying the OTTI model. They noted that the OTTI model was an improvement in light of the financial crisis of 2007 and 2008 by removing the probability threshold and that users benefited from having more timely insight into the recognition of credit losses for securities. In addition, they mentioned that having a different impairment model for debt securities is justified because available-for-sale debt securities are managed differently than other financial assets are managed. Users also expressed a mixed reaction to the approach for available-for-sale debt securities. Users were less concerned about when impairment is recorded in the income statement because the primary measurement of available-for-sale debt securities is fair value.

BC78. In response to feedback on the December 2012 Exposure Draft, the Board considered a CECL fair value floor model for available-for-sale debt securities for which the expected credit losses would be measured under the CECL model with certain modifications. Under a CECL fair value floor model, an entity would not recognize expected credit losses if the financial asset's fair value equals or exceeds its amortized cost basis. Additionally, if the financial asset's fair value is less than its amortized cost basis, an entity would recognize expected credit losses in net income determined under the CECL model but the allowance for credit losses would be limited to the difference between the financial asset's fair value and its amortized cost basis.

BC79. The Board received feedback on this model through outreach calls and roundtables with various stakeholders. They highlighted a desire to retain the OTTI model and expressed concerns about complexity that would arise with a CECL fair value floor model. The Board acknowledged that fair value changes occur not only because of changes in expected credit losses but also because of non-credit-related factors, such as changes in liquidity in the market, general market volatility, industry-specific volatility, and changes due to interest rate movements. The CECL fair value floor model would have depended on many of those variables in the market place. Therefore, given the construct of the fair value model, expected credit losses could have been recorded when changes in non-credit-related factors occur in the market. For example, under a CECL fair value floor model, when fair value drops below cost because of changes in interest rates (or other variables mentioned above), the model would have required the recognition of expected credit losses and, therefore, changes in interest rates could have been a primary driver in the initial recognition as well as measurement of expected credit losses.

BC80. The Board also was concerned with the application of the CECL model with a fair value floor to available-for-sale debt securities because under the measurement approach in Accounting Standards Update 2016-01, an entity represents these securities are not held solely for the collection of contractual cash flows. The Board acknowledged that the CECL model is designed to measure expected credit losses over the contractual life of the asset and questioned whether it would be appropriate to include available-for-sale debt securities in that measurement if they are not similar to other assets that are intended to be held to maturity, such as loans not held for sale or held-to-maturity debt securities.

BC81. As a result of the feedback on the December 2012 Exposure Draft, as well as feedback on an alternative CECL fair value floor model, the Board acknowledged that the available-for-sale credit loss model within the final Update is similar to the CECL model because they both require lifetime losses to be reflected in earnings; however, the same credit loss model cannot apply because there are different measurement attributes. The measurement attribute for available-for-sale debt securities necessitates a separate credit loss model because an entity may realize the total value of the securities either through collection of contractual cash flows or through sales of the securities. Furthermore, the unit of account for these assets is defined as an individual security, which means collective evaluation is not an acceptable approach for determining credit losses. Lastly, the amount of credit losses that will be realized for these assets is limited to the amount that fair value is less than amortized cost because an entity can sell its investment at fair value to avoid realization of credit losses. The Board considered these factors in their decisions on the available-for-sale debt security credit loss model as described in paragraphs BC82 and BC83.

BC82. The Board decided to make targeted improvements to the impairment guidance for available-for-sale debt securities. Specifically, an allowance approach should be used for measuring credit losses when there is not an intent or more-likely-than-not requirement to sell, which will allow an entity to record reversals of credit losses in current-period net income. The measurement of credit losses will be similar to current GAAP; however, the measurement of credit losses will be reported as an allowance rather than a write-down of the amortized cost basis. Additionally, the Board decided to prohibit an entity from avoiding the recording of credit losses by considering the length of time that the fair value of an available-for-sale debt security has been less than its amortized cost basis. Finally, in determining whether a credit loss exists, an entity no longer should consider the historical and implied volatility and recoveries or additional declines in the fair value after the balance sheet date of an available-for-sale debt security.

BC83. In subsequent redeliberations, the Board reconsidered adding a fair value floor to the amended model. The Board decided that consistent with the objectives of an available-for-sale security, an entity could look to limit its credit loss exposure by selling a security if the total fair value loss was less than the credit loss measured for the security. That outcome could occur if a portion of the fair value attributable to non-credit-related factors offset the portion of fair value attributable to credit factors. Given the importance of fair value in the measurement of available-for-sale securities, the Board decided to incorporate a fair value floor in the amended model.

