

*Proposed Accounting Standards Update*

Issued: November 23, 2021  
Comments Due: December 23, 2021

**Financial Instruments—Credit Losses (Topic 326)**

**Troubled Debt Restructurings and Vintage Disclosures**

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 326 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to [director@fasb.org](mailto:director@fasb.org), or sending a letter to “Technical Director, File Reference No. 2021-006, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

## Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until December 23, 2021. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2021-006
- Sending a letter to “Technical Director, File Reference No. 2021-006, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at [www.fasb.org](http://www.fasb.org).

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at [www.fasb.org](http://www.fasb.org).

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Proposed Accounting Standards Update  
Financial Instruments—Credit Losses (Topic 326)  
Troubled Debt Restructurings and Vintage Disclosures  
November 23, 2021  
Comment Deadline: December 23, 2021

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# Summary and Questions for Respondents

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

Since the issuance of Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the Board has provided resources to monitor and assist stakeholders with the implementation of Topic 326. Post-Implementation Review (PIR) activities have included forming a Credit Losses Transition Resource Group (TRG), conducting outreach with stakeholders of all types, developing educational materials and staff question-and-answer guidance, conducting educational workshops, and performing archival review of financial reports.

The amendments in this proposed Update respond to feedback received during the PIR process.

### Issue 1: Troubled Debt Restructurings by Creditors

The amendments in Update 2016-13 require that an entity measure and record the lifetime expected credit losses on an asset that is within the scope of the Update upon origination or acquisition, and, as a result, credit losses from loans modified as troubled debt restructurings (TDRs) have been incorporated into the allowance for credit losses. Investors and preparers observed that the additional designation of a loan modification as a TDR and the related accounting and disclosure are unnecessarily complex and no longer provides decision-useful information.

### Issue 2: Vintage Disclosures—Gross Writeoffs

Stakeholders noted that there is an inconsistency in the requirement for a public business entity to disclose gross writeoffs and gross recoveries by class of financing receivable and major security type in the vintage disclosures referenced in paragraph 326-20-50-6 and Example 15 in paragraph 326-20-55-79. Investors and other financial statement users observed that disclosure of gross writeoffs by year of origination provides important information that allows them to better understand changes in the credit quality of an entity's loan portfolio and underwriting performance.

## Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update related to TDRs affect all entities after they have adopted Update 2016-13. The amendments related to vintage disclosures affect public business entities with investments in financing receivables that have adopted Update 2016-13.

## What Are the Main Provisions?

### Issue 1: Troubled Debt Restructurings by Creditors

The amendments in this proposed Update would eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity would apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.

### Issue 2: Vintage Disclosures—Gross Writeoffs

For public business entities, the amendments in this proposed Update would require that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

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

### Issue 1: Troubled Debt Restructurings by Creditors

Current GAAP provides an exception to the general recognition and measurement guidance for loan restructurings and refinancings that an entity determines meets specific criteria to be considered a TDR. Modifications are TDRs, and thus are subject to different accounting guidance, if they are made to borrowers

experiencing financial difficulty and if the creditor has granted a concession. If a modification is a TDR, an incremental expected loss, if any, is recorded in the allowance for credit losses upon modification. Certain concessions can be captured only through a discounted cash flow or reconcilable model, and, therefore, discounted cash flow models are required for measurement of some TDRs. Additionally, specific disclosures are required for TDRs.

The amendments in this proposed Update would eliminate the TDR recognition and measurement guidance and, instead, require that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The proposed amendments would enhance existing disclosure requirements and introduce new requirements related to modifications of receivables made to borrowers experiencing financial difficulty.

## Issue 2: Vintage Disclosures—Gross Writeoffs

For public business entities, the amendments in this proposed Update would require that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. This currently is not required by the disclosure guidance in paragraph 326-20-50-6. Gross writeoff information would be added to the vintage disclosures required for public business entities in paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit-quality indicator and class of financing receivable by year of origination.

## When Would the Amendments Be Effective and What Are the Transition Requirements?

For entities that have adopted the amendments in Update 2016-13 as of the issuance date of a final Update of the proposed amendments, the Board will determine the effective date for these proposed amendments after it considers stakeholders' feedback on the proposed Update.

For entities that have not yet adopted the amendments in Update 2016-13, the effective dates for the amendments in this proposed Update would be the same as the effective dates in Update 2016-13.

The amendments in this proposed Update would be applied prospectively, except as provided in the next sentence. For the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption of the proposed Update.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

### Issue 1: Troubled Debt Restructurings by Creditors

**Question 1:** Should the designation of and accounting for TDRs by creditors be eliminated? That is, do the benefits of designating and accounting for certain loan modifications as TDRs and providing specific disclosures about those modifications justify the costs of providing that information? Please explain why or why not.

**Question 2:** If the accounting for TDRs by creditors was eliminated, an entity would have to apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether the modification results in a new loan or a continuation of an existing loan. Would applying the guidance in paragraphs 310-20-35-9 through 35-11 be operable? Please explain why or why not.

**Question 3:** Would the amendments in this proposed Update result in financial reporting outcomes that are appropriate and meaningful for users of financial statements? That is, would the proposed amendments related to recognition and measurement changes on loan modifications produce meaningful information absent designation of certain modifications as TDRs? Is application of the modification guidance to loans previously accounted for as TDRs appropriate, or should the Board consider amending that guidance such that TDRs are more or less likely to be accounted for as new loans? Please explain why or why not.

**Question 4:** The proposed amendments would enhance disclosure requirements for loan modifications made to borrowers experiencing financial difficulty. For investors and other financial statement users, would those disclosures provide decision-useful information? If so, how would they be used and for what purpose? Please provide specific examples of what calculations would be done and when that information would influence investment and capital allocation decisions.

**Question 5:** Are there any additional disclosures or enhancements to the proposed disclosures needed to understand the effect of modifications made by creditors? If so, please explain why and how that information would be used and for what purpose. Please provide specific examples of what calculations would be



done and when that information would influence investment and capital allocation decisions.

**Question 6:** Do you foresee any operability or auditing concerns in providing the disclosures in the proposed amendments? Please describe the nature and magnitude of costs and any operability or auditing concerns, differentiating between one-time costs and recurring costs.

**Question 7:** Are there certain assets within the scope of Topic 326 that if modified with a borrower experiencing financial difficulty should not be required to provide the information required by the disclosures in the proposed amendments? Are there certain modification types that should not be included in the disclosures in the proposed amendments? Please explain why or why not.

**Question 8:** Are the proposed transition methods appropriate? Please explain why or why not.

**Question 9:** The proposed amendments would affect all entities that have adopted Update 2016-13. Are there any specific private company considerations, in the context of applying the Private Company Decision-Making Framework, that should be brought to the Board's attention?

**Question 10:** For entities that have adopted Update 2016-13, what is the earliest period that you would be able to provide the recognition and measurement changes and disclosure requirements in the proposed amendments (for example, fiscal years beginning after December 15, 2021, including interim periods within those fiscal years)? Please explain your reasoning.

## Issue 2: Vintage Disclosures—Gross Writeoffs

**Question 11:** Are the proposed amendments that would require that a public business entity disclose the current-period amount of gross writeoffs by origination year for financing receivables and net investment in leases clear and understandable? Please explain why or why not.

**Question 12:** Do you foresee any operability or auditing concerns or constraints in complying with the proposed amendments in paragraph 326-20-50-6? Please describe the nature and magnitude of costs and any operability or auditing concerns about providing this information, differentiating between one-time costs and recurring costs.

**Question 13:** The proposed amendments would require that a public business entity disclose the current-period amount of gross writeoffs by origination year for financing receivables and net investment in leases. For investors and other financial statement users, would those disclosures provide decision-useful information? If so, how would it be used and for what purpose? Please provide specific examples of what calculations would be done and when that information would influence investment and capital allocation decisions.

**Question 14:** In developing these proposed amendments, the Board considered, but decided not to require, gross recoveries by year of origination. If the Board decided to consider requiring gross recovery information, please describe the nature and magnitude of costs and any operability or auditing concerns about providing that information, differentiating between one-time costs and recurring costs. For financial statement users, is gross recovery information by year of origination necessary and, if so, how you would use that information?

**Question 15:** In developing these proposed amendments, the Board considered, but decided not to require, disclosure of cumulative gross writeoffs by year of origination.

- a. For financial statement users, would cumulative writeoff information provide information that is more decision useful than current-period writeoff information? Please explain why or why not and, if so, the importance of that information to your analysis and how it would be used. If cumulative information should be required, please provide specific examples of what calculations would be done and when that information would influence investment and capital allocation decisions.
- b. For financial statement preparers, please describe the nature and magnitude of costs of providing cumulative writeoff information and any operability or auditing concerns. Please differentiate between one-time costs and recurring costs.

**Question 16:** For public business entities, what is the earliest period that you would be able to provide the disclosure requirements in the proposed amendments to paragraph 326-20-50-6 that would require that gross writeoffs be presented in the vintage disclosure table (for example, fiscal years beginning after December 15, 2021, including interim periods within those fiscal years)? Please explain your reasoning.

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

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## Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

<b>Troubled Debt Restructurings by Creditors</b>	
<b>Codification Section</b>	<b>Description of Changes</b>
Section 310-10-05, Receivables—Overall— Overview and Background	<ul style="list-style-type: none"><li>• Removed the reference to troubled debt restructurings by creditors</li></ul>
Section 310-10-50, Receivables—Overall— Disclosure	<ul style="list-style-type: none"><li>• Superseded paragraphs 310-10-50-31 through 50-34 related to troubled debt restructuring disclosures</li><li>• Added paragraphs 310-10-50-36 through 50-42 to enhance the disclosures for modifications to receivables made to debtors experiencing financial difficulty</li><li>• Added paragraphs 310-10-50-43 through 50-46 related to evaluating when a borrower is experiencing financial difficulty and when a restructuring results in an insignificant delay in payment</li></ul>

