FINANCIAL ACCOUNTING SERIES

EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: December 20, 2012
Comments Due: April 30, 2013

Financial Instruments—Credit Losses (Subtopic 825-15)

This Exposure Draft of a proposed Accounting Standards Update of Subtopic 825-15 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB's website. Written comments should be addressed to:

Technical Director
File Reference No. 2012-260

Financial Accounting Standards Board
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*® 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.

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

The Board invites comments on all matters in this Exposure Draft and is requesting comments by April 30, 2013. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB's website at Exposure Documents Open for Comment
- Emailing a written letter to director@fasb.org, File Reference No. 2012-260
- Sending written comments to "Technical Director, File Reference No. 2012-260, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB's website.

Financial Accounting Standards Board
of the Financial Accounting Foundation
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Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

Before the global economic crisis that began in 2008, both the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) began a joint project to revise and improve their respective standards of accounting for financial instruments. In the aftermath of the global economic crisis, the overstatement of assets caused by a delayed recognition of credit losses associated with loans (and other financial instruments) was identified as a weakness in the application of existing accounting standards. Specifically, because the existing "incurred loss" model delays recognition until a credit loss is probable (or has been incurred), the Financial Crisis Advisory Group[1] recommended exploring alternatives to the incurred loss model that would use more forward-looking information. The inherent complexity of having multiple credit impairment models was identified as an additional weakness of existing accounting standards.

The main objective in developing this proposal is to provide financial statement users with more decision-useful information about the expected credit losses on financial assets and other commitments to extend credit held by a reporting entity at each reporting date. This objective would be achieved by replacing the current impairment model, which reflects incurred credit events, with a model that recognizes expected credit risks and by requiring consideration of a broader range of reasonable and supportable information to inform credit loss estimates. These proposed amendments also would reduce complexity by replacing the numerous existing impairment models in current U.S. GAAP with a consistent measurement approach.

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

All entities that hold financial assets that are not accounted for at fair value through net income and are exposed to potential credit risk would be affected by the proposed amendments. Loans, debt securities, trade receivables, lease receivables, loan commitments, reinsurance receivables, and any other

[1]The Financial Crisis Advisory Group (FCAG) was created in October 2008 by the FASB and the IASB, as part of a joint approach to dealing with the reporting issues arising from the global financial crisis. The FCAG was asked to consider how improvements in financial reporting could help enhance investors' confidence in financial markets.

receivables that represent the contractual right to receive cash would generally be affected by the proposed amendments.

What Are the Main Provisions?

The proposed amendments would require an entity to impair its existing financial assets on the basis of the current estimate of contractual cash flows not expected to be collected on financial assets held at the reporting date. This impairment would be reflected as an allowance for expected credit losses. The proposed amendments would remove the existing “probable” threshold in U.S. generally accepted accounting principles (GAAP) for recognizing credit losses and broaden the range of information that must be considered in measuring the allowance for expected credit losses. More specifically, the estimate of expected credit losses would be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the assets’ remaining contractual cash flows. An estimate of expected credit losses would always reflect both the possibility that a credit loss results and the possibility that no credit loss results. Accordingly, the proposed amendments would prohibit an entity from estimating expected credit losses solely on the basis of the most likely outcome (that is, the statistical mode).

As a result of the proposed amendments, financial assets carried at amortized cost less an allowance would reflect the current estimate of the cash flows expected to be collected at the reporting date, and the income statement would reflect credit deterioration (or improvement) that has taken place during the period. For financial assets measured at fair value with changes in fair value recognized through other comprehensive income, the balance sheet would reflect the fair value, but the income statement would reflect credit deterioration (or improvement) that has taken place during the period. An entity, however, may choose to not recognize expected credit losses on financial assets measured at fair value, with changes in fair value recognized through other comprehensive income, if both (1) the fair value of the financial asset is greater than (or equal to) the amortized cost basis and (2) expected credit losses on the financial asset are insignificant.

The Board expects that different types of entities can leverage their current risk monitoring systems in implementing the proposed approach (for example, by a bank using regulatory risk categories or an industrial company using an aging analysis). However, the inputs used to estimate the allowance for credit losses may need to change to implement the expected credit loss approach, as explained in the examples.

How Would the Main Provisions Differ from Current U.S. GAAP and Why Would They Be an Improvement?