## Purchased Financial Assets with Credit Deterioration

BC84. Investors and preparers generally supported the gross-up model for purchased financial assets with credit deterioration. Stakeholders expressed concerns about the complexity of applying and interpreting the existing model for purchased credit impaired financial assets in Subtopic 310-30 as follows:

- a. Investors and preparers expressed concern about the asymmetrical treatment of favorable and unfavorable changes in expected cash flows that existed in Subtopic 310-30.
- b. Investors expressed concern about interpreting the markedly different approach for estimating credit losses for purchased financial assets with credit deterioration and other assets under existing guidance.
- c. Preparers expressed concern about the cost and complexity of applying the model that practically required a "closed pool" calculation methodology (that is, the assets must be segregated and tracked as a group), as well as concerns about the scope of what constitutes a purchased financial asset with credit deterioration.
- d. Generally, stakeholders expressed concern about:
  1. The lack of comparability between impaired loans acquired in a business combination and impaired loans originated by the entity,

especially in regards to differences in the amount of allowance for credit losses recorded for similar assets

2. The requirement to adjust the accretable yield and recognize improvements prospectively was considered to be complex and difficult to implement.

BC85. The Board concluded that purchased assets and originated assets should follow the same model, to the extent possible. At the same time, recognizing interest revenue on the basis of contractual cash flows for all purchased assets could result in situations in which an entity accretes to an amount that it does not expect to collect, which would result in artificially inflated yields. For this reason, the Board concluded that when recognizing interest income on certain assets, it is inappropriate to accrete from the purchase price to the contractual cash flows. Specifically, when a purchased asset has deteriorated more than insignificantly since origination, it is more decision useful to exclude the credit discount from the amount accreted to interest income. As a result, the discount embedded in the purchase price that is attributable to credit losses at the date of acquisition of a purchased financial asset with credit deterioration should not be recognized as interest income.

BC86. The Board decided that the allowance for purchased assets with more-than-insignificant credit deterioration since origination should be added to the purchase price upon recognition of those assets (commonly referred to as the gross-up approach). Recording the amortized cost as the sum of the allowance and the purchase price enhances comparability and prevents the accretion of the credit discount into interest income. The Board favors this approach because changes in the allowance for credit losses for all assets, including purchased financial assets with credit deterioration, will be reflected in net income in the period of change. The Board understands that those decisions will allow preparers to utilize the same tools and methodology for estimating credit losses for purchased financial assets both with credit deterioration and without credit deterioration.

BC87. Stakeholders, particularly users, supported the approach for purchased financial assets with credit deterioration. Other stakeholders, including some users, also supported measuring all purchased assets under the gross-up model. In more limited situations, certain stakeholders also supported carrying forward the allowance for credit losses from an acquired institution, which was prohibited by paragraph 805-20-30-4. However, there was diversity in views among user communities because other users supported one of the main objectives of the project, which was to employ a single measurement objective. Those users supported the accounting for purchased financial assets with credit deterioration but only on a consistent basis; they did not want to only extend the model to certain fact patterns on an exception basis, such as business combinations.

BC88. For purposes of measuring expected credit losses, the Board concluded that there is no inherent difference between assets acquired in a business

combination and those that are purchased outside a business combination. The Board decided not to extend the gross-up approach to all purchased assets because (a) the credit risk may be difficult to reliably isolate from other discounts reflected in the purchase price when it is insignificant, (b) the benefits would not justify the incremental costs associated with a requirement to separate the credit and noncredit discounts when the amounts are insignificant, and (c) the accretion of the discount into income due to credit would be insignificant. The Board struggled with applying a gross-up method for financial assets purchased at or near par when there generally has not been a more-than-insignificant increase in credit risk because those assets should apply the same model as originated financial assets. The Board felt it had to draw a line and placed weight on user feedback stating that increased comparability is achieved by grossing up the allowance when there has been a more-than-insignificant increase in credit risk.

BC89. The Board acknowledges that some may claim that a gross-up approach should be applied to all assets, including both purchased financial assets and originated financial assets. This approach would recognize the credit risk in the income statement over time which was not supported by either users or preparers. Users did not see the benefits of recognizing credit losses in the income statement over time. Preparers also expressed concern at applying a gross-up method for both purchased financial assets and originated financial assets, given the complexity it would cause on how to amortize that gross-up amount to a loan portfolio that may be changing because of prepayments, sales, or changes in assumptions of the credit risk in subsequent reporting periods. Certain supporters of a gross-up model for originated assets stated that the credit risk is priced into the interest rate of those assets. The Board acknowledged this; however, it placed weight on preparers' operability concerns as well as user feedback that interest income should be recognized at the effective interest rate and that credit risk should be measured separately. In addition, in the definition of purchased financial assets with credit deterioration, the Board decided to indicate that determining a purchased financial asset with credit deterioration often pertains to acquired groups of financial assets with similar risk characteristics at the date of acquisition. From a practical perspective, the Board concluded that it is unrealistic to expect that an entity could individually measure credit losses for each purchased financial asset in an asset acquisition or business combination within the reporting deadlines to determine whether each individually qualifies as purchased financial asset with credit deterioration. An entity should have the flexibility to assess whether individual financial assets or groups of financial assets with similar risk characteristics qualify as having experienced a more-than-insignificant deterioration in credit quality since origination. Thus, the definition of a purchased financial asset with credit deterioration does not preclude application to individual assets or groups of similar assets.