<b>Codification Section</b>	<b>Description of Changes</b>
Section 310-10-55, Receivables—Overall—Implementation Guidance and Illustrations	<ul style="list-style-type: none"> <li>• Superseded paragraph 310-10-55-12, which contained the disclosure illustration for troubled debt restructurings</li> <li>• Added paragraph 310-10-55-12A, which contains the disclosure illustration for modifications to borrowers experiencing financial difficulty</li> <li>• Added paragraphs 310-10-55-12B through 55-12K, which contain examples from Subtopic 310-40 illustrating when a restructuring results in an insignificant delay in payment</li> </ul>
Section 310-20-35, Receivables—Nonrefundable Fees and Other Costs—Subsequent Measurement	<ul style="list-style-type: none"> <li>• Added paragraphs from Subtopic 310-40 related to loan refinancing or restructuring, substitution or addition of debtors, partial satisfaction of a receivable, and impairment</li> </ul>
Section 310-20-40, Receivables—Nonrefundable Fees and Other Costs—Derecognition	<ul style="list-style-type: none"> <li>• Added paragraphs from Subtopic 310-40 related to receipt of assets in full satisfaction of a receivable, foreclosure, sale of assets from a loan refinancing or restructuring, and cost basis</li> </ul>
Section 310-20-55, Receivables—Nonrefundable Fees and Other Costs—Implementation Guidance and Illustrations	<ul style="list-style-type: none"> <li>• Added paragraphs from Section 310-40-55 related to the use of zero-coupon bonds in a loan refinancing or restructuring and physical possession of residential real estate property collateralizing a consumer mortgage loan</li> </ul>
Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors	<ul style="list-style-type: none"> <li>• Superseded</li> </ul>

<b>Codification Section</b>	<b>Description of Changes</b>
Section 320-10-55, Investments—Debt Securities—Overall—Implementation Guidance and Illustrations	<ul style="list-style-type: none"> <li>Amended paragraph 320-10-55-2 to remove the reference to troubled debt restructurings for loans restructured as securities</li> </ul>
Section 326-20-30, Financial Instruments—Credit Losses—Measured at Amortized Cost—Initial Measurement	<ul style="list-style-type: none"> <li>Amended paragraph 326-20-30-4A to remove the reference to troubled debt restructurings related to changes in the expected timing of cash flows</li> <li>Amended paragraph 326-20-30-6 to remove the guidance related to when an entity has a reasonable expectation that it will execute a troubled debt restructuring with a borrower</li> </ul>
Section 470-60-05, Debt—Troubled Debt Restructurings by Debtors—Overview and Background	<ul style="list-style-type: none"> <li>Amended paragraph 470-60-05-1 to remove the reference about the creditor’s accounting for troubled debt restructurings in Subtopic 310-40</li> </ul>
Section 470-60-15, Debt—Troubled Debt Restructurings by Debtors—Scope and Scope Exceptions	<ul style="list-style-type: none"> <li>Superseded paragraph 470-60-15-3, which explained that the accounting for troubled debt restructurings by debtors and by creditors is not symmetrical</li> </ul>
Section 470-60-55, Debt—Troubled Debt Restructurings by Debtors—Implementation Guidance and Illustrations	<ul style="list-style-type: none"> <li>Superseded paragraph 470-60-55-15, which explained that a debtor may have a troubled debt restructuring even when the related creditor does not</li> </ul>
Section 958-320-60, Not-for-Profit Entities—Investments—Debt Securities—Relationships	<ul style="list-style-type: none"> <li>Superseded paragraph 958-320-60-1, which referenced debt securities restructured in a troubled debt restructuring</li> </ul>
Section 978-310-35, Real Estate—Time-Sharing Activities—Receivables—Subsequent Measurement	<ul style="list-style-type: none"> <li>Amended paragraph 978-310-35-4 to remove the reference to troubled debt restructurings</li> </ul>

<b>Vintage Disclosures: Gross Writeoffs</b>	
<b>Codification Section</b>	<b>Description of Changes</b>
Section 326-20-50, Financial Instruments—Credit Losses—Measured at Amortized Cost—Disclosure	<ul style="list-style-type: none"> <li>Amended paragraphs 326-20-50-6 through 50-7 to require that a public business entity disclose current-period gross writeoffs by origination year for financing receivables and net investment in leases</li> </ul>
Section 326-20-55, Financial Instruments—Credit Losses—Measured at Amortized Cost—Implementation Guidance and Illustrations	<ul style="list-style-type: none"> <li>Removed current-year recoveries and net charge-offs from the illustration in paragraph 326-20-55-79</li> </ul>

## Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–15. 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~~.

### Issue 1: Troubled Debt Restructurings by Creditors

3. The proposed amendments would remove the recognition and measurement guidance on troubled debt restructurings for creditors that have adopted the amendments in Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and enhance disclosures provided about modifications of receivables to debtors experiencing financial difficulty.

### Amendments to Master Glossary

4. Supersede the Master Glossary term *Troubled Debt Restructuring* from Subtopics 310-10, 326-10, and 326-20, as follows:

## **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.

## **Amendments to Subtopic 310-10**

5. Amend paragraph 310-10-05-1, supersede paragraphs 310-10-50-31 through 50-34 and their related heading and paragraph 310-10-55-12, and add paragraphs 310-10-50-36 through 50-46 and 310-10-55-12A through 55-12K and their related headings, with a link to transition paragraph 326-10-65-5, 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.
- d. Subparagraph superseded by Accounting Standards Update No. 2022-XX, Troubled Debt Restructurings by Creditors.

## **Disclosure**

### **> Modifications**

**310-10-50-31** Paragraph superseded by Accounting Standards Update No. 2022-XX. 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** Paragraph superseded by Accounting Standards Update No. 2022-XX. This guidance does not apply to troubled debt restructurings of either of the following:

- a. Financing receivables listed in paragraph 310-10-50-7B
- b. Loans acquired with deteriorated credit quality (determined under Subtopic 310-30) that are accounted for within a pool. [Content amended and moved to paragraph 310-10-50-39]

In addition, supersede the following pending content for paragraph 310-10-50-32, with a link to transition paragraph 326-10-65-5:

**Pending Content**

~~Transition Date: (P) December 16, 2019; (N) December 16, 2022 | Transition Guidance: 326-10-65-1~~

~~Paragraph superseded by Accounting Standards Update No. 2022-XX. This guidance does not apply to troubled debt restructurings of either of the following:~~

- ~~a. Financing receivables listed below:
  - 1. Receivables measured at fair value with changes in fair value reported in earnings
  - 2. Receivables measured at lower of amortized cost basis or fair value
  - 3. Except for credit card receivables, trade accounts receivable that have both of the following characteristics:
    - i. They have a contractual maturity of one year or less.
    - ii. They arose from the sale of goods or services.
  - 4. Participant loans in defined contribution pension plans.~~
- ~~b. Subparagraph superseded by Accounting Standards Update No. 2016-13. [Content amended and moved to paragraph 310-10-50-39]~~

~~**310-10-50-33** Paragraph superseded by Accounting Standards Update No. 2022-XX. 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 **class of financing receivable**, 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 **portfolio segment**, qualitative information about how such modifications are factored into the determination of the allowance for credit losses.~~

~~**310-10-50-34** Paragraph superseded by Accounting Standards Update No. 2022-XX. 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.~~

### **> Modifications**

**310-10-50-36** 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 experiencing financial difficulties for which the creditor has modified the terms of the receivables in the current reporting period whose terms have been modified in troubled debt restructurings.~~ **[Content amended as shown and moved from paragraph 310-40-50-1]**

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

**310-10-50-37** 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 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 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. **[Content moved from paragraph 310-40-50-5]**

#### **Pending Content:**

**Transition Date:** (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 326-10-65-1

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 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 on the contractual terms specified by the original loan agreement. **[Content moved from paragraph 310-40-50-5]**

**In addition, amend the following pending content for paragraph 310-10-50-37, with a link to transition paragraph 326-10-65-5:**

#### **Pending Content:**

**Transition Date:** (P) December 16, 20XX; (N) December 16, 20XX | **Transition Guidance:** 326-10-65-5

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 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 on the contractual terms specified by the original loan agreement.~~  
**[Content amended as shown and moved from paragraph 310-40-50-5]**

### **> > Modifications to Debtors Experiencing Financial Difficulty**

**310-10-50-38** The objective of the disclosures in paragraphs 310-10-50-40 through 50-42 is to provide financial statement users with information about the type and magnitude of modifications of receivables made to debtors experiencing financial difficulty, the financial effect of those modifications, and the degree of success of the modifications in mitigating potential credit losses. In addition to those disclosures in paragraphs 310-10-50-40 through 50-42, an entity shall consider providing information that helps financial statement users understand significant changes in the type or magnitude of modifications, including those modifications that, for example, were caused by a major credit event, even if the modifications otherwise would not require the disclosures in paragraphs 310-10-50-40 through 50-42.

**310-10-50-39** This guidance does not apply to troubled debt restructurings of either of the following:

- a. Financing receivables listed in paragraph 310-10-50-7B
- b. Loans acquired with deteriorated credit quality (determined under Subtopic 310-30) that are accounted for within a pool. **[Content moved from paragraph 310-10-50-32]**

### **Pending Content:**

**Transition Date:** (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 326-10-65-1

This guidance does not apply to troubled debt restructurings of either of the following:

- a. Financing receivables listed below:
  1. Receivables measured at fair value with changes in fair value reported in earnings
  2. Receivables measured at lower of amortized cost basis or fair value
  3. Except for credit card receivables, trade accounts receivable that have both of the following characteristics:
    - i. They have a contractual maturity of one year or less.
    - ii. They arose from the sale of goods or services.
  4. Participant loans in defined contribution pension plans.

- b. Subparagraph superseded by Accounting Standards Update No. 2016-13. **[Content moved from paragraph 310-10-50-32]**

**In addition, amend the following pending content for paragraph 310-10-50-39, with a link to transition paragraph 326-10-65-5:**

**Pending Content:**

**Transition Date:** (P) December 16, 20XX; (N) December 16, 20XX | **Transition Guidance:** 326-10-65-5

~~This~~ The guidance in paragraphs 310-10-50-40 through 50-42 does not apply to ~~troubled debt restructurings of either~~ of the following:

- a. ~~Financing receivables listed below:~~
  - 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 the following characteristics:
    - 1-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 plans. **[Content amended as shown and moved from paragraph 310-10-50-32]**

**310-10-50-39A** The disclosures required in paragraphs 310-10-50-40 through 50-42 are applicable regardless of whether a modification of a receivable to a debtor experiencing financial difficulty results in a new loan in accordance with paragraphs 310-20-35-9 through 35-11.

**310-10-50-40** For each period for which a statement of income is presented, an entity shall disclose the following information related to modifications of receivables made to debtors experiencing financial difficulty during the reporting period:

- a. By class of financing receivable, qualitative and quantitative information about:
  - 1. The types of modifications utilized by an entity, including the total pre-modification amortized cost basis of the modified receivables and the percentage of modifications of receivables made to debtors experiencing financial difficulty relative to the total amortized cost basis of receivables in the class of financing receivable at the end of the reporting period.

2. The financial effect of the modification by type of modification, which shall provide information about the changes to the contractual terms as a result of the modification, and may include the incremental effect of principal forgiveness on the amortized cost basis of the modified receivables or the weighted-average reduction in interest rates (versus a range) for interest rate reductions.
3. Receivable performance in the trailing 12 months following a modification of a receivable made to a debtor experiencing financial difficulty.
  - b. By portfolio segment, qualitative information about how those modifications and the debtors' subsequent performance are factored into determining the allowance for credit losses.