Current U.S. GAAP includes five different incurred loss credit impairment models for instruments within the scope of the proposed amendments. The existing models generally delay recognition of credit loss until the loss is considered "probable." This initial recognition threshold is perceived to have interfered with the timely recognition of credit losses and overstated assets during the recent global economic crisis. The credit loss recognition guidance in the proposed amendments would eliminate the existing "probable" initial recognition threshold in U.S. GAAP and instead reflect the entity's current estimate of expected credit losses.

Furthermore, when credit losses are measured under current U.S. GAAP, an entity generally only considers past events and current conditions in measuring the incurred loss. The proposed amendments would broaden the information that an entity is required to consider in developing its credit loss estimate. Specifically, the proposed amendments would require that an entity's estimate be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets' remaining contractual cash flows. As a result, an entity would consider quantitative and qualitative factors specific to the borrower, including the entity's current evaluation of the borrower's creditworthiness. An entity also would consider general economic conditions and an evaluation of both the current point in, and the forecasted direction of, the economic cycle (for example, as evidenced by changes in issuer or industry-wide underwriting standards).

How Would the Main Provisions Differ from the FASB's Previously Proposed Accounting Standards Update?

In May 2010, the FASB issued a proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities.* For purposes of measuring credit impairment, the May 2010 proposed Update would have required that an entity assume that the economic conditions existing at the reporting date would remain unchanged for the remaining life of the financial assets. In contrast, the proposed amendments in this 2012 proposed Update would broaden rather than limit the information set that an entity is required to consider in developing its credit loss estimate. Specifically, the proposed amendments would require that an entity's estimate be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets' remaining contractual cash flows. Also, the credit loss allowance objective in the

May 2010 proposed Update differed on the basis of whether the asset was originated or purchased. The proposed amendments have a single measurement objective, one in which expected credit losses should reflect management's estimate of the contractual cash flows not expected to be collected from a recognized financial asset (or group of financial assets). Furthermore, the May 2010 proposed Update proposed to dramatically change the interest income recognition approach by measuring interest income on the basis of the effective interest rate multiplied by the net carrying amount (that is, amortized cost minus the associated allowance). Unlike the May 2010 proposed Update, the proposed amendments would maintain the approach in current U.S. GAAP that measures interest income and credit losses separately.

When Would the Amendments Be Effective?

The Board will establish the effective date of the requirements when it issues the final amendments. An entity would apply the proposed amendments by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective.

How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

Like current U.S. GAAP, current IFRS utilizes an incurred loss credit impairment model that includes an initial recognition threshold. Similarly, when credit losses are measured under current IFRS, an entity generally only considers past events and current conditions in measuring the incurred loss.

Both Boards have been working to address perceived weaknesses in the current guidance relating to the delayed recognition of credit losses and the complexity of multiple impairment models. Most recently, the Boards worked together to jointly develop an expected loss approach using a so-called three-bucket impairment model. The discussion about the three-bucket impairment model in this document refers to the model, as jointly developed, before the FASB decided in July 2012 to revisit its previous tentative decisions on this project. Since that time, the IASB has continued to develop the three-bucket impairment model, and an Exposure Draft on its model is expected to be issued in the near future. The FASB will consider the comments received by the IASB on its proposal.

Like the proposed amendments, the three-bucket model would eliminate the probable initial recognition threshold and broaden the information set that an entity is required to consider in developing its credit loss estimate. However, unlike the FASB's proposed amendments, the three-bucket impairment model would utilize two different measurement objectives for the credit impairment allowance. For one subset of the portfolio an entity would recognize lifetime expected losses for the financial assets upon which a loss event is expected in

the next 12 months (sometimes referred to as “12 months of expected losses”). For another subset of the portfolio, an entity would recognize all lifetime expected losses. An entity would apply certain criteria to decide which measurement objective should be followed for assets held as of the reporting date.

After spending a considerable amount of time and effort developing the three-bucket impairment model, the Board decided not to pursue an Exposure Draft on the three-bucket impairment model given the feedback that the Board had received on using two different measurement objectives. Specifically, U.S. stakeholders expressed concerns about the use of two very different measurement objectives and the ambiguity and operationality of the principle for determining which measurement objective should apply to assets held in a given reporting period. Also, many stakeholders viewed the principle for determining which measurement objective should apply as reintroducing an incurred loss recognition trigger into the model, which was a perceived weakness of existing U.S. GAAP that this project sought to address. Furthermore, users expressed concern about interpreting any model that utilizes two different measurement objectives to arrive at a single recognized allowance for credit losses on the balance sheet, which is a core concept in the three-bucket model. Therefore, the FASB decided to modify its proposal to include only one measurement approach, which is the current estimate of contractual cash flows not expected to be collected on financial assets held at the reporting date. The FASB’s proposed model carries forward many decisions that were jointly deliberated and agreed upon with the IASB.