BC90. Some stakeholders requested clarification on which purchased financial assets should be recognized through a gross-up approach. The Board discussed the definition of purchased assets with credit deterioration and did not intend for

the gross-up approach to be limited to nonaccrual loans or other assets that may have been considered to be an “impaired” asset before the issuance of the amendments in this Update. The Board was concerned that stakeholders would misinterpret the guidance and apply the guidance to the same scope of assets as Subtopic 310-30. As a result, the Board clarified that a gross-up approach should be applied to purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This change in wording was recommended by user stakeholders. In addition, the Board concluded that this will expand the population of purchased financial assets that are eligible to be considered purchased financial assets with credit deterioration.

BC91. Under current GAAP, the unit of account for purchased credit impaired assets can be either a group of assets or an individual asset. The Board decided that the non-credit-related discount or premium for purchased financial assets with credit deterioration should be allocated on an individual basis. Consistent with the Board’s intent not to prescribe specific methods to measure credit losses, the Board acknowledged that there could be various methods for allocating the non-credit-related discount or premium.

BC92. For purchased financial assets with credit deterioration, the Board decided to include additional guidance on how to determine the amortized cost basis and effective interest rate due to circularity concerns. Stakeholders noted that there could be a circularity issue because the amortized cost basis of the purchased asset with credit deterioration should include the allowance for credit losses, which may not be measured until one knows the amortized cost basis. Similarly, a circularity concern was expressed on determining the effective interest rate when measuring expected credit losses using a discounted cash flow approach. Again, the effective interest rate could not be determined for the amortized cost basis of the asset if one did not know the effective interest rate to discount the expected credit loss.

BC93. After receiving feedback from stakeholders on how best to operationalize the accounting for purchased financial assets with credit deterioration, the Board decided that when using a method to estimate expected credit losses that does not project future interest and principal cash flows (for example, a loss rate approach), the allowance for credit losses should be based on the unpaid principal balance (or par) amount of the asset. When using a discounted cash flow approach to estimate expected credit losses, the expected credit losses should be discounted at the rate that equates the present value of estimated future cash flows with the purchase price of the financial asset. The Board concluded that this guidance, which stakeholders did not object to, eliminates circularity concerns and maintains the flexibility to use various approaches to measure credit risk.

## Beneficial Interests

BC94. The Board decided that the gross-up model for purchased financial assets with credit deterioration should be applied for beneficial interests meeting the definition of purchased financial assets with credit deterioration, as well as beneficial interests for which a significant difference exists between contractual cash flows and expected cash flows. The Board concluded that for certain beneficial interests, investments in the residual tranche at issuance should qualify for the gross-up approach, although there may not be deterioration since origination.

BC95. The Board acknowledges that there is a difference between purchased assets with credit deterioration and beneficial interests in a residual tranche. Specifically, for purchased assets with credit deterioration, a loss event may have occurred before the purchase of the assets. However, for beneficial interests in a residual tranche, a loss need not have occurred for there to be a significant difference between contractual cash flows and expected cash flows. Therefore, the Board concluded that purchased assets with credit deterioration and beneficial interests pose the same core issue, that is, whether it is inappropriate to recognize interest income on the basis of contractual cash flows if there is a significant difference between the contractual cash flows and what is expected at initial recognition of the asset. As a result, the Board decided that the model for purchased assets with credit deterioration should be applied to beneficial interests for which a significant difference exists between contractual and expected cash flows and the discount attributable to credit losses at the date of acquisition should not be accreted into interest income.

BC96. The Board also acknowledges that practice related to interest income recognition on beneficial interests within the scope of Subtopic 325-40 will be different when an allowance for credit losses is present. When a beneficial interest within the scope of Subtopic 325-40 has an allowance for credit losses, favorable or unfavorable changes in cash flows must first be considered as adjustments to the allowance for credit losses. Only the remaining portion of favorable or unfavorable changes in cash flows would be reflected in accretable yield.