**310-10-50-41** Receivables may be modified in more than one manner. For example, a receivable may be modified to provide both an interest rate reduction and principal forgiveness. In that case, an entity shall disclose the amortized cost basis of that receivable in a single, separate category that reflects that a combination of modification types has been granted (that is, the same receivable's amortized cost basis shall not be presented in multiple categories, and it shall be provided in a separate category that indicates a combination of modification types has been granted).

**310-10-50-42** For each period for which a statement of income is presented, an entity shall disclose the following information about financing receivables that had a payment default during the period and had been modified within the previous 12 months preceding the payment default because the debtor was experiencing financial difficulty:

- a. By class of financing receivable, qualitative and quantitative information about those defaulted financing receivables, including the following:
  1. The types of financing receivables that defaulted
  2. The type of contractual change that the modification provided
  3. The amount of financing receivables that defaulted, including the amortized cost basis at the time of default for receivables that defaulted.
- b. By portfolio segment, qualitative information about how those defaults are factored into determining the allowance for credit losses.

## **> > Determining Whether a Debtor Is Experiencing Financial Difficulties**

**310-10-50-43** In evaluating whether a receivable is a troubled debt restructuring, a creditor must determine whether the debtor is experiencing financial difficulties for the purpose of the disclosure requirements in paragraphs 310-10-50-40 through 50-42. In making this determination, a creditor shall consider the following indicators:

- a. The debtor is currently in payment default on any of its debt. In addition, a creditor shall evaluate whether it is probable that the debtor would be in payment default on any of its debt in the foreseeable future without the modification. That is, a creditor may conclude that a debtor is experiencing financial difficulties, even though the debtor is not currently in payment default.
- b. The debtor has declared or is in the process of declaring bankruptcy.
- c. There is substantial doubt as to whether the debtor will continue to be a going concern.
- d. The debtor has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange.
- e. On the basis of estimates and projections that only encompass the debtor's current capabilities, the creditor forecasts that the debtor's entity-specific cash flows will be insufficient to service any of its debt (both interest and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future.
- f. Without the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a nontroubled debtor.

The above list of indicators is not intended to include all indicators of a debtor's financial difficulties. **[Content amended as shown and moved from paragraph 310-40-15-20]**

### **> > Evaluating Whether a Restructuring Results in a Delay in Payment That Is Insignificant**

**310-10-50-44 A** In the case of a restructuring that results in only a delay in payment that is insignificant, an entity may elect to is not include the modification made to receivables for debtors experiencing financial difficulty in the disclosure requirements in paragraphs 310-10-50-36 and 310-10-50-40 through 50-42 a concession. The following factors, when considered together, may indicate that a restructuring results in a delay in payment that is insignificant:

- a. The amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due.
- b. The delay in timing of the restructured payment period is insignificant relative to any one of the following:
  1. The frequency of payments due under the debt
  2. The debt's original contractual maturity
  3. The debt's original expected duration. **[Content amended as shown and moved from paragraph 310-40-15-17]**

**310-10-50-45** If the debt has been previously restructured, an entity shall consider the cumulative effect of the past restructurings when determining whether a delay in payment resulting from the most recent restructuring is insignificant. **[Content moved from paragraph 310-40-15-18]**

**310-10-50-46** ~~Examples 3, 4, and 5, and 6~~ in paragraphs 310-10-55-12B through 55-12K ~~310-40-55-16 through 55-25~~ illustrate a creditor's evaluation about whether a delay in payment resulting from a restructuring is insignificant. **[Content amended as shown and moved from paragraph 310-40-15-19]**

## Implementation Guidance and Illustrations

### > Illustrations

#### >> **Example 2: Disclosures about Credit Quality and the Allowance for Credit Losses**

**310-10-55-12** Paragraph superseded by Accounting Standards Update No. 2022-XX. 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
	<b>Number of Contracts</b>	<b>Recorded Investment</b>		<b>Number of Contracts</b>	<b>Recorded Investment</b>	
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	

#### >> **Example 3: Disclosures for Debtors Experiencing Financial Difficulty**

**310-10-55-12A** The following Example illustrates the disclosures required by paragraphs 310-10-50-40 through 50-42. For ease of illustration, comparative periods are excluded. **[For ease of readability, the following Example is not underlined.]**

## **Entity B**

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses realized from modifications of receivables to borrowers experiencing financial difficulty. Entity B uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, Entity B modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is reduced by the amount of the concession if the effect of the concession exceeds the amount already incorporated into the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, Entity B will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the real estate loans included in the "combination" column below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction.

The following table shows the amortized cost basis of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted (numbers in thousands):

**Loan Modifications Made to Borrowers Experiencing Financial Difficulty**

**Interest Rate Concession**

<b>Loan Type</b>	<b>Pre-Modification Amortized Cost Basis</b>	<b>% of Total Class of Financing Receivable</b>
Real Estate—Commercial	\$ 40,000	2.0%
Real Estate—Residential	-	0.0%
Consumer	10,000	0.2%
<b>Total</b>	<b>\$ 50,000</b>	

**Term Extension**

<b>Loan Type</b>	<b>Pre-Modification Amortized Cost Basis</b>	<b>% of Total Class of Financing Receivable</b>
Real Estate—Commercial	\$ -	0.0%
Real Estate—Residential	-	0.0%
Consumer	22,000	0.4%
<b>Total</b>	<b>\$ 22,000</b>	

**Principal Forgiveness**

<b>Loan Type</b>	<b>Pre-Modification Amortized Cost Basis</b>	<b>% of Total Class of Financing Receivable</b>
Real Estate—Commercial	\$ 20,000	1.0%
Real Estate—Residential	-	0.0%
Consumer	-	0.0%
<b>Total</b>	<b>\$ 20,000</b>	

**Combination**

<b>Loan Type</b>	<b>Pre-Modification Amortized Cost Basis</b>	<b>% of Total Class of Financing Receivable</b>
Real Estate—Commercial	\$ -	0.0%
Real Estate—Residential	10,000	1.8%
Consumer	-	0.0%
<b>Total</b>	<b>\$ 10,000</b>	



The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

<b>Interest Rate Concessions</b>	
<b>Loan Type</b>	<b>Financial Effect</b>
Real Estate—Commercial	Reduced weighted-average contractual interest rate from 6% to 3%.
Consumer	Reduced weighted-average contractual interest rate from 4% to 1.5%.
<b>Term Extension</b>	
<b>Loan Type</b>	<b>Financial Effect</b>
Real Estate—Residential	Added a weighted-average 2.4 years to the life of loans, which reduced payment amounts for the borrowers.
Consumer	Provided six-month payment deferrals to borrowers through our standard deferral program. The six monthly payments were added to the end of the original loan terms of these borrowers.
<b>Principal Forgiveness</b>	
<b>Loan Type</b>	<b>Financial Effect</b>
Real Estate—Commercial	Reduced the amortized cost basis of the loans by \$20 million.
Real Estate—Residential	Reduced the amortized cost basis of the loans by \$5 million.

Upon Entity B's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan is written off. Therefore, the amortized cost basis of the loan is reduced by the unpaid principal balance and the allowance for credit losses is adjusted by the same amount.

The following table provides the amortized cost basis of financing receivables modified in the last 12 months to borrowers experiencing financial difficulty that subsequently defaulted (numbers in thousands):

<b>Amortized Cost Basis of Modified Financing Receivables That Subsequently Defaulted</b>				
<b>Loan Type</b>	<b>Interest Rate Concession</b>	<b>Term Extension</b>	<b>Principal Forgiveness</b>	<b>Combination</b>
Real Estate—Commercial	\$ 1,500	\$ -	\$ -	\$ -
Real Estate—Residential	-	-	-	-
Consumer	500	1,000	-	-
<b>Total</b>	<b>\$ 2,000</b>	<b>\$ 1,000</b>	<b>\$ -</b>	<b>\$ -</b>

Entity B closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified in the last 12 months (numbers in thousands):

<b>Payment Status (Amortized Cost Basis)</b>			
<b>Loan Type</b>	<b>Current</b>	<b>30–89 Days Past Due</b>	<b>90+ Days Past Due</b>
Real Estate—Commercial	\$ 55,000	\$ 3,500	\$ 1,500
Real Estate—Residential	6,000	4,000	-
Consumer	29,000	1,500	1,500
<b>Total</b>	<b>\$ 90,000</b>	<b>\$ 9,000</b>	<b>\$ 3,000</b>

### > > **Example 4 3: Commercial Real Estate Debt with Balloon Payment**

**310-10-55-12B** A restructuring that results in only a delay in payment that is insignificant is not required to be disclosed on the basis of the requirements in paragraphs 310-10-50-40 through 50-42 a concession. This Example illustrates the guidance in paragraphs 310-10-50-44 through 50-45 310-40-15-17 through 15-48 for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties. **[Content amended as shown and moved from paragraph 310-40-55-16]**

**310-10-55-12C** A creditor originates a seven-year loan to a debtor. The debt:

- a. Has a fixed interest rate

- b. Is collateralized by commercial real estate
- c. Requires monthly interest payments
- d. Requires a balloon principal payment at maturity. **[Content moved from paragraph 310-40-55-17]**

**310-10-55-12D** At origination, the debtor expects to repay the principal by refinancing the debt with the real estate held as collateral. That is, the collateral is the primary source of payment of the debt's principal balance, whether through a refinancing of the debt or a sale of the property. However, before maturity, the fair value of the collateral was less than the principal amount due at maturity, and as a result of market conditions, the debtor is unable to refinance the debt. The debtor plans to sell the property to repay the debt and requests an extension of the debt's maturity date to allow time to liquidate the property. In response to the debtor's financial difficulties, the creditor grants the debtor a three-month extension of the debt maturity date. At the time that this extension was granted, the debtor had not yet identified a buyer for the collateral. **[Content moved from paragraph 310-40-55-18]**

**310-10-55-12E** The restructuring results in a delay in payment that is not insignificant. Although the delay in timing of payment is insignificant (relative to the frequency of payments due, the debt's original contractual maturity, and the debt's original expected duration), the creditor expects a significant shortfall in cash flows relative to the contractual amount due when the property is sold because the property is the sole source of repayment. **[Content moved from paragraph 310-40-55-19]**

#### **> > Example 5 4: Residential Mortgage Debt—Temporary Payment Deferral**

**310-10-55-12F** A restructuring that results in only a delay in payment that is insignificant is not required to be disclosed based on the requirements in paragraphs 310-10-50-40 through 50-42 ~~a concession~~. This Example illustrates the guidance in paragraphs ~~310-10-50-44 through 50-45~~ ~~310-40-15-17 through 15-48~~ for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties. **[Content amended as shown and moved from paragraph 310-40-55-20]**