Questions for Respondents

Scope

Question for All Respondents

Question 1: Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

Recognition and Measurement

Questions for Users

Question 2: The proposed amendments would remove the initial recognition threshold that currently exists in U.S. GAAP and, instead, view credit losses as an issue of “measurement” as opposed to an issue of “recognition” because the credit losses relate to cash flows that are already recognized on the balance sheet. Do you believe that removing the initial recognition threshold that currently

exists in U.S. GAAP so that credit losses are recognized earlier provides more decision-useful information?

Question 3: As a result of the proposed amendments, the net amortized cost on the balance sheet (that is, net of the allowance for expected credit losses) would reflect the present value of future cash flows expected to be collected, discounted at the effective interest rate. Do you agree that the net amortized cost (which reflects the present value of cash flows expected to be collected) results in more decision-useful information than currently exists under U.S. GAAP?

Question 4: The Board has twice considered credit loss models that would permit an entity not to recognize certain expected credit losses. In the January 2011 Supplementary Document, the Board considered a model that would permit an entity not to recognize some credit losses expected to occur beyond the foreseeable future. In the recent discussions on the three-bucket impairment model, the Board considered a model that would permit an entity only to recognize lifetime credit losses for loss events expected to occur within a 12-month horizon. Instead, the proposed amendments would require that at each reporting date an entity recognize an allowance for *all* expected credit losses. Do you believe that recognizing *all* expected credit losses provides more decision-useful information than recognizing only *some* of the expected credit losses? If not, how would you determine which expected credit losses should not be recognized (for example, 12 months or similar foreseeable future horizon, initial recognition threshold, and so forth)?

Question 5: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets' remaining contractual cash flows. Do you believe that expected credit losses based on this information provide decision-useful information?

Question 6: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be amortized into and recognized as interest income over the life of the asset. To achieve this result, upon acquisition the initial estimate of expected credit losses would be recognized as an adjustment that increases the cost basis of the asset. Apart from this requirement, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you believe that using the same approach to recognize changes in the credit impairment allowance for purchased credit-impaired assets and non-purchased-

credit-impaired assets provides decision-useful information? Do you believe that this is an improvement from the current model used for purchased credit-impaired assets?

Question 7: As a practical expedient, the proposed amendments would allow an entity not to recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost amount of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. The proposed amendments would require an entity to disclose the amortized cost basis of assets that apply this practical expedient each period. Do you believe that the practical expedient for some financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income is reasonable? Why or why not?

Question 8: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this approach provides decision-useful information?

Questions for Preparers and Auditors

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets' remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

Question 10: The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

Question 11: The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results

and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?

Question 13: For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management's current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

Question 14: As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

Question 15: The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

Questions for All Respondents

Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45–BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?

Disclosures

Questions for Users

Question 17: Do you believe the disclosure proposals in this proposed Update would provide decision-useful information? If not, what disclosures do you believe should (or should not) be required and why?

Questions for Preparers and Auditors

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

Implementation Guidance and Illustrations

Questions for All Respondents

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

Transition and Effective Date

Questions for All Respondents

Question 20: Do you agree with the transition provision in this proposed Update? If not, why?

Question 21: Do you agree that early adoption should not be permitted? If not, why?

Question 22: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

Questions for Preparers and Auditors

Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

Field Visit Volunteers

The Board also is soliciting entities that would be willing to participate with the staff, on a confidential basis, in a field visit to discuss the provisions of this proposed Update. The purpose of field visits is to assess the operability and the costs and benefits of the proposed guidance. Entities interested in volunteering can contact Steve Kane at smkane@fasb.org.

Proposed Guidance

Introduction

1. The Proposed Guidance section of this proposed Accounting Standards Update provides the new Subtopic (Subtopic 825-15, Financial Instruments—Credit Losses) that would be added to the *FASB Accounting Standards Codification*® (with a link to transition paragraph 825-15-65-1) as a result of this proposed Update.

2. The proposed guidance will have a pervasive effect on existing impairment guidance for financial instruments. Amendments to existing guidance that would result from this proposed Update follow this section.