## Financial Guarantees

BC97. The Board decided that off-balance-sheet credit exposures not accounted for as insurance contracts are within the scope of Subtopic 326-20. This includes financial guarantees and other similar instruments, except for instruments within the scope of Topic 815 on derivatives and hedging. Topic 460 requires a liability to be initially recognized for the fair value of a guarantee liability, which is applicable to both financial and nonfinancial guarantees. The

Board concluded that the accounting for nonfinancial guarantees should not be affected by this Update (that is, no bifurcation of the contingent and noncontingent aspects of a guarantee is necessary). However, for financial guarantees within the scope of Subtopic 326-20, an entity must account for expected credit losses (as determined using the guidance in Subtopic 326-20) in addition to and separately from the fair value of the guarantee (as determined using the guidance in Subtopic 460-10). This approach is necessary to appropriately present expected credit losses on financial guarantees in accordance with Subtopic 326-20 without affecting fee recognition, similar to unfunded loan commitments.

## Interest Income Recognition

BC98. The existing interest income recognition method for loans (other than purchased financial assets with credit deterioration) is based on the initial investment without deducting the allowance for credit losses, which may allow certain entities to continue to recognize interest income on principal that is not expected to be collected. Regulatory instructions for certain financial institutions currently mitigate this concern by requiring that interest accrual cease when collection of principal, interest, or both becomes doubtful (so-called nonaccrual practices that are permissible under GAAP).

BC99. In the May 2010 proposed Update, the Board proposed that interest income should always be calculated on the basis of the amortized cost less any allowance for credit impairments of the financial asset. This proposed change was strongly opposed by many stakeholders, including preparers, some auditors, regulators, and many investors. Stakeholders noted that the existing approach to recognizing interest income and credit losses separately provides users with relevant information about the credit risk of the underlying assets. Interest income is greater for riskier assets, and seeing an increase in interest income that is not reflected in comparable peers gives users insight into the financial institution's current credit lending practices. Users consistently asserted that interest income should not be further diluted for changes in cash flows related to credit losses. Therefore, in its redeliberations, the Board decided not to amend the guidance on interest income recognition in GAAP. The Board decided as a result of feedback received that existing nonaccrual practices may continue and decided to exclude from the amendments in this Update the nonaccrual guidance that was proposed as part of the December 2012 Exposure Draft. Respondents to the nonaccrual guidance proposed in the December 2012 Exposure Draft expressed concern that the guidance could add complexity for certain financial assets that currently are not placed on nonaccrual, such as credit cards. Additionally, there was concern about possible application inconsistencies with the proposed nonaccrual guidance proposed in the December 2012 Exposure Draft and regulatory guidance.

## Modifications

BC100. Under GAAP, the accounting by a creditor for a modification to an existing financial asset depends on whether the modification qualifies as a troubled debt restructuring. The Board concluded that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a financial asset. As a result, unlike more than minor modifications that do not qualify as troubled debt restructurings, the Board views the modified financial asset following a troubled debt restructuring as a continuation of the original financial asset.

BC101. While recognizing that the economic concession granted to the borrower may manifest itself in either (or both) a change in the contractual interest or a change in principal terms, the Board concluded that the concession in a troubled debt restructuring is granted as a result of the borrower's credit issues. As noted previously, the Board decided that the credit loss measure should not reflect changes in market rates of interest, and, therefore, it decided to uphold the discounting factor when a discounted cash flow method is used (that is, the expected future cash flows should be discounted at the financial asset's original effective interest rate). In the Board's view, the modified financial asset following a troubled debt restructuring is a continuation of the original financial asset, and, therefore, the Board concluded that, within the context of the amortized cost framework, the effective interest rate on a financial asset following a troubled debt restructuring should be the financial asset's pre-modification original effective interest rate (as opposed to a post-troubled-debt-restructuring modified rate).

BC102. The Board considered various alternatives relating to the cost basis adjustment for the economic concession and the consideration of prepayments in the cost basis adjustment upon the execution of a troubled debt restructuring.

BC103. The Board concluded that when a creditor modifies a financial asset in a troubled debt restructuring, it forgoes its unconditional right to the original contractual cash flows and, instead, accepts a modified series of contractual cash flows that constitute the legal contractual arrangement with the borrower. The Board considered an approach where upon a troubled debt restructuring, the cost basis of the asset would be adjusted as a writeoff through the allowance for expected credit losses so that the effective interest rate (post-troubled-debt-restructuring modified rate) is the same as the original effective interest rate, given the new series of contractual cash flows. The cost-basis adjustment would have been calculated as the amortized cost basis before modification less the present value of the modified contractual cash flows (discounted at the original effective interest rate). The cost-basis adjustment would have been based on (and amortized over) the expected life, considering prepayment expectations. Changes in prepayment expectations would have been reflected as a

prospective yield adjustment to address operability concerns with adjusting the cost basis to an amount that reflects the original contractual yield.

BC104. The Board received feedback that a cost basis adjustment would add significant cost and complexity to accounting for troubled debt restructurings. Concerns specifically focused on tracking cost basis adjustments separately from net fees and costs (because prepayments are not considered for those items) and the need to continually adjust the accretion of the cost basis adjustment each reporting period. As a result of complexity and operability concerns associated with the accounting for a cost-basis adjustment, the Board concluded that the concession should be recorded through the allowance for credit losses with no requirement to record a cost basis adjustment.

BC105. Separately, the Board rejected an approach that would have required expected credit losses on troubled debt restructurings to always be measured by using a discounted cash flow method on an individual basis because such a requirement would be inconsistent with the ability to estimate expected credit losses using approaches other than a discounted cash flow method for assets measured at amortized cost. This decision allows entities to assess credit risk on troubled debt restructurings individually, or in a pool using other expected credit loss methods such as loss rates. Entities may provide modification programs to troubled borrowers that meet certain characteristics of financial difficulties, such that the loan modifications may be easily pooled together to assess credit risk. To the extent that those estimates may be more easily determinable with approaches other than the discounted cash flow method, the Board preferred to provide that flexibility.

## Disclosure

BC106. The Board concluded that financial statement disclosures should provide information that is useful in analyzing an entity's exposures to credit risk and the measurement of credit losses. Accordingly, the required financial statement disclosures are intended to enable users of the financial statements in understanding (a) the credit risk inherent in the portfolio and how management monitors the credit quality of the portfolio, (b) management's estimate of expected credit losses, and (c) changes in the estimate of expected credit losses that have taken place during the period.

BC107. The financial statement disclosures required by this Update retain many of the existing disclosures of Accounting Standards Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, particularly those about an entity's credit risk exposures and its evaluation of the appropriateness of the allowance for credit losses. The amendments in this Update continue to require an entity to provide information either by portfolio segments or by classes of financial assets. The Board concluded that when disclosing information by

portfolio segment or class of financial asset, an entity should determine, in light of the facts and circumstances, how much detail it must provide and how it disaggregates information into segments or classes for assets with different risk characteristics. An entity must strike a balance between obscuring important information as a result of too much aggregation and overburdening financial statements with excessive detail that may not assist financial statement users in understanding the entity's financial assets and allowance for expected credit losses.

BC108. While the Board chose to retain many existing financial statement disclosures about an entity's allowance for credit losses, the change from an incurred to an expected loss model introduces the need for additional disclosures, most notably those about the inputs used to estimate expected credit losses. Requiring an entity to use expected loss data when determining expected credit losses will require the entity to incorporate new types of information into its measurement of expected credit losses and increase the significance of forward-looking information and its judgment in calculating the allowance for expected credit losses on its financial assets. As a result, the Board concluded that users will benefit from understanding how an entity derives and uses this information.

BC109. The amendments in this Update require an entity to record the amortized cost basis for purchased assets with credit deterioration as the sum of the purchase price and the allowance for credit losses. In addition, an entity is not allowed to recognize as interest income the discount attributable to credit. Because of those amendments, the Board concluded that it is necessary to reconcile the amount paid for the purchased financial asset with credit deterioration to the asset's par value, particularly to provide transparency about the discount inherent in the asset's purchase price due to expected credit losses.

BC110. Furthermore, the December 2012 Exposure Draft initially would have required rollforward disclosures for financial assets, particularly an incremental disclosure that would have required a rollforward of the amortized cost basis of financial assets.

BC111. Users of financial statements supported those rollforward disclosures because those disclosures would have provided information to aid in users' understanding of how current-period originations affected the allowance for expected credit losses. User respondents also provided feedback that disclosures were needed to separately present the portion of the credit loss expense that relates to current-period originations. Users were interested in this information because it would increase their ability to understand the credit quality of originations by period and assess the interrelationship of credit quality and loan growth. It also would provide information that could be used to understand the extent the allowance has changed as a result of changes in estimates on loans originated in prior periods.

BC112. The Board received significant opposition to these disclosures from preparer respondents. Preparers challenged the usefulness of an amortized cost rollforward disclosure when analyzing credit quality. Preparers highlighted that the allowance for expected credit losses would be estimated as of the end of a reporting period. Originations presented in an amortized cost basis rollforward may have been partially or fully repaid during the reporting period and, therefore, the relationship between originations and the current-period credit loss expense determined as of the reporting date may not always be meaningful information. Preparers also highlighted significant costs that would be incurred to adjust their external financial reporting systems to track the high volume of daily cash flow activity of various types of loans, particularly for those with multiple products in various jurisdictions. Preparers also stated that it is unclear when draw-downs on revolving lines of credit would be classified as an origination in the amortized cost basis rollforward. The underwriting decisions for various revolving lines of credit may have occurred many periods before the date they were drawn, so the origination information may not align with the time period of the credit decisions. Alternatively, if a line of credit was drawn down and then fully repaid in the same reporting period, there would be an origination to report in the amortized cost rollforward that is unrelated to the allowance determined based on the amortized cost at the reporting date; with variations of these facts patterns exacerbating the complexity of this disclosure.

BC113. Preparers opposed a requirement to disclose separately the credit loss expense that is attributable to originations. They stated that the allowance for credit losses is determined at the end of each reporting period and, therefore, would result in highly subjective estimates needed to allocate the total credit loss expense to current-period originations and changes in estimates of previously originated assets. Allocations would be highly subjective because pools may have loans originated in various periods. Alternatively, expected credit loss estimates may comprise both quantitative and qualitative factors that take into account their loans portfolios, current methodologies, and systems and processes. Those components of the estimate could be allocated to an origination, but the allocation methodology would be highly subjective and arbitrary to such an extent that the costs of preparing that disclosure may not justify the added benefits.

BC114. The Board understands the informational needs of the user respondents and the operability constraints of preparers to provide this information. As a result, the Board decided to require that the existing credit quality disclosures of the amortized cost basis for financing receivables and net investment in leases be presented in greater detail by vintage year of origination for public business entities. The Board performed extensive outreach on the disclosure requirements after hosting a roundtable meeting to listen to the perspectives of both preparers and users. Preparers indicated that vintage-year disclosures are more operable than amortized cost basis rollforward disclosures, and users supported the additional information that would be provided by vintage disclosures about credit

quality trends. The Board concluded that the vintage disclosure requirements for financing receivables and net investment in leases will allow users to understand the credit quality trends within the portfolio from period to period. In addition, by utilizing information disclosed in other areas in the financial statements and assumptions from public sources, users may be able to derive their own rollforward of the balances and related allowance for credit losses for each origination year. This will provide useful information because it will help users develop estimates of (a) originations by period for each class of financing receivable, (b) an estimate of the initially expected credit losses and subsequent changes to the estimate, and (c) an estimate of the current-period provision that is attributable to originations and changes in expected credit losses on previously originated loans. This disclosure requirement is applicable to public business entities only because investors in private companies generally have greater access to management to obtain the information they believe is necessary. The Board considered exempting public business entities that are not SEC filers because small community banks may meet the public business entity definition, but the Board concluded that a distinction among public business entities (that is, public business entities that are not SEC filers) is inappropriate. The Board believes the disclosures are relevant for users in all public business entities; however, given cost considerations, the Board decided to allow public business entities that are not SEC filers further transition relief in order to prepare for the disclosure requirements and decided not to require this disclosure for entities that are not public business entities.

## Transition

BC115. The Board decided that the amendments in this Update should be applied on a modified-retrospective transition approach that would require a cumulative-effect adjustment to the opening retained earnings in the statement of financial position as of the date of adoption. The Board rejected other methods, including methods that would have required full retrospective transition. The Board acknowledges that retrospective transition methods generally provide the most useful information. However, the Board determined them to be impracticable to apply in prior periods because the use of hindsight would be necessary in making estimates of expected credit losses. Stakeholders generally agreed with a modified-retrospective transition approach.

BC116. Stakeholders requested additional transition guidance for certain debt securities and those financial assets that would meet the criteria of purchased financial assets with credit deterioration. For example, questions were raised about whether an allowance would be recorded for a debt security that had an OTTI before the effective date, which may result in a reversal of a previous write-down that was in accordance with previous GAAP. In addition, if an allowance was recorded, preparers would have to use hindsight to determine the write-down amount, if applicable. In response to stakeholders' feedback, the Board

provided transition relief to debt securities that had OTTI in accordance with previous GAAP and for purchased financial assets that were within the scope of Subtopic 310-30, including those that applied Subtopic 310-30 by analogy.

BC117. The Board required a prospective transition approach for debt securities for which an OTTI was recorded before the effective date for the reasons noted above. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this Update. Because the amortized cost basis of the debt security will not change, the effective interest rate on a security is not expected to change as a result of the adoption of this Update. Amounts previously recorded in accumulated other comprehensive income as of the effective date that relate to improvements in cash flows will continue to be accreted to interest income over the remaining life of the debt security on a level-yield basis. Any improvements in cash flows of a security because of improvements in credit after the adoption date are recorded in the income statement in the period they are received. If cash flows are expected to decrease because of a deterioration in credit expectations, an allowance should be recorded based on the amendments in this Update that are included in Section 326-20-30 or Section 326-30-35. This approach simplified the subsequent accounting for preparers and was favored by users because the yields on the securities continue to be comparable from one reporting period to the next.

BC118. The Board also provided transition relief for purchased assets that were previously accounted for based on the guidance in Subtopic 310-30, including when Subtopic 310-30 had been applied by analogy. Stakeholders raised concerns that the criteria for a purchased credit impaired asset under Subtopic 310-30 differed from the criteria for a purchased financial asset with credit deterioration under the amendments in this Update, which would have required preparers to re-evaluate all purchased assets at adoption to determine whether upon acquisition they would have been accounted for under the new guidance of purchased financial assets with credit deterioration. The Board generally expects that the population of purchased assets accounted for under Subtopic 310-30 will fall within the scope of the amendments in this Update on purchased financial assets with credit deterioration. Therefore, the Board provided transition relief that purchased assets accounted for under Subtopic 310-30 should be reflected as purchased assets with credit deterioration under Topic 326. The Board also extended this transition relief to those purchased assets accounted for under Subtopic 310-30 by analogy for generally the same reasons and to further reduce the cost and complexity of implementation of Topic 326. However, in providing this transition relief, the Board has not permitted preparers to perform further assessments to determine whether other purchased financial assets that exist as of the date of adoption of the amendments in this Update meet the new criteria under Topic 326.

BC119. Stakeholders also raised concerns that they would need to re-amortize the purchased financial assets with credit deterioration at the adoption date to

reflect the amendments in this Update on a modified retrospective basis. The Board concluded that the benefits do not justify the costs for preparers to undergo this process and, instead, provided incremental transition relief for this issue. The Board decided that the financial assets accounted for under Subtopic 310-30 would be considered purchased assets with credit deterioration at the adoption date, resulting in an adjustment to the amortized cost that reflects the addition of the allowance for credit losses at the date of adoption. The noncredit discount or premium, after the gross-up adjustment, should be accreted or amortized to interest income using the interest method based on the effective interest rate at the date of adoption. Therefore, there is no need to roll forward a new amortized cost basis from the date of acquisition. In this decision, the Board considered users' feedback that there was a preference to see yields on a comparable basis upon transition to Topic 326.

BC120. The Board also notes that certain beneficial interests also apply the same guidance as is applied to purchased financial assets with credit deterioration. To the extent applicable, those beneficial interests should be provided the same transition reliefs.

## Effective Date

BC121. The Board decided that for public business entities that are SEC filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Board decided that an effective date greater than two years after issuance of this Update will provide these entities with sufficient time to implement the amendments. The Board considered not only the adoption timeline for preparers, but also the timeline of bank regulators and practitioners who will need time to prepare for implementation before the Update becomes effective.

BC122. For all other public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Board concluded that an additional year of implementation is appropriate for those entities that are non-SEC filers because they are generally more resource constrained than SEC filers. The Board acknowledges that adoption of the amendments in this Update will require significant effort from the financial industry and that many financial institutions meet the public business entity definition set in GAAP. Therefore, a line between public business entities and all other entities was not practical. To give small financial institutions additional time to prepare for adoption, the Board decided that a better threshold would be SEC filing status.

BC123. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after

December 15, 2021. This is consistent with the Private Company Decision-Making Framework, which suggests that the effective date of an Update for private companies should be a minimum of one year after the effective date for public companies. In making this decision, the Board observed that (a) some preparers and auditors of private company financial statements rely on the experience of public entities and their auditors when implementing a new standard and (b) the education cycle for preparers of private company financial statements generally occurs once per year—typically during the second half of the year. Furthermore, private companies generally have fewer resources than public entities and, consequently, will benefit from having additional time to evaluate the effects of the amendments in this Update. In deciding to set the effective date for private companies as of the end of the initial annual reporting period, the Board considered the factor in the Private Company Decision-Making Framework that indicates that private companies generally should not be required to adopt new requirements during an interim period within the fiscal year of adoption.

BC124. The Private Company Decision-Making Framework indicates that, generally, private companies should be permitted to adopt the amendments before the deferred effective date for private companies, but no earlier than the required or permitted effective date for public companies. In addition, this approach provides a private company with the flexibility to achieve comparability of its financial statements with public company financial statements.

BC125. Stakeholder feedback indicated that comparability for adoption was critical because users, regulators, and other stakeholders would have difficulty comparing financial results of different financial institutions if adoption did not occur at the same time. In addition, regulators and practitioners needed time to prepare to assist in a successful implementation of the amendments in this Update.

BC126. Initially, the Board determined the effective dates to be one year earlier than the respective dates mentioned above. However, the final issuance of this Update occurred later than the Board expected because additional outreach was performed. Therefore, in consideration of the Private Company Decision-Making Framework and the Board's reconsideration of the effective dates to the effective dates mentioned above, the Board decided that all entities may adopt the amendments in this Update as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier adoption is not permitted.

## Similarities and Differences with IFRS 9

BC127. The FASB and the IASB jointly deliberated improvements to financial instruments impairment models through 2012. Both Boards sought to respond to

concerns identified by the FCAG following the financial crisis pertaining to delayed recognition of credit losses.

BC128. The FASB understands the desire for a converged model. However, in response to differing feedback received on the joint Supplementary Document, the FASB decided to continue to develop the CECL model, which was exposed in the December 2012 Exposure Draft. The FASB and IASB received different feedback on their respective proposed credit loss models. The IASB stakeholders strongly preferred an impairment model that utilizes a dual measurement approach, while U.S. stakeholders strongly preferred the CECL model proposed by the FASB.

BC129. Because of the importance of stakeholders' input and the different feedback that each respective Board received, convergence was unachievable. It was identified that:

- a. Before the issuance of IFRS 9 and the amendments in this Update, the practices for accounting for credit losses were different between GAAP and IFRS preparers. The FASB and the IASB concluded that the preexisting differences influenced stakeholders' perceptions of the two models.
- b. The interaction between the role of prudential regulators and loss allowances determined for financial reporting purposes is historically stronger in the United States.
- c. Many users of financial statements prepared in accordance with GAAP place greater weight on the loss allowances on the balance sheet.

BC130. The issue of convergence was discussed at length throughout the project. However, after considering the differences in feedback received, the FASB continued with the CECL model that was proposed in the December 2012 Exposure Draft.

BC131. A few notable similarities and differences between the CECL model and IFRS 9 are summarized below:

- a. Both the CECL model and IFRS 9 are considered to be expected credit loss models. The CECL model requires that the full amount of expected credit losses be recorded for all financial assets measured at amortized cost, whereas IFRS 9 requires that an allowance for credit losses equal to the 12-month expected credit losses as defined in IFRS 9 be recognized, until there is a significant increase in credit risk when lifetime expected credit losses are recognized.
- b. Under IFRS 9, the full amount of expected credit losses is measured for financial assets that have experienced a significant increase in credit risk since initial recognition. For these assets, there may be similar measurements of expected credit losses under IFRS 9 and CECL because, under both, an entity will measure credit losses over the expected life, subject to key differences highlighted below.

- c. The amendments in this Update have different requirements based on the measurement attribute. Specifically, different considerations and indicators for impairment exist for available-for-sale debt securities. IFRS 9 requires one credit loss approach for all financial assets (described as fair value through other comprehensive income assets under IFRS 9), regardless of the measurement attribute.
- d. The FASB acknowledges the time value of money is implicitly present in credit loss methodologies using amortized cost information, whereas IFRS 9 requires an explicit consideration of the time value of money.
- e. The CECL model requires collective evaluation of credit losses when similar risk characteristics exist. IFRS 9 states that the measurement of expected credit losses shall reflect a probability-weighted amount but particular measurement techniques are not prescribed. Therefore, IFRS 9 allows collective evaluation of credit losses based on shared risk characteristics; however, unlike the CECL model, the probability weighted outcomes must be considered.
- f. GAAP treats a concession provided to a troubled borrower to be a continuation of the original lending agreement. Differences exist for modifications of financial assets and the concept of a troubled debt restructuring does not exist in IFRS 9.
- g. Differences exist for purchased financial assets. IFRS 9 also includes requirements for originated credit impaired financial assets as well as purchased credit impaired financial assets. GAAP does not contain provisions for originated impaired financial assets, and there are differences in the scope and measurement of expected credit losses for purchased financial assets.
- h. GAAP continues to permit the application of nonaccrual practices, whereas IFRS 9 continues to preclude the use of nonaccrual practices. IFRS 9 requires a net-interest approach to be applied to the “Stage 3” assets, which represent individual assets that are credit impaired, whereas a gross interest approach is used otherwise.
- i. The discount rate utilized when a discounted cash flow approach is used under the CECL model is required to be the effective interest rate. IFRS 9 provides that an entity also is permitted to use an approximation of the effective discount rate when discounting expected credit losses.
- j. The CECL model requires expected credit losses for unfunded commitments to reflect the full contractual period over which an entity is exposed to credit risk via a present obligation to extend credit. The CECL model does not require an allowance for expected credit losses beyond the contractual term or beyond the point in which a loan commitment may be unconditionally cancelled by the issuer. In contrast, for a financial asset that contains both a loan and an undrawn commitment component, IFRS 9 states that an entity should measure expected credit losses over the period that an entity is exposed to credit risk and expected credit losses are not mitigated by credit risk

management actions, even if that period extends beyond the maximum contractual period.

- k. The CECL model requires the amortized cost basis of financing receivables and net investment in leases to be disclosed by credit quality indicator, disaggregated by year of origination. This information is intended to help users understand the credit quality trends within the portfolio from period to period. IFRS 9 requires an entity to disclose a reconciliation of the financial assets relating to the allowance for credit losses from the opening balance to the closing balance and requires explanations of how significant changes in the gross carrying amounts of financial assets during the period contributed to the changes in the allowance for credit losses.

## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2017 Taxonomy, are available for public comment through ASU Taxonomy Changes provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process.