**310-10-55-12G** A debtor obtains a 30-year mortgage loan that requires monthly principal and interest payments. In year 4, the debtor experiences financial difficulties and misses two payments. On the basis of the debtor's financial hardship, the debtor and the creditor agree on a forbearance arrangement and repayment plan. Under the terms of the forbearance arrangement and repayment plan, the creditor agrees not to take any foreclosure action if the debtor increases its next four monthly payments such that each payment includes one fourth of the delinquent amount plus interest. The agreement does not result in the creditor

charging the debtor interest on past due interest. At the end of the forbearance arrangement, the debtor will:

- a. Have repaid all past due amounts
- b. Be considered current in relation to the debt's original terms
- c. Have resumed making monthly payments set out under the debt's original terms. **[Content moved from paragraph 310-40-55-21]**

**310-10-55-12H** The restructuring results in a delay in payment that is insignificant. At the time of the forbearance arrangement, the creditor expects to collect all amounts due for the periods of delay. Furthermore, the length of delay resulting from the forbearance arrangement is considered insignificant in relation to the frequency of payments due, the debt's original contractual maturity, and the debt's original expected duration. **[Content moved from paragraph 310-40-55-22]**

#### **>> Example 6 5: Commercial Line of Credit—Short-Term Extension before the Finalization of Renegotiated Terms**

**310-10-55-12I** A restructuring that results in only a delay in payment that is insignificant is not required to be disclosed on the basis of the requirements in paragraphs 310-10-50-40 through 50-42 ~~a concession~~. This Example illustrates the guidance in paragraphs 310-10-50-44 through 50-45 ~~310-40-15-17 through 15-48~~ for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties. **[Content amended as shown and moved from paragraph 310-40-55-23]**

**310-10-55-12J** A commercial debtor has a revolving line of credit with a creditor with an original term of five years. The terms of the line of credit require interest payments every 90 days on the average daily balance of the line. As the line of credit nears maturity, the debtor and creditor begin renegotiating the terms of a new line of credit. Because of a temporary cash shortfall due to a delay in collections from two key customers, the debtor is unable to make the final interest payment before the two parties finish renegotiating the terms of the new line of credit. The terms of the renegotiated line of credit are expected to be similar to the current line of credit, which are comparable to terms available to debtors with similar risk characteristics. The creditor expects the debtor to recover quickly from this temporary cash flow shortage. Accordingly, the creditor extends a 3-month payment deferral by adding the missed interest payment to the balance of the line and requiring the debtor to make its first interest payment 90 days after the new line of credit is finalized, or 180 days after the due date of the missed interest payment. **[Content moved from paragraph 310-40-55-24]**

**310-10-55-12K** The restructuring results in a delay in payment that is insignificant. Although the debtor is unable to make the contractual payment at the time it is due, thereby resulting in the three-month deferral, the creditor still expects to collect all

amounts due, including interest at the contractual rate. Furthermore, the delay in timing of payment represents only one payment cycle under the terms of the line, which is insignificant relative to the frequency of payments due, the debt's original contractual maturity, and the debt's original expected duration. **[Content moved from paragraph 310-40-55-25]**

## Amendments to Subtopic 310-20

6. Amend paragraphs 310-20-35-2 and 310-20-35-9, supersede paragraph 310-20-35-12, and add paragraphs 310-20-35-12A through 35-12D and their related headings, 310-20-40-2 through 310-20-40-12 and their related headings, 310-20-55-18A through 55-18F and their related headings, and 310-20-55-51 through 55-53 and their related headings, with a link to transition paragraph 326-10-65-5, as follows:

### Receivables—Nonrefundable Fees and Other Costs

#### Initial Measurement

##### > Loan Origination Fees and Costs

**310-20-30-2** Loan origination fees and related **direct loan origination costs** for a given loan shall be offset and only the net amount shall be deferred.

**310-20-30-3** For increasing interest rate loans, the recorded net investment in a loan may exceed the amount by which the borrower could settle the obligation but only if the excess results from a purchase premium (loans purchased) or loan costs that qualify for deferral in excess of loan fees (loans originated).

#### Subsequent Measurement

##### > Loan Origination Fees and Costs

**310-20-35-2** Loan origination fees deferred in accordance with paragraph 310-20-25-2 shall be recognized over the life of the loan as an adjustment of yield (interest income). Likewise, **direct loan origination costs** deferred in accordance with that paragraph shall be recognized as a reduction in the yield of the loan ~~except as set forth in paragraph 310-20-35-12 (for a troubled debt restructuring)~~. Paragraph 310-20-30-2 explains that loan origination fees and related direct loan origination costs for a given loan shall be offset and only the net amount shall be amortized. For loans that are refinanced or restructured, see paragraphs 310-20-35-9 through 35-10.

## > 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, 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.~~

**310-20-35-10** If the refinancing or restructuring does not meet the condition set forth in the preceding paragraph or if only minor modifications are made to the original loan contract, the unamortized net fees or costs from the original loan and any prepayment penalties shall be carried forward as a part of the net investment in the new loan. In this case, the investment in the new loan shall consist of the remaining **net investment in the original loan**, any additional ~~amounts loaned funds advanced to the borrower~~, any fees received, and direct loan origination costs associated with the refinancing or restructuring.

**310-20-35-11** A modification of a debt instrument shall be considered more than minor under the preceding paragraph if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. If the difference between the present value of the cash flows under the terms of the new debt instrument and the present value of the remaining cash flows under the terms of the original debt instrument is less than 10 percent, a creditor shall evaluate whether the modification is more than minor based on the specific facts and circumstances (and other relevant considerations) surrounding the modification. The guidance in Topic 470 shall be used to calculate the present value of the cash flows for purposes of applying the 10 percent test.

**310-20-35-12** ~~Paragraph superseded by Accounting Standards Update No. 2022-XX. Fees received in connection with a modification of terms of a troubled debt restructuring as defined in Subtopic 310-40 shall be applied as a reduction of the recorded investment in the loan. All related costs, including direct loan origination costs, shall be charged to expense as incurred.~~

## >> Substitution or Addition of Debtors

**310-20-35-12A** A ~~troubled debt loan refinancing or~~ restructuring may involve substituting debt of another business entity, individual, or government entity for that of the ~~troubled~~ debtor or adding another debtor (for example, as a joint debtor). Government entities include, but are not limited to, states, counties, townships, municipalities, school districts, authorities, and commissions. That kind of restructuring should be accounted for according to its substance. For example, a restructuring in which, after the restructuring, the substitute or additional debtor controls, is controlled by (as defined in paragraphs 810-10-15-8 through 15-8A), or is under common control with the original debtor is an example of one that shall be accounted for by the creditor as a loan refinancing or restructuring as prescribed in paragraphs 310-20-35-9 through 35-11 ~~prescribed in this Topic. This Topic shall also apply to~~ Similarly, a restructuring in which the substitute or additional debtor and original debtor are related after the restructuring by an agency, trust, or other relationship that in substance earmarks certain of the original debtor's funds or funds flows for the creditor although payments to the creditor may be made by the substitute or additional debtor should be accounted for by the creditor as a loan refinancing or restructuring as prescribed in paragraphs 310-20-35-9 through 35-11. In contrast, a restructuring in which the substitute or additional debtor and the original debtor do not have any of the relationships described above after the restructuring shall be accounted for by the creditor according to the provisions of paragraphs 310-20-40-2 through 40-5 ~~310-40-40-2 through 40-4~~. **[Content amended as shown and moved from paragraph 310-40-25-2]**

### **> > > Partial Satisfaction of a Receivable**

**310-20-35-12B** In a partial satisfaction of a receivable (see paragraph 310-20-35-12C), the fair value of the assets received shall be used in all cases to avoid the need to allocate the fair value of the receivable between the part satisfied and the part still outstanding. **[Content amended as shown and moved from paragraph 310-40-35-6]**

**310-20-35-12C** 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 **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 shall be reduced by the amount of cash received. **[Content moved from paragraph 310-40-35-7]**

**Pending Content:**

**Transition Date:** (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 326-10-65-1

**310-20-35-12C** 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** 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 amortized cost basis shall be reduced by the amount of cash received. **[Content moved from paragraph 310-40-35-7]**

**In addition, amend the following pending content for paragraph 310-20-35-12C, with a link to transition paragraph 326-10-65-5:**

**Pending Content:**

**Transition Date:** (P) December 16, 20XX; (N) December 16, 20XX | **Transition Guidance:** 326-10-65-5

A ~~troubled debt loan refinancing or~~ 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 loan refinancing or~~ restructuring involving a partial satisfaction and modification of terms as prescribed in ~~paragraphs 310-20-35-9 through 35-11~~ paragraphs 310-20-35-9 through 35-11 this Topic except that, first, the assets received shall be accounted for as prescribed in paragraphs ~~310-20-40-2 through 40-4~~ 310-20-40-2 through 40-4 and the **amortized cost basis** 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 amortized cost basis shall be reduced by the amount of cash received. **[Content amended as shown and moved from paragraph 310-40-35-7]**

**>>> Impairment**



**310-20-35-12D** The Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 do not allow the lender to look-back to lending impairments measured and recognized under this Topic 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. **[Content moved from paragraph 310-40-35-11]**

#### **Pending Content:**

**Transition Date:** (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 326-10-65-1

**310-20-35-12D** The Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 do not allow the lender to look-back to credit losses measured and recorded under Topic 326 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. **[Content moved from paragraph 310-40-35-11]**

## **Derecognition**

### **> Commitment Fees**

**310-20-40-1** Except as set forth in paragraph 310-20-35-3(a) through (b), fees received for a commitment to originate or purchase a **loan** or group of loans shall be, if the commitment expires unexercised, recognized in income upon expiration of the commitment.