3. The Board expects to issue proposed amendments to the XBRL Taxonomy that would result from this proposed Update during the comment period on this proposed Update.

Subtopic 825-15

Financial Instruments—Credit Losses

Objectives

825-15-10-1 The objective of the Credit Losses Subtopic is to provide guidance on how an entity should recognize and measure expected credit losses on financial assets on the basis of an entity's current expectations about the collectibility of contractual cash flows.

Scope and Scope Exceptions

> Entities

825-15-15-1 The guidance in this Subtopic applies to all entities.

> Instruments

825-15-15-2 The guidance in this Subtopic applies to the following **financial assets** that are subject to losses related to credit risk and are not classified at fair value through net income:

a. Financial assets that are **debt instruments**, including the following:
   1. Debt instruments classified at amortized cost
   2. Debt instruments classified at fair value with qualifying changes in fair value recognized in other comprehensive income

3. Receivables that result from revenue transactions within the scope of Topic 605
4. **Reinsurance receivables** that result from insurance transactions within the scope of Topic 944.

b. Lease receivables recognized by a lessor in accordance with Topic 840
c. **Loan commitments**.

Glossary

[Additions and amendments to existing terms in the Master Glossary are shown in paragraphs 5 and 6 of the "Amendments to the *FASB Accounting Standards Codification®*," which follows this Proposed Guidance section.]

Amortized Cost

The sum of the initial investment less cash collected less write-downs plus yield accreted to date.

Class of Financial Asset

A group of financial assets determined on the basis of all of the following:

a. Measurement attribute
b. Risk characteristics of the financial asset
c. An entity's method for monitoring and assessing credit risk.

Collateral-Dependent Financial Asset

A financial asset for which the repayment is expected to be provided primarily or substantially through the operation (by the lender) or sale of the collateral, based on an entity's assessment as of the reporting date.

Credit-Quality Indicator

A statistic about the credit quality of a debt instrument.

Debt Instrument

A receivable or payable that represents a contractual right to receive cash (or other consideration) or a contractual obligation to pay cash (or other consideration) on fixed or determinable dates, whether or not there is any stated provision for interest.

Effective Interest Rate

The rate of return implicit in the debt instrument, that is, the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the debt instrument. For purchased credit-impaired financial assets, however, to decouple interest income from credit loss recognition, the premium or discount at acquisition excludes the discount

embedded in the purchase price that is attributable to the acquirer's assessment of expected credit losses at the date of acquisition.

Expected Credit Loss

An estimate of all contractual cash flows not expected to be collected from a recognized financial asset (or group of financial assets) or commitment to extend credit.

Fair Value

The amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Financial Asset

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

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

A financial asset exists if and when two or more parties agree to payment terms and those payment terms are reduced to a contract. To be a financial asset, an asset must arise from a contractual agreement between two or more parties, not by an imposition of an obligation by one party on another.

Freestanding Contract

A freestanding contract is entered into either:

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

Loan Commitment

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

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

Loan commitments can be distributed through syndication arrangements in which one entity acts as a lead and an agent on behalf of other entities that will each

extend credit to a single borrower. Loan commitments generally permit the lender to terminate the arrangement under the terms of covenants negotiated under the agreement.

Portfolio Segment

The level at which an entity develops and documents a systematic methodology to determine its allowance for expected credit losses.

Purchased Credit-Impaired Financial Assets

Acquired individual financial assets (or acquired groups of financial assets with shared risk characteristics at the date of acquisition) that have experienced a significant deterioration in credit quality since origination, based on the assessment of the acquirer. Shared risk characteristics may include asset type, credit risk rating, past-due status, collateral type, date of origination, term to maturity, industry, geographical location of the debtor, the value of collateral relative to commitment for nonrecourse assets, and other factors that may influence likelihood of debtor electing to default.

Reinsurance Receivable

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

Recognition

825-15-25-1 At each reporting date, an entity shall recognize an allowance for **expected credit losses** on **financial assets** within the scope of this Subtopic. Expected credit losses are a current estimate of all contractual cash flows not expected to be collected.

825-15-25-2 If both of the following conditions are met as of the reporting date, as a practical expedient, an entity may elect not to recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income:

a. The fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset.
b. Expected credit losses on the individual financial asset are insignificant, which may be determined by considering the general expectation of the range of expected credit losses given the credit-quality indicator(s) for the asset as of the reporting date.

> Estimation of Expected Credit Losses

825-15-25-3 An estimate of expected credit losses shall be based on internally and externally available information considered relevant in making the estimate. That information includes information about past events, including historical loss

experience with similar assets, current conditions, and reasonable and supportable forecasts and their implications for expected credit losses. The information used shall include quantitative and qualitative factors specific to borrowers and the economic environment in which the reporting entity operates. Those factors include the current evaluation of borrowers' creditworthiness and an evaluation of both the current point in, and the forecasted direction of, the economic cycle (for example, as evidenced by changes in lender-specific or industry-wide underwriting standards). Therefore, a further adjustment should be made, as necessary, to reflect current information that may indicate current expectations about loss that is not reflected in the historical experience. Although an entity is required to estimate credit losses over the entire contractual term of the financial assets, as the forecast horizon increases, the degree of judgment involved in estimating expected credit losses increases because the availability of detailed estimates for periods far in the future decreases. An entity shall consider information that is available without undue cost and effort that is relevant to the estimated collectibility of contractual cash flows.

825-15-25-4 An estimate of expected credit losses shall reflect the time value of money either explicitly or implicitly (see paragraph 825-15-55-3). If an entity estimates expected credit losses using a discounted cash flow model, the discount rate utilized in that model shall be the financial asset's **effective interest rate**.

825-15-25-5 An estimate of expected credit losses shall neither be a worst-case scenario nor a best-case scenario. Rather, an estimate of expected credit losses shall always reflect both the possibility that a credit loss results and the possibility that no credit loss results. However, a probability-weighted calculation that considers the likelihood of more than two outcomes is not required. An entity is prohibited from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode).

825-15-25-6 The estimate of expected credit losses shall reflect how credit enhancements (other than those that are **freestanding contracts**) mitigate expected credit losses on financial assets, including consideration of the financial condition of the guarantor and/or whether any subordinated interests are expected to be capable of absorbing credit losses on any underlying financial assets. However, when estimating expected credit losses an entity shall not combine a financial asset with a separate freestanding contract that serves to mitigate credit loss. As a result, the estimate of expected credit losses on a financial asset (or group of financial assets) shall not be offset by a legally detachable and separately exercisable contract (for example, a purchased credit-default swap) that may mitigate expected credit losses on the financial asset (or group of financial assets).

> Recognizing Changes in the Allowance for Expected Credit Losses

825-15-25-7 An entity shall recognize in the statement of financial performance (as a provision for credit loss) the amount of credit loss (or reversal) required to adjust the allowance for expected credit losses for the current period in the statement of financial position to that required under this Section.

> Interest Income

825-15-25-8 Except as noted in paragraphs 825-15-25-9 through 25-10, this Subtopic does not address how a creditor shall recognize interest income.

825-15-25-9 When recognizing interest income on **purchased credit-impaired financial assets** within the scope of this Subtopic, an entity shall not recognize as interest income the discount embedded in the purchase price that is attributable to the acquirer's assessment of expected credit losses at the date of acquisition. The allowance for expected credit losses for purchased credit-impaired financial assets shall be recognized in accordance with paragraph 825-15-25-1 and, therefore, shall be an estimate of all contractual cash flows not expected to be collected. Changes in the allowance for expected credit losses shall be recognized in accordance with paragraph 825-15-25-7 in the statement of financial performance (as a provision for credit losses) in the current period.

825-15-25-10 An entity shall cease its accrual of interest income when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest.

a. If it is not probable that the entity will receive payment of substantially all of the principal, the entity shall recognize all cash receipts from the debt instrument as a reduction in the carrying amount of the asset. When the carrying amount has been reduced to zero, additional payments received are recognized as recoveries of amounts previously written off (that is, recorded as an adjustment to the allowance for expected credit losses) with any excess recognized as interest income.
b. If it is probable that the entity will receive payment of substantially all of the principal but it is not probable that the entity will receive payment of substantially all of the interest (which may be the case if the value of collateral exceeds the amortized cost basis), the entity shall recognize interest income on the debt instrument when cash payments are received. Cash receipts that exceed the amount of interest income that would have been recognized in the period had the asset not been placed on nonaccrual status shall be applied to reduce the carrying amount of the asset.

825-15-25-11 When the condition in the preceding paragraph is no longer met, an entity shall apply the interest income recognition method that was utilized before the condition in the preceding paragraph is met.

Subsequent Measurement

> Writeoffs

825-15-35-1 An entity shall directly reduce the cost basis in a **financial asset** (or portion of a financial asset) within the scope of this Subtopic in the period in which the entity determines that it has no reasonable expectation of future recovery. The allowance for expected credit losses shall be reduced by the amount of the financial asset balance written off. Recovery of a financial asset previously written off shall be recognized by recording an adjustment to the

allowance for expected credit losses only when consideration is received. In this context, a recovery means that an entity has received consideration in satisfaction of some or all contractually required payments following a writeoff of the financial asset.

Other Presentation Matters

825-15-45-1 For recognized **financial assets** within the scope of this Subtopic that are measured at amortized cost (other than **purchased credit-impaired assets** and **loan commitments**), an entity shall present the estimate of **expected credit losses** on the statement of financial position as an allowance that reduces the **amortized cost** of the asset.

825-15-45-2 For recognized financial assets within the scope of this Subtopic that are measured at fair value with qualifying changes in fair value recognized in other comprehensive income (other than purchased credit-impaired assets and loan commitments), the estimate of expected credit losses is a contra-asset that reduces the amortized cost of the asset. The net amortized cost amount for such assets (that is, net of the allowance for expected credit losses) shall be included on the statement of financial position.

825-15-45-3 For recognized purchased credit-impaired assets within the scope of this Subtopic that are not measured at fair value with all changes in fair value recognized in current net income, an entity shall present the estimate of **expected credit losses** on the statement of financial position as an allowance that reduces the sum of the asset's purchase price and the expected credit losses on the asset at the time of acquisition.

825-15-45-4 For loan commitments within the scope of this Subtopic, an entity shall present the estimate of expected credit losses on the statement of financial position as a liability.

Disclosure

825-15-50-1 For instruments within the scope of this Subtopic, this Section provides the following disclosure guidance related to credit risk and the recognition of credit losses:

a. Credit-quality information
b. Allowance for **expected credit losses**
c. Roll forward for certain **debt instruments**
d. Reconciliation between **fair value** and **amortized cost** for debt instruments classified at fair value with qualifying changes in fair value recognized in other comprehensive income
e. Past-due status
f. Nonaccrual status
g. **Purchased credit-impaired financial assets**
h. **Collateralized financial assets**.

825-15-50-2 The disclosure guidance in this Section should enable users of the financial statements to understand the following:

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

825-15-50-3 Under paragraphs 825-15-50-5, 825-15-50-9 through 50-13, 825-15-50-16 through 50-17, and 825-15-50-19 through 50-20, an entity shall provide information either by **portfolio segment** or by **class of financial asset**. Paragraphs 825-15-55-10 through 55-13 provide application guidance regarding the terms portfolio segment and class of financial asset. When disclosing information by portfolio segment or class of financial asset, an entity shall determine, in light of the facts and circumstances, how much detail it must provide to satisfy the disclosure requirements in this Section and how it disaggregates information into segments or classes for assets with different risk characteristics. An entity must strike a balance between obscuring important information as a result of too much aggregation and overburdening financial statements with excessive detail that may not assist financial statement users to understand the entity’s financial assets and allowance for expected credit losses. For example, an entity should not obscure important information by including it with a large amount of insignificant detail. Similarly, an entity should not disclose information that is so aggregated that it obscures important differences between the different types of financial assets and associated risks.

> Credit-Quality Information

825-15-50-4 An entity shall provide information that enables financial statement users to do both of the following:

a. Understand how management monitors the credit quality of its debt instruments
b. Assess the quantitative and qualitative risks arising from the credit quality of its debt instruments.

825-15-50-5 To meet the objectives in the preceding paragraph, an entity shall provide quantitative and qualitative information by class of financial asset about the credit quality, including all of the following:

a. A description of the **credit-quality indicator**
b. The amortized cost, 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.

825-15-50-6 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.

825-15-50-7 The disclosure requirements in paragraphs 825-15-50-4 through 50-6 do not apply to short-term trade receivables that result from revenue transactions within the scope of Topic 605.

> Allowance for Expected Credit Losses

825-15-50-8 An entity shall provide information that enables financial statement users to do the following:

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

825-15-50-9 To meet the objectives in the preceding paragraph, an entity shall disclose by portfolio segment a description of the entity's accounting policies and methodology used to estimate the allowance for expected credit losses, including all of the following:

a. A description of how expected loss estimates are developed.
b. A description and discussion of the factors that influenced management's current estimate of expected credit losses, including:
    1. Past events
    2. Current conditions
    3. Reasonable and supportable forecasts about the future.
c. A discussion of risk characteristics relevant to each portfolio segment.
d. A discussion of the changes in the factors that influenced management's current estimate of expected credit losses and the reasons for those changes (for example, changes in loss severity, change in portfolio composition, change in volume of assets whether purchased or originated, and significant events or conditions that affect the current estimate but were not contemplated during the previous period).
e. Identification of any changes to the entity's accounting policies or methodology from the prior period and the entity's rationale for the change, if applicable.
f. A discussion of any significant changes in estimation techniques used and reasons for the changes, if applicable.
g. Reasons for significant changes in the amount of writeoffs, if applicable.

825-15-50-10 Furthermore, to enable financial statement users to understand the activity in the allowance for expected credit losses for each period, by portfolio segment an entity shall separately provide the following quantitative disclosures for financial assets classified at amortized cost and financial assets classified at fair value with qualifying changes in fair value recognized in other comprehensive income:

a. The beginning balance in the allowance for expected credit losses
b. Current period provision for credit losses
c. Writeoffs charged against the allowance
d. Recoveries of amounts previously written off
e. The ending balance in the allowance for expected credit losses.

825-15-50-11 When an entity has utilized the practical expedient in paragraph 825-15-25-2 not to measure expected credit losses for certain financial assets classified at fair value with qualifying changes in fair value recognized in other comprehensive income, the entity shall disclose at the portfolio segment level the amortized cost balance of those assets (for a purchased credit-impaired asset, amortized cost is the sum of the asset's purchase price and the expected credit losses on the asset at the time of acquisition).

> Roll Forward for Certain Debt Instruments

825-15-50-12 An entity shall provide a roll forward of an entity's portfolio of debt instruments classified at amortized cost from the beginning of the period to the end of the period, disaggregated at the portfolio segment level (for a purchased credit-impaired asset, amortized cost is the sum of the asset's purchase price and the expected credit losses on the asset at the time of acquisition). This roll forward shall include all of the following:

a. Beginning amortized cost
b. Originations
c. Purchases
d. Sales
e. Repayments
f. Writeoffs
g. Ending amortized cost.

825-15-50-13 An entity shall provide a roll forward of an entity's portfolio of debt instruments classified at fair value with qualifying changes in fair value recognized in other comprehensive income from the beginning of the period to the end of the period, disaggregated at the portfolio segment level (for a purchased credit-impaired asset, amortized cost is the sum of the asset's purchase price and the expected credit losses on the asset at the time of acquisition). At a minimum, this roll forward shall include all of the following:

a. Beginning amortized cost
b. Originations
c. Purchases
d. Sales
e. Repayments
f. Writeoffs
g. Ending amortized cost.

825-15-50-14 The disclosure requirements in paragraphs 825-15-50-12 through 50-13 do not apply to the following:

a. Receivables that result from revenue transactions within the scope of Topic 605
b. **Reinsurance receivables** that result from insurance transactions within the scope of Topic 944
c. **Loan commitments** that are not measured at fair value with changes in fair value recognized in net income.

> Reconciliation between Fair Value and Amortized Cost for Debt Instruments Classified at Fair Value with Qualifying Changes in Fair Value Recognized in Other Comprehensive Income

825-15-50-15 If all of the following items are not already presented on the balance sheet, an entity shall disclose a reconciliation of the difference between the fair value and amortized cost for assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income (for a purchased credit-impaired asset, amortized cost is the sum of the asset's purchase price and the expected credit losses on the asset at the time of acquisition):

a. Amortized cost
b. The allowance for expected credit losses
c. The accumulated amount needed to reconcile amortized cost less the allowance for expected credit losses to fair value
d. Fair value.

> Past-Due Status

825-15-50-16 To enable financial statement users to understand the extent of financial assets that are past due, an entity shall provide an aging analysis of the amortized cost for debt instruments that are past due as of the reporting date, disaggregated at the portfolio segment level. Furthermore, an entity shall disclose when it considers a debt instrument to be past due.

> Nonaccrual Status

825-15-50-17 To enable financial statement users to understand the credit risk and interest income recognized on financial assets on nonaccrual status, an entity shall disclose all of the following, disaggregated at the portfolio segment level:

a. The amortized cost of debt instruments on nonaccrual status as of the beginning of the reporting period and the end of the reporting period
b. The amount of interest income recognized during the period on nonaccrual debt instruments in accordance with paragraph 825-15-25-10
c. The amortized cost of debt instruments that are 90 days or more past due, but not on nonaccrual status as of the reporting date
d. The amortized cost of debt instruments on nonaccrual status for which there are no related expected credit losses as of the reporting date because the debt instrument is a fully collateralized **collateral-dependent financial asset**.

> Purchased Credit-Impaired Financial Assets

825-15-50-18 To the extent an entity purchased credit-impaired financial assets during the current reporting period, an entity shall provide a reconciliation of the difference between the purchase price of the assets and the par value of the assets, including:

a. The purchase price
b. Based on the acquirer's assessment, the discount attributable to expected credit losses
c. The discount (or premium) attributable to other factors
d. The par value.

> Collateralized Financial Assets

825-15-50-19 An entity shall describe by class of financial asset the type of collateral. The entity also shall qualitatively describe the extent to which collateral secures an entity's financial assets.

825-15-50-20 An entity shall qualitatively explain by class of financial asset significant changes in the extent to which collateral secures an entity's financial assets, whether because of a general deterioration or some other reason.

Implementation Guidance and Illustrations

> Implementation Guidance

825-15-55-1 This Section provides guidance on the following implementation matters:

a. Estimation of expected credit losses
b. Estimation of expected credit losses—time value of money
c. Estimation of expected credit losses—multiple possible outcomes
d. Estimation of expected credit losses—lease receivables
e. Estimation of expected credit losses—loan commitments
f. Estimation of expected credit losses—effect of a fair value hedge on the discount rate when using a discounted cash flow model
g. Disclosure—application of the term *portfolio segment*
h. Disclosure—application of the term *class of financial asset*
i. Disclosure—application of the term *credit-quality indicator.*

> > Estimation of Expected Credit Losses

825-15-55-2 The estimation of **expected credit losses** is highly judgmental. An entity shall utilize estimation techniques that are practical and relevant to the circumstance. The methods used to estimate expected credit losses may vary on the basis of the type of financial asset and the information available to the entity that is relevant to the estimation process. Developing historical statistics from which expected credit losses updated for current conditions and reasonable and supportable forecasts of the future can be estimated involves a variety of judgments and policy elections. Such judgments include the following:

a. The definition of *default* utilized to develop default-based statistics

b. The approach to measuring the “loss” amount used to develop default-based or loss-rate statistics, including whether it is simply based on the U.S. GAAP amortized cost amount written off
c. The method of weighting historical experience (for example, on a volume-weighted basis or an equal-weighted basis)
d. The method of adjusting loss statistics for recoveries
e. How expected prepayments affect the allowance for expected credit losses as of the reporting date.

Because of the subjective nature of the estimate of expected credit losses, this Subtopic does not require specific approaches or specific policy elections in this regard. Rather, an entity has latitude to develop estimation techniques that are applied consistently over time and aim to faithfully estimate expected credit losses by using the key principles in this Subtopic. An entity is not required to utilize a probability-weighted discounted cash flow model to estimate expected credit losses. Similarly, an entity is not required to reconcile the estimation technique it uses with a probability-weighted discounted cash flow model.

> > Estimation of Expected Credit Losses—Time Value of Money

825-15-55-3 Paragraph 825-15-25-4 requires that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. A discounted cash flow model is an example of a method that explicitly reflects the time value of money by forecasting future cash flows (or cash shortfalls) and discounting these amounts to a present value using the effective interest rate. Other methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic (after updating it for current conditions and reasonable and supportable forecasts of the future) to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. The requirement in paragraph 825-15-25-4 is met when the method used to estimate expected credit losses either explicitly or implicitly reflects the time value of money.

825-15-55-4 For **collateral-dependent financial assets**, an entity may use, as a practical expedient, methods that compare the amortized cost basis with the **fair value** of collateral. Such an approach is considered a practical expedient because there is an inherent inconsistency in how the time value of money is reflected in an amortized cost amount (wherein the discount rate implicit in the present value is a historical rate) and a fair value amount for collateral (wherein the discount rate implicit in the present value is a current rate). If an entity uses the fair value of the collateral to measure expected credit losses on a collateral-dependent financial asset and repayment or satisfaction of the asset depends on the sale of the collateral, the fair value of the collateral should be adjusted to consider estimated costs to sell (on a discounted basis). However, if repayment or satisfaction of the financial asset depends only on the operation, rather than

the sale of the collateral, the estimate of expected credit losses should not incorporate estimated costs to sell the collateral.

> > Estimation of Expected Credