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Receivables Topic: 310

#1880-100 Technical Director

Troubled Debt Restructuring (TDR) to Creditors

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Colleagues,

Thank you for the opportunity to critique this submission.

Details follow:

Background

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In essence, a determination must be made as to whether or not restructuring of the receivable meets the criteria for troubled debt restructurings as to impairment and recording the transaction itself. pp.1

There are a number of factors which are key to making a determination as to the applicability of this guidance. These are:

- (1) The debtor has no access to a market rate for the debt having similar characteristics as the restructured debt restructuring at or below the market rate. Hence, the term troubled debt restructuring applies.
- (2) The restructuring results in a temporary or permanent increase in the contractual interest rate which cannot be presumed to be at a similar rate or above the market rate.
- (3) Although the borrower is not now in default, the borrower may be experiencing financial difficulties with a default which is **probable in the foreseeable future.**
- (4) A restructuring which results in an insignificant delay in cash flows may still be a troubled debt restructuring.
- 310-40-15-5 The creditor grants concessions to the debtor that otherwise would not be considered. pp. 7
- 310-40-15-6 The creditor tries to protect enough of the investment as possible. Terms may be modified downward or cash payments may be delayed until the debtor can pay.

The creditor may accept cash, other assets or an equity interest in the debtor to satisfy the debt. In essence, the creditor attempts to make the best of a difficult and unpredictable situation.

310- 40- 15- 8A If the debtor cannot access other funds at a market rate of debt with similar characteristics, as the restructured debt, the term troubled debt restructuring will apply.

## Critique

A creditor in a TDR may consider a modification of terms for a restructured loan In these cases, the accounting treatment requires that impairment losses be measured at their present value of expected future cash flows discounted to the present at the effective interest rate for the loan . A loan is considered impaired if it is probable the creditor will be unable to collect all amounts due in accordance with the contract or the loan agreement.

Lending officials may consider the entire loan portfolio in making decisions regarding the final disposition of individual loans. If the overall relationship produces a reasonable profit, then restructuring weaker parts of the portfolio may not involve significant risk. In addition, the debtor's industry may be considered if the major industrial segments are experiencing distress for a similar reason; such as, a recession. pp. 7

There are significant judgmental criteria for making determinations regarding the debtor. i.e.

- o Is the economy or a major recession the reason for the debtor's distress?
- o Are other debtors or major segments of the debtor's industry in similar difficult circumstances?
- o Is the debtor significantly in default or are the repayments marginal?
- o Is the debtor nearing bankruptcy or a court supervised reorganization?
- o Is there a reasonable possibility that the debtor may not survive as a going concern at any time?
- o Does the creditor have reason to believe that the debtor's cash flows will be insufficient for debt servicing?
- o Without the loan modification, the debtor cannot get funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate on similar debt for a borrower in good financial condition.

In a recessionary climate, the creditor has a more difficult job of peaking into the future to make decisions on the ultimate disposition of the loan. A dip deeper into the recession may place the borrower in a more precarious situation . An uptick in the economy may erase all of the current cash flow problems as a natural outgrowth of an expanded customer, market base or expected technological innovation like cloud computing or spintronics.

All spintronic devices act according to the simple scheme: (1) information is stored (written) into spins as a particular spin orientation (up or down), (2) the spins, being attached to mobile electrons, carry the information along a wire, and (3) the information is read at a terminal

Reference to the debtor's experience in previous recessions may provide an indicator of what to expect in the current recessionary climate. In addition, the debtor may have the option to raise cash via the markets and additional stock offerings in place of borrowing. Multiple stock offerings are common with companies in a developmental stage of the industrial cycle. Sometimes, stock splits or the prospect of stock splits can attract additional investors if there is an overpowering reason to expect future profits. i.e. provable reserves, an affirmative drug approval by the FDA, spintronics or some other outcome that could attract a larger constituency of investors to a stock in the short term.

I concur with delaying implementation of this guidance beyond the planned date due to multiple complexities which are uncontrollable by debtors and creditors alike.