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

**310-20-40-2** A creditor that receives from a debtor in full satisfaction of a receivable either or both of the following shall account for those assets (including an equity interest) at their fair value at the **time of the restructuring**:

- a. Receivables from third parties, real estate, or other assets
  - b. Shares of stock or other evidence of an equity interest in the debtor.
- [Content moved from paragraph 310-40-40-2]**

**310-20-40-3** 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** 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 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. **[Content moved from paragraph 310-40-40-3]**

**Pending Content:**

**Transition Date:** (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 326-10-65-1

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 **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. 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. **[Content moved from paragraph 310-40-40-3]**

**In addition, amend the following pending content for paragraph 310-20-40-3, with a link to transition paragraph 326-10-65-5:**

**Pending Content:**

**Transition Date:** (P) December 16, 20XX; (N) December 16, 20XX | **Transition Guidance:** 326-10-65-5

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 **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. The amortized cost basis is used in paragraphs 310-20-35-12A ~~310-40-25-1 through 25-2~~; 310-20-35-12C ~~310-40-35-7~~; 310-20-40-2 through 40-9 ~~310-40-40-2 through 40-8~~; and 310-10-50-36 ~~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. **[Content amended as shown and moved from paragraph 310-40-40-3]**

**310-20-40-4** That guidance is not intended to preclude using the fair value of the receivable satisfied if more clearly evident than the fair value of the assets received in full satisfaction of a receivable. **[Content moved from paragraph 310-40-40-4]**

**310-20-40-5** ~~After a troubled debt restructuring, a~~ A creditor shall account for assets received in satisfaction of a receivable the same as if the assets had been acquired for cash. **[Content amended as shown and moved from paragraph 310-40-40-5]**

## **> Foreclosure**

**310-20-40-6** ~~A troubled debt restructuring that is in substance a repossession or foreclosure by the creditor, that is, the creditor receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place, or in which the creditor otherwise obtains one or more of the debtor's assets in place of all or part of the receivable, shall be accounted for according to the provisions of paragraphs 310-20-35-12C 310-40-35-7, 310-20-40-2 through 40-4 310-40-40-2 through 40-4, and, if appropriate, 310-20-40-9 310-40-40-8. See paragraphs 310-20-40-7 through 40-8 310-40-40-7A through 40-7B for the classification and measurement of certain government-guaranteed mortgage loans. For guidance on when a creditor shall be considered to have received physical possession (resulting from an in substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan, see paragraph 326-20-55-9F 310-40-55-10A. [Content amended as shown and moved from paragraph 310-40-40-6]~~

## **> > > Classification and Measurement of Certain Government-Guaranteed Mortgage Loans upon Foreclosure**

**310-20-40-7** A guaranteed mortgage loan receivable shall be derecognized and a separate other receivable shall be recognized upon foreclosure (that is, when a creditor receives physical possession of real estate property collateralizing a mortgage loan in accordance with the guidance in paragraph ~~310-20-40-6 310-40-40-6~~) if the following conditions are met:

- a. The loan has a government guarantee that is not separable from the loan before foreclosure.
- b. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim. A creditor would be considered to have the ability to recover under the guarantee at the time of foreclosure if the creditor determines that it has maintained compliance with the conditions and procedures required by the guarantee program.

- c. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. **[Content amended as shown and moved from paragraph 310-40-40-7A]**

**310-20-40-8** Upon foreclosure, the separate other receivable shall be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. **[Content moved from paragraph 310-40-40-7B]**

**> Sale of Assets from a ~~Troubled Debt~~ Loan Refinancing or Restructuring**

**310-20-40-9** In the case of a loan refinancing or restructuring deemed to be a new loan in accordance with paragraphs 310-20-35-9 through 35-11, a ~~A~~ receivable from the sale of assets previously obtained in a ~~troubled debt loan refinancing or~~ restructuring shall be accounted for according to Subtopic 835-30 regardless of whether the assets were obtained in satisfaction (full or partial) of a receivable to which that Topic was not intended to apply. A difference, if any, between the amount of the new receivable and the carrying amount of the assets sold is a gain or loss on sale of assets. **[Content amended as shown and moved from paragraph 310-40-40-8]**

**> Cost Basis of Debt Security Received in a Restructuring**

**310-20-40-10** The initial cost basis of a debt security of the original debtor received as part of a debt restructuring shall be the security's fair value at the date of the restructuring. Any excess of the fair value of the security received over the net carrying amount of the loan shall be recorded as a recovery on the loan. Any excess of the net carrying amount of the loan over the fair value of the security received shall be recorded as a charge-off to the allowance for credit losses. Subsequent to the restructuring, the security received shall be accounted for according to the provisions of Topic 320. **[Content moved from paragraph 310-40-40-8A]**

**310-20-40-11** A security received in a restructuring in settlement of a claim for only the past-due interest on a loan shall be measured at the security's fair value at the date of the restructuring and accounted for in a manner consistent with the entity's policy for recognizing cash received for past-due interest. Subsequent to the restructuring, the security received shall be accounted for according to the provisions of Topic 320. **[Content moved from paragraph 310-40-40-9]**

**> Cost Basis of a Long-Lived Asset Received in Full Satisfaction of a Receivable**

**310-20-40-12** A valuation allowance for a loan collateralized by a long-lived asset shall not be carried over as a separate element of the cost basis for purposes of

accounting for the long-lived asset under Topic 360 after foreclosure. **[Content moved from paragraph 310-40-40-10]**

## Implementation Guidance and Illustrations

### > Implementation Guidance

#### >> Use of Zero Coupon Bonds in a ~~Troubled Debt~~ Loan Refinancing or Restructuring

**310-20-55-18A** This implementation guidance addresses the following circumstance: In connection with a ~~troubled debt loan refinancing or~~ restructuring, a debtor, with the creditor's approval, sells the collateral, which has a fair value less than the creditor's net investment in the related loan, and invests the proceeds in a series of zero coupon bonds that are received and held by the creditor as collateral for the newly restructured loan. The bonds will mature at a value equal to each year's debt service requirement under the newly restructured terms. Specifically, the issue is whether the sale of collateral, the purchase of the zero coupon bonds, and their receipt by the creditor as collateral require the creditor to recognize a loss equal to the amount by which the net investment in the loan exceeds the fair value of the zero coupon bonds. **[Content amended as shown and moved from paragraph 310-40-55-6]**

**310-20-55-18B** The excess of the **recorded investment in the receivable** 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. **[Content moved from paragraph 310-40-55-7]**

#### Pending Content:

**Transition Date:** (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 326-10-65-1

The excess of the **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. **[Content moved from paragraph 310-40-55-7]**

**310-20-55-18C** Such losses, to the extent they are not offset against allowances for uncollectible accounts or other valuation accounts, shall be included in measuring net income for the period. **[Content moved from paragraph 310-40-55-8]**

**310-20-55-18D** However, if the creditor has the right to sell or pledge the collateral:

- a. Paragraph 860-30-45-1 requires that the debtor reclassify the collateral and report it in its statement of financial position separately from other assets not so encumbered.
- b. Paragraph 860-30-50-1A requires, in part, that the creditor disclose the fair value of that collateral and of the portion that it has sold or repledged.  
**[Content moved from paragraph 310-40-55-9]**

**310-20-55-18E** If the creditor does not have the right to sell or pledge the collateral, paragraph 860-30-50-1A requires that the debtor disclose information about that collateral. **[Content moved from paragraph 310-40-55-10]**

### **> > Physical Possession of Residential Real Estate Property Collateralizing a Consumer Mortgage Loan**

**310-20-55-18F** A creditor is considered to have received physical possession (resulting from an in substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan only upon the occurrence of either of the following:

- a. The creditor obtains legal title to the residential real estate property upon completion of a foreclosure. A creditor may obtain legal title to the residential real estate property even if the borrower has redemption rights that provide the borrower with a legal right for a period of time after a foreclosure to reclaim the real estate property by paying certain amounts specified by law.
- b. The borrower conveys all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed-upon terms and conditions have been satisfied by both the borrower and the creditor. **[Content moved from paragraph 310-40-55-10A]**

### **> Illustrations**

#### **> > Example 12 2: Fair Value Less Cost to Sell Less Than the Seller's Net Receivable**

**310-20-55-51** This Example illustrates the guidance in Subtopic 310-40. The Example has the following assumptions:

- a. At December 31, 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 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, 2002 and March 31, 2003, the borrower did not make principal payments. The lender determined that foreclosure was **probable** on March 31, 2003; the real estate's estimated fair value was \$75,000. The estimated costs to sell were \$4,000.
- c. On May 1, 2003, the lender foreclosed on the real estate; the real estate's estimated fair value and costs to sell remained unchanged from March 31, 2003. The real estate was classified as held for sale under Topic 360, subsequent to foreclosure.
- d. At September 30, 2003, the fair value of the property was \$65,000. The estimated costs to sell were \$3,000.
- e. At March 31, 2004, the fair value of the property was \$80,000. The estimated costs to sell were \$5,000. **[Content moved from paragraph 310-40-55-13]**

**Pending Content:**

**Transition Date:** (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 326-10-65-1

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

- a. At December 31, 20X2, 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 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 and March 31, 20X3, the borrower did not make principal payments. 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, the lender foreclosed on the real estate; the real estate's estimated fair value and costs to sell remained unchanged from March 31, 20X3. The real estate was classified as held for sale under Topic 360, subsequent to foreclosure.
- d. At September 30, 20X3, the fair value of the property was \$65,000. The estimated costs to sell were \$3,000.
- e. At March 31, 20X4, the fair value of the property was \$80,000. The estimated costs to sell were \$5,000. **[Content moved from paragraph 310-40-55-13]**

**In addition, amend the following pending content for paragraph 310-20-55-51, with a link to transition paragraph 326-10-65-5:**

**Pending Content:**

**Transition Date:** (P) December 16, 20XX; (N) December 16, 20XX | **Transition Guidance:** 326-10-65-5

This Example illustrates the guidance in Subtopic 310-20 310-40. The Example has the following assumptions:

- a. At December 31, 20X2, 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 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 and March 31, 20X3, the borrower did not make principal payments. 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, the lender foreclosed on the real estate; the real estate's estimated fair value and costs to sell remained unchanged from March 31, 20X3. The real estate was classified as held for sale under Topic 360, subsequent to foreclosure.
- d. At September 30, 20X3, the fair value of the property was \$65,000. The estimated costs to sell were \$3,000.
- e. At March 31, 20X4, the fair value of the property was \$80,000. The estimated costs to sell were \$5,000. **[Content amended as shown and moved from paragraph 310-40-55-13]**

**310-20-55-52** Paragraphs 310-10-35-16 through 35-17 state 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 should measure 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. Accordingly, the lender should recognize a loan loss of \$19,000 measured as the difference between the carrying value (\$90,000) and the fair value less cost to sell (\$71,000). Upon foreclosure on May 1, 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. **[Content moved from paragraph 310-40-55-14]**

**Pending Content:**

**Transition Date:** (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 326-10-65-1



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 record an allowance for credit losses in the cumulative amount of \$29,000 (\$19,000 incremental amount plus \$10,000 recorded previously) measured as the difference between the amortized cost basis (\$100,000) and the fair value less cost to sell (\$71,000). Upon foreclosure on May 1, 20X3, 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. **[Content moved from paragraph 310-40-55-14]**

**Transition Date:** (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 326-10-65-2

On March 31, 20X3, the lender estimates expected credit losses using the fair value of the collateral in accordance with paragraphs 326-20-35-4 through 35-5. Accordingly, the lender should record an allowance for credit losses in the cumulative amount of \$29,000 (\$19,000 incremental amount plus \$10,000 recorded previously) measured as the difference between the amortized cost basis (\$100,000) and the fair value less cost to sell (\$71,000). Upon foreclosure on May 1, 20X3, 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. **[Content moved from paragraph 310-40-55-14]**

**In addition, amend the following pending content for paragraph 310-20-55-52, with a link to transition paragraph 326-10-65-5:**

**Transition Date:** (P) December 16, 20XX; (N) December 16, 20XX | **Transition Guidance:** 326-10-65-5

On March 31, 20X3, the lender estimates expected credit losses using the fair value of the collateral in accordance with paragraphs 326-20-35-4 through 35-5. Accordingly, the lender should record an allowance for credit losses in the cumulative amount of \$29,000 (\$19,000 incremental amount plus \$10,000 recorded previously) measured as the difference between the amortized cost basis (\$100,000) and the fair value less cost to sell (\$71,000). Upon foreclosure on May 1, 20X3, the application of paragraph ~~310-20-40-5~~ 310-20-40-5 results in the measurement of a new cost basis (also \$71,000) for long-lived assets received in full satisfaction of a receivable. **[Content amended as shown and moved from paragraph 310-40-55-14]**

**310-20-55-53** The fair value less cost to sell decrease to \$62,000 as of September 30, 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, 2004, the lender's gain recognition is limited to the cumulative losses recognized and measured under that

Topic, or \$9,000. The \$19,000 of loan impairment losses are excluded from the measurement of cumulative losses under that Topic. **[Content moved from paragraph 310-40-55-15]**

**Pending Content:**

**Transition Date:** (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 326-10-65-1

The fair value less cost to sell decrease to \$62,000 as of September 30, 20X3, 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, the lender's gain recognition is limited to the cumulative losses recognized and measured under Topic 360, or \$9,000. The \$29,000 of credit losses recognized previously under Subtopic 326-20 on financial instruments measured at amortized cost are excluded from the measurement of cumulative losses under Topic 360. **[Content moved from paragraph 310-40-55-15]**

## Amendments to Subtopic 310-40

7. Supersede Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, with a link to transition paragraph 326-10-65-5.

## Amendments to Subtopic 320-10

8. Amend paragraph 320-10-55-2, with a link to transition paragraph 326-10-65-5, as follows:

### **Investments—Debt Securities—Overall**

#### **Implementation Guidance and Illustrations**

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

##### **>> Scope Application to Certain Instruments and Transactions**

##### **>>> Certain Debt Instruments**

**320-10-55-2** All of the following debt instruments are within the scope of this Topic if they meet the definition of a **debt security**:

- a. Loans restructured as securities. For example, any loan that was

restructured in a ~~troubled debt restructuring~~ involving a modification of terms would be subject to the provisions of this Topic if the debt instrument meets the definition of a **security**. See paragraph ~~310-20-40-10~~ ~~310-40-40-8A~~ for additional information.

- b. Beneficial interests in securitized financial assets that are in equity form but that 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 Topic and Subtopic 325-40 since they are required to be accounted for as debt securities.
- c. Certificates of deposit (CDs) or guaranteed investment contracts. For example, certain negotiable jumbo CDs and guaranteed investment contracts might meet the definition of security, which was modeled after the definition provided in the Uniform Commercial Code.
- d. Redeemable convertible preferred stock. For example, convertible preferred stock that has mandatory redemption provisions or is redeemable at the option of the investor is considered a debt security and this Topic would apply.

## Amendments to Subtopic 326-10

- 9. Amend paragraph 326-10-65-1 and add paragraph 326-10-65-5 as follows:

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

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

**> Transition Related to Accounting Standards Updates No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging*, and *Topic 825, Financial Instruments*, No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*, No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815)*, and *Leases (Topic 842): Effective Dates*, and No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and No. 2022-XX, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures***

**326-10-65-1** The following represents the transition and effective date information related to Accounting Standards Updates No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*, No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and No. 2022-XX, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*.

[Note: the remainder of the paragraph is not shown here because it is unchanged.]

**> Transition Related to Accounting Standards Update No. 2022-XX, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures**

**326-10-65-5** The following represents the transition and effective date information related to Accounting Standards Update No. 2022-XX, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*.

- a. An entity that has not yet adopted the pending content that links to paragraph 326-10-65-1 shall apply the pending content that links to this paragraph when the entity first applies the pending content that links to paragraph 326-10-65-1 and shall apply the same transition requirements for the pending content that links to paragraph 326-10-65-1.
- b. An entity that has adopted the pending content that links to paragraph 326-10-65-1 shall apply the pending content that links to this paragraph for fiscal years beginning after December 15, 20XX, including interim periods within those fiscal years.
  1. Early adoption, including adoption in any interim period, is permitted provided that an entity has adopted the pending content that links to paragraph 326-10-65-1 in financial statements of fiscal years or interim periods that have not been issued or made available for issuance. An entity may elect to early adopt the pending content that links to this paragraph individually by Topic. That is, for example, an entity may early adopt the pending content that links to this paragraph on vintage disclosures, and an entity may elect not to early adopt the pending content that links to this paragraph on troubled debt restructurings for creditors.

- c. An entity shall apply prospectively the pending content that links to this paragraph.
1. Disclosures required by the pending content in paragraphs 310-10-50-38 through 50-42 and 326-20-50-6 shall be provided for modifications and gross writeoffs made starting in the period of adoption. Information about modifications in periods before adoption need not be provided. That is, in disclosures that require information about modifications made in the previous 12 months, modifications made before the date of the adoption of the pending content that links to this paragraph do not need to be included.
  2. For the elimination of recognition and measurement guidance on troubled debt restructurings for creditors in Subtopic 310-40, an entity may elect to apply a modified retrospective transition 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 for any change in the allowance for credit losses that had been recorded for loans modified or reasonably expected to be modified in a troubled debt restructuring before the adoption of the pending content that links to this paragraph.

## Amendments to Subtopic 326-20

10. Amend paragraphs 326-20-30-4A and 326-20-30-6, with a link to transition paragraph 326-10-65-5, as follows:

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

#### **Initial Measurement**

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

**326-20-30-4A** As an accounting policy election for each class of financing receivable or major security type, an entity may adjust the effective interest rate used to discount expected cash flows to consider the timing (and changes in timing) of expected cash flows resulting from expected prepayments. ~~However, if the asset is restructured in a troubled debt restructuring, the effective interest rate used to discount expected cash flows shall not be adjusted because of subsequent changes in expected timing of cash flows.~~

**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 either of the following applies:

- a. ~~Subparagraph superseded by Accounting Standards Update No. 2022-XX. The entity has a reasonable expectation at the reporting date that it will execute a troubled debt restructuring with the borrower.~~
- b. The extension or renewal options (excluding those that are accounted for as derivatives in accordance with Topic 815) are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity.

## Amendments to Subtopic 470-60

11. Amend paragraph 470-60-05-1 and supersede paragraphs 470-60-15-3 and 470-60-55-15 and the related heading with a link to transition paragraph 326-10-65-5, as follows:

### Debt—Troubled Debt Restructurings by Debtors

#### Overview and Background

**470-60-05-1** This Subtopic addresses measurement, derecognition, disclosure, and implementation guidance issues concerning **troubled debt restructurings** focused on the debtor's records. ~~The creditor's accounting is discussed in Subtopic 310-40.~~

#### Scope and Scope Exceptions

##### > Other Considerations

**470-60-15-3** ~~Paragraph superseded by Accounting Standards Update No. 2022-XX. 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 **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.~~

## Implementation Guidance and Illustrations

### > Implementation Guidance

#### > > Classification of Debt Restructurings by Debtors and Creditors

~~**470-60-55-15** Paragraph superseded by Accounting Standards Update No. 2022-XX. Paragraph 470-60-15-3 explains that 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 this Subtopic. Paragraph 470-60-15-3 refers to the tests the debtor and creditor must individually apply to the specific facts and circumstances to determine whether a troubled debt restructuring has occurred. For implementation guidance, see paragraph 310-40-55-4.~~

## Amendments to Subtopic 958-320

12. Supersede paragraph 958-320-60-1, with a link to transition paragraph 326-10-65-5, as follows:

### Not-for-Profit Entities—Investments—Debt Securities

#### Relationships

##### > Investments—Debt Securities

**958-320-60-1** Paragraph superseded by Accounting Standards Update No. 2022-XX. For debt securities restructured in a troubled debt restructuring, see paragraph 320-10-55-2(a).

## Amendments to Subtopic 978-310

13. Amend paragraph 978-310-35-4, with a link to transition paragraph 326-10-65-5, as follows:

## Real Estate—Time-Sharing Activities—Receivables

### Subsequent Measurement

#### > Collectibility of Receivable

~~978-310-35-4 A note receivable modification, **deferment**, or **downgrade** represents a troubled debt restructuring involving a change to the terms of a note receivable typically to accommodate a situation in which the debtor (time share buyer) is unable to meet the original contractual payment obligations. Therefore, the A creditor (time-share seller) shall account for a note receivable modification, deferment, or downgrade in accordance with Topic 310. Any reductions in the recorded investment in a note receivable resulting from the application of that Topic shall be charged against the allowance for uncollectibles. Incremental, direct costs associated with uncollectibility, such as costs of collection programs, shall be charged to expense as incurred.~~

### Issue 2: Vintage Disclosures: Gross Writeoffs and Recoveries

#### Amendments to Subtopic 326-20

14. The proposed amendments would require that a public business entity disclose current-period gross writeoffs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

15. Amend paragraphs 326-20-50-6 through 50-7 and 326-20-55-79, with a link to transition paragraph 326-10-65-5, as follows:

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

#### **Disclosure**

##### > 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 recoverables** and funded or unfunded amounts of **line-of-credit arrangements**, such as credit cards), ~~an entity~~ **a public business 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~~ **a public business 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. A public business entity shall present the gross writeoffs recorded in the current period for financing receivables and net investments in leases by origination year. For origination years before the fifth annual period, a public business entity may present the gross writeoffs in the current period for financing receivables and net investments in leases in the aggregate. 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 ~~{remove glossary link}~~**public business entity**~~{remove glossary link}~~.

**326-20-50-6A** For the purpose of the disclosure requirement in paragraph 326-20-50-6, ~~an entity~~ **a public business entity** shall present the amortized cost basis of line-of-credit arrangements that are converted to term loans in a separate column (see Example 15 in paragraph 326-20-55-79). ~~An~~ A public business entity shall disclose in each reporting period, by class of financing receivable, the amount of line-of-credit arrangements that are converted to term loans in each reporting period and the amount of those line-of-credit arrangements converted to term loans and then written off in the current period in accordance with paragraph 326-20-50-6.

**326-20-50-7** Except as provided in paragraph 326-20-50-6A, ~~an~~ **a public business entity** shall use the guidance in paragraphs 310-20-35-9 through ~~35-11~~ 35-12 when determining whether a modification, extension, or renewal of a financing receivable should be presented as a current-period origination. ~~An~~ A public business 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.

**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.

## Implementation Guidance and Illustrations

### > Illustrations

#### > > 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	Revolving Loans Converted to Term 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>\$ -</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>\$ -</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>\$ -</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>\$ -</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>\$ -</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>\$ -</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>\$ -</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>	<b>\$ -</b>

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*  
James L. Kroeker, *Vice Chairman*  
Christine A. Botosan  
Gary R. Buesser  
Frederick L. Cannon  
Susan M. Cosper  
Marsha L. Hunt

# 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 proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The following paragraphs are organized by issue. This organization mirrors the organization in the proposed amendments to the Codification section.

BC3. The amendments in this proposed Update would eliminate the recognition and measurement guidance for troubled debt restructurings (TDRs) by creditors in Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, while enhancing certain disclosure requirements for loan refinancing and restructuring by creditors.

BC4. The amendments in this proposed Update would require that a public business entity disclose gross writeoffs by year of origination in the vintage disclosures required by paragraph 326-20-50-6.

BC5. The amendments in this proposed Update would apply to entities that have adopted Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

## Background Information

BC6. In June 2016, the Board issued Update 2016-13. The amendments in that Update introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost, replacing the previous incurred loss methodology. Those amendments added Topic 326 and made several consequential amendments to the Codification.

BC7. Since the issuance of Update 2016-13, the Board has provided resources to monitor and assist stakeholders with the implementation of Topic 326 through the Post-Implementation Review (PIR) process. PIR activities include the formation of the Credit Losses Transition Resource Group (TRG), conducting outreach with stakeholders of all types, developing educational materials and staff question-and-answer guidance, conducting educational workshops, and performing archival review of financial reports.

BC8. Through the PIR process, the Board heard feedback from stakeholders on a variety of implementation issues, including questions about the information requirements for public business entities within the vintage disclosures, as well as feedback that TDR recognition, measurement, and disclosure may no longer provide decision-useful information after the adoption of Topic 326.

## Basis for Conclusions

### Issue 1: Troubled Debt Restructurings by Creditors

#### *Update 2016-13*

BC9. Update 2016-13 replaced the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires that an entity consider a broader range of reasonable and supportable information to inform credit loss estimates. In developing the amendments in that Update, the Board received feedback from some stakeholders that TDR recognition, measurement, and disclosure may not provide decision-useful information in a lifetime expected credit loss model. However, the Board decided to retain the designation and related disclosure requirements for TDRs by creditors. The guidance on accounting for TDRs by creditors provided in Subtopic 310-40 remained largely unchanged by Update 2016-13 except that the measurement guidance was changed to no longer reference loan impairment.

BC10. Following the issuance of Update 2016-13, at the June 2017 Credit Losses TRG meeting, stakeholders discussed the timing of recording the effects of a TDR on the allowance for credit losses and the measurement method for determining those losses. Paragraph 326-20-30-6 requires that the contractual term of an asset not be extended for extensions, renewals, and modifications unless a reasonable expectation exists at the reporting date that a TDR will be executed with the borrower. Stakeholders questioned whether the effect of reasonably expected TDRs should be considered at the portfolio level before assets are specifically identified as being troubled or if the extended measurement period should be considered only upon specific identification of a reasonably expected TDR. The Board decided that the extension measurement period should be considered only upon individual and specific identification of a reasonably expected TDR.

BC11. In addition, at the June 2017 Credit Losses TRG meeting, stakeholders also discussed that while loss history may include the effect of certain TDRs, the effects of certain concessions granted in a TDR (for example, interest rate concessions and term extensions) may not be reflected in that loss history because of nonaccrual policies. Stakeholders acknowledged that because the amendments in Update 2016-13 allow various methods to determine the allowance for credit losses, the effect of certain concessions may not be captured if a method other

than a discounted cash flow analysis was used. The Board decided at its September 6, 2017 meeting that an entity must utilize a discounted cash flow method or reconcilable method if the TDR involves a concession that can be captured in determining the allowance for credit losses using only that method.

## Recent Feedback

BC12. Through the PIR process, including at a public roundtable, the Board received feedback from financial statement preparers and users that TDR designation and disclosure may no longer be meaningful after the adoption of Update 2016-13 because lifetime credit losses have already been captured under the current expected credit losses model and overlap with certain disclosure requirements in Topic 326.

BC13. Financial statement preparers cited a high cost and complexity associated with determining whether a modification represents a TDR and further measuring the effect of the TDR on an allowance for credit losses. Specifically, preparers indicated that the effect of certain of their TDRs could be captured only through a discounted cash flow model, which can be labor intensive and result in having to utilize a different allowance method for loans that had been modified as a TDR as compared with other similar loans in their portfolios. Preparers also acknowledged that after a loan has been modified as a TDR, the TDR designation remains with it throughout the remaining life of the loan because of the measurement requirements. Additionally, those preparers noted that the effect of performing a discounted cash flow model for those loans does not result in a significant adjustment to the allowance for credit losses following the expected lifetime loss estimate required by the amendments in Update 2016-13, suggesting that the cost does not justify the benefits.

BC14. In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed by Congress and signed into law by the president. Shortly thereafter, prudential regulators issued the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised). The CARES Act provided preparers with relief whereby the TDR evaluation was not required for modifications made to borrowers because of the COVID-19 pandemic. This TDR relief was extended through December 31, 2021, by the Consolidated Appropriations Act, 2021. The Interagency Statement provided guidance on when financial institutions may presume that borrowers are not experiencing financial difficulty such that no further TDR analysis would be required.

BC15. In the absence of specific guidance, many preparers provided expanded disclosures about loan modification activity to provide financial statement users with an understanding of the effect of the modifications. Users were generally complimentary of the disclosures that entities voluntarily provided about loan modifications and forbearances made during the COVID-19 pandemic and

indicated that the disclosures were useful in understanding how many borrowers needed some form of financial relief and the potential effect on the collectibility of the outstanding loan balances. Additionally, users noted that designating a loan as a TDR generally does not affect their analyses of an entity's financial performance.

BC16. Both preparers and users provided feedback that if TDR identification was not required during an adverse economic environment, such as the one caused by the COVID-19 pandemic, the identification may not be necessary and may not provide decision-useful information.

## Proposed Amendments

BC17. To address stakeholders' concerns, the Board proposed to eliminate TDR recognition and measurement guidance after an entity has adopted Update 2016-13. Rather than recognizing a subset of modifications as TDRs, an entity would apply the guidance for accounting for loan refinancings and restructurings as provided in Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs. Upon modifying a loan, an entity would apply that guidance to determine whether the modification should be accounted for as a new loan or a continuation of an existing loan that affects that loan's discount rate and the accounting for unamortized net fees and costs.

BC18. The Board decided to eliminate separate TDR recognition and measurement guidance because stakeholders' feedback indicated that (a) there is a high cost and complexity in determining whether a modification represents a TDR, (b) the measurement for some concessions requires using a discounted cash flow model, which can be costly and complex, and (c) the incremental effect of a TDR on the allowance for credit losses is insignificant in most cases. Furthermore, the Board received feedback from stakeholders that guidance for loan refinancings and restructurings in Subtopic 310-20 would not be as complex as applying TDR recognition and measurement guidance and, coupled with enhanced disclosures, would continue to provide investors with decision-useful information. That guidance (which currently is not applicable to modifications determined to be TDRs) indicates that a modified loan would be accounted for as a new loan if the terms of the new loan are at least as favorable to the lender as the terms for comparable loans to similar customers with similar collection risk who are not refinancing their loans. That condition would be met if the new loan's effective yield is at least equal to the effective yield for those loans and the modifications of the original debt instrument are more than minor (that is, if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument).

BC19. By eliminating the TDR recognition and measurement guidance and requiring that an entity apply the loan refinancings and restructurings guidance in Subtopic 310-20 to all loan modifications (including those provided to borrowers

that are experiencing financial difficulty), the Board acknowledges that some loan modifications may be treated as new loans (for example, if a creditor provides a significant principal forgiveness and the terms of the modified loan are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risk who are not refinancing or restructuring a loan with the lender). This is a different view than the Board's previous view that an economic concession granted by a creditor to a borrower experiencing financial difficulty in a TDR reflects the creditor's efforts to maximize its recovery of the original contractual cash flows in a financial asset and should be considered a continuation of the existing loan.

BC20. The Board also considered that although applying the existing loan refinancings and restructurings guidance may result in certain loan modifications that would have been TDRs being treated as new loans, in most cases, loan modifications will be treated as continuations of the existing loans. For example, interest rate concessions that provide a contractual interest rate that is less than the market rate for a similar loan would result in the refinanced loan being accounted for as a continuation of the existing loan, which would result in a prospective yield adjustment, and not as a new loan, which would result in a loss recognized upon modification. Some Board members explored whether the first criterion in the new loan evaluation in paragraphs 310-20-35-9 through 35-11 is appropriate for modifications of receivables made to borrowers experiencing financial difficulty. That is, those Board members considered whether a model that focused only on whether the modifications of the original debt instrument are more than minor would result in similar outcomes or whether more modifications would result in a refinanced loan being accounted for as a new loan. However, because the "more than minor" cash flow test in paragraph 470-50-40-12(c) assumes prepayment at the date of the modification and because the Board understands that most receivables within the scope of the amendments in this proposed Update allow for prepayment, the Board determined that even under this alternative model, interest rate concessions would result in refinanced loans being treated as a continuation of the original loan, not a new loan, and, therefore, a loss upon modification would not be recognized.

BC21. Therefore, the Board decided to require that an entity apply the guidance on loan refinancings and restructurings in Subtopic 310-20 to all loan modifications (including those provided to borrowers that are experiencing financial difficulty) and expects that most modifications that would have been TDRs would result in the refinanced loan being treated as a continuation of the existing loan.

BC22. For entities that continue to measure the allowance for credit losses using a discounted cash flow model after the adoption of the amendments in this proposed Update, the Board acknowledges that the effect of those concessions that can be captured only through a discounted cash flow model would continue to be recognized. That is, if an entity continues utilizing a discounted cash flow model to determine its allowance for credit losses, an interest rate concession that is granted in a loan modification may have an effect on the estimate of the allowance



for credit losses. The Board decided that it would be inappropriate for an entity to disregard the modification if its model to estimate the allowance for credit losses would otherwise capture it because the entity adopted the amendments in this proposed Update.

## Disclosures

BC23. Financial statement users indicated that designating certain modifications as TDRs generally does not affect their analyses of an entity's loan portfolio. Instead, users' feedback suggested that voluntary information provided by certain financial statement preparers during 2020 and additional information about loan modification programs would benefit their analyses of an entity's loan portfolio. Specifically, users indicated that disclosing the magnitude of loans modified to borrowers experiencing financial difficulty would benefit their analyses. Users also indicated that additional information such as disclosure of loan performance after modification for those borrowers would be incrementally beneficial because generally entities provide limited information about the effect and success of those loan modification programs.

BC24. On the basis of feedback received from stakeholders that TDR disclosures generally do not provide financial statement users with decision-useful information and that more extensive disclosures about modifications made by entities because of the COVID-19 pandemic provided more useful information, the Board decided to modify and enhance certain disclosures that were previously required for modifications designated as TDRs.

BC25. The Board decided to require more detailed disclosure about modifications of receivables made to borrowers experiencing financial difficulty because stakeholders stated that those borrowers have a different risk profile than other borrowers with more routine modifications (for example, refinancings) and, therefore, they wanted specific information about those types of modifications. Additionally, stakeholders noted that information about refinancings that occurred in the normal course of business may not be as decision useful in reviewing credit-quality trends. The Board decided to require additional disclosure about modifications of receivables made to borrowers experiencing financial difficulty because determining whether a borrower is experiencing financial difficulty was part of determining whether a modification was a TDR under legacy GAAP was well understood and would not cause additional complexity. However, the Board acknowledges that the modifications captured in the disclosure requirements in the amendments in this proposed Update may be broader than those previously captured in TDR disclosures because an entity no longer would have to determine whether a debtor is granting a concession, which is a current requirement to determine whether a modification represents a TDR.

BC26. The Board decided to require disclosure of quantitative and qualitative information about (a) the types of modifications provided, (b) the expected financial effect of those modifications, and (c) the performance of the loans after modification. Those disclosures responded to feedback from users about the most decision-useful information that was disclosed by entities during 2020 about COVID-19-related modifications. Furthermore, the Board received feedback from preparers that providing that information would be feasible because that information is readily available.

## Issue 2: Vintage Disclosures—Gross Writeoffs

### *Update 2016-13*

BC27. For public business entities, the guidance in paragraph 326-20-50-6 required that for each class of financing receivable and net investment in leases, the amortized cost basis within each credit-quality indicator by year of origination be disclosed. The guidance in that paragraph does not specify that gross writeoff or gross recovery information should be provided by class of financing receivable or net investment in leases and by year of origination. However, Example 15 in Update 2016-13 provides an illustration of a vintage disclosure that includes current-period gross writeoff and gross recovery information by year of origination. Stakeholders questioned whether gross writeoff and gross recovery information by origination year was required to be included in the vintage disclosure.

BC28. The importance of writeoff and recovery information within the vintage disclosure tables was discussed at the November 2018 Credit Losses TRG meeting. At that meeting, one user stated that without gross writeoffs and gross recoveries information, the vintage disclosure table would provide less-useful information because users would not have the information that they would need to construct accurate trends of the amortized cost basis and credit-quality ratios for each portfolio segment, which was a disclosure originally supported by financial statement users. Conversely, one TRG member who is a preparer stated that the vintage disclosure requirement—gross writeoff and gross recovery information—could be operably burdensome because the information on gross writeoffs and gross recoveries by origination year may not be readily available in an entity's financial reporting systems. Another TRG member who also is a preparer noted that his entity did not plan on disclosing gross writeoff and gross recovery information within the vintage disclosure table. That TRG member noted that if the Board intended on clarifying the guidance to require gross writeoffs and gross recoveries within the vintage disclosure table, an entity would have to gather the information on a manual basis until it could develop a more automated and systematic process to obtain that information.

BC29. In response to the feedback received at the November 2018 Credit Losses TRG meeting, the Board discussed the issue at its April 3, 2019 Board

meeting. At that meeting, the Board determined that gross writeoff and gross recovery information by year of origination was not required in the vintage disclosure because paragraph 326-20-50-6, which outlines the requirements for the vintage disclosure, does not require it. However, the Board added a project to its technical agenda to consider whether gross writeoff and gross recovery information should be required by year of origination within the vintage disclosure. At its July 14, 2021 Board meeting, the Board decided to retain the project on its technical agenda and begin deliberations rather than considering the issue more holistically with other disclosure feedback received during the PIR process.

## Recent Feedback

BC30. After its July 14, 2021 Board meeting, the Board performed additional outreach to understand the costs and benefits of providing gross writeoff and gross recovery information by year of origination. Users reiterated that information on gross writeoffs was particularly useful and clearly articulated how they would utilize that information. That is, users stated that they would use gross writeoff information to inform their analyses more fully about an entity's underwriting performance and trends in the credit quality of an entity's portfolio. However, users did not express as strongly their support for requiring gross recovery information by year of origination. That is because often recoveries occur many years after a loan is written off and, therefore, may be included in the column of the vintage disclosure for originations that occurred more than five years before the reporting period. Preparers acknowledged that system changes would be necessary to produce either gross writeoff or gross recovery information and there may be cost and complexity associated with providing that information. However, providing gross recovery information would be significantly more challenging than providing gross writeoff information because recovery is often achieved through the sale of portfolios of loans, in which case it is difficult to determine to which loan the actual recovery relates. Also, recoveries are received more unpredictably, often several years after writeoff, and in smaller amounts, which makes them more difficult to track.

BC31. To address stakeholders' concerns raised during outreach, the Board decided that an entity should disclose gross writeoff information within the vintage disclosure table because the information is most valuable to users and the cost of providing this information would not outweigh the benefits. However, on the basis of users' feedback that recovery information was less decision useful and because preparers identified significant additional complexities in producing the data, the Board believes that the benefits of this information may not justify the cost. Therefore, the amendments in this proposed Update do not require that an entity disclose gross recoveries. However, an entity may determine that recovery information provides financial statement users with the most complete vintage information and, therefore, may voluntarily disclose this information.

BC32. In addition, the Board considered whether gross writeoff information also should be provided on a cumulative basis. Many preparers stated that it would be extremely difficult, if not impossible, to provide gross writeoff information on a cumulative basis. Some users stated that they would prefer cumulative information, but most users stated that they could “build” cumulative writeoff amounts over time and, therefore, although they may prefer cumulative information, current-period information is decision useful. Therefore, the Board decided to require current-period activity only for gross writeoffs.

BC33. The Board understands that certain entities preparing to implement the amendments in Update 2016-13 may not have gathered the information that would be needed to disclose gross writeoff information in the vintage disclosure table. As a result, the Board has included a question for respondents to determine whether certain entities need additional time to gather the information needed to disclose gross writeoffs in the vintage disclosure table.

## Effective Date and Transition

BC34. The Board decided that the amendments in this proposed Update should apply only to entities that have adopted Update 2016-13. Topic 326 requires an entity that has adopted that Update to determine lifetime expected credit losses, which would capture the effect of most concessions granted in modifications that were previously accounted for as TDRs. Therefore, the allowance for loan losses already would incorporate the expected effect of those modifications in the allowance for credit losses.

BC35. Given the importance of this information to users of financial statements and the upcoming expiration of the CARES Act surrounding TDR accounting, if an entity has already adopted Update 2016-13, the Board decided that the amendments in this proposed Update should be effective as soon as possible. Therefore, the Board asked a question for respondents on both issues in this proposed Update about when an entity anticipates being able to adopt the proposed amendments. For entities that have adopted Update 2016-13, the proposed guidance would be applied prospectively after adopting the amendments in this proposed Update.

BC36. For entities that have not yet adopted Update 2016-13, the Board decided that the amendments in this proposed Update would be effective in the same interim and annual period as adoption of Update 2016-13 occurs.

BC37. The Board believes that to reduce cost and operability complexity, the transition method for the proposed amendments on TDRs and those on vintage disclosures should be consistent. Therefore, the Board decided to require prospective application.

BC38. For TDRs, the Board understands that the most significant complexity associated with measurement of a modification designated as a TDR is initially

creating a discounted cash flow model. Once the model has been set up, there is little additional complexity for some entities, and the separate tracking of these loans is not burdensome. Therefore, the Board determined that it may be more efficient for certain entities to continue to apply the TDR guidance to the existing pool of TDR designated loans until those loans are settled (especially for entities with loans with short contractual lives that are TDRs). Additionally, the Board noted that because the CARES Act guidance and Interagency Statement have been in effect for most of 2020 and 2021, for public business entities that adopted Update 2016-13 in 2020, comparative financial statements presented would not contain many TDRs. However, the Board received feedback that for certain entities, the loans previously modified in TDRs have long contractual lives. Therefore, if those entities were required to apply the guidance prospectively, it may be operably complex because they will have to separately track the loans using a discounted cash flow for many years. Those stakeholders shared that it would be operably complex and costly to do so. As a result, the Board decided to provide an option for entities to use a modified retrospective transition approach for recognition and measurement, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption of the amendments in this proposed Update as it relates to the elimination of recognition and measurement of TDRs. That is, an entity would record an adjustment to retained earnings that reflects the change in the allowance for credit losses that is included in the allowance because the loans had been modified in a TDR before the adoption of the proposed amendments.

BC39. For loan modifications and vintage disclosures, the Board understands that it is easier for preparers to build disclosures over time. The Board also understands that preparers may not have previously tracked gross writeoffs by year of origination and will need to build system capabilities to start providing that information. Therefore, providing this information before the date of adoption of the amendments in this proposed Update could be challenging for those entities and could slow the ability of preparers to provide in a more timely manner those disclosures that investors indicated are needed.

## Benefits and Costs

BC40. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. 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.

BC41. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this proposed Update to eliminate TDR recognition and measurement guidance for creditors and enhance disclosure requirements. Rather, the Board believes that the proposed amendments would provide preparers with cost savings because they would not have to determine whether a modification represents a TDR, which would result in unique measurement and disclosure requirements. The Board believes that the benefit of providing users with more decision-useful information through enhanced disclosures about loan modifications would justify the costs of providing enhanced disclosures for modified loans. The proposed amendments would not create new accounting requirements other than additional disclosures for which information should be readily available.

BC42. Furthermore, the Board has received feedback from financial statement users that gross writeoff information by year of origination is critical to their analyses. Therefore, the benefit of providing this information is significant. Although preparers may incur additional costs in providing this information, the Board believes that the benefits of providing this information would justify the costs.

## Amendments to the GAAP Taxonomy

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The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). We welcome comments on these proposed improvements to the GAAP Taxonomy at [xbrled@fasb.org](mailto:xbrled@fasb.org). After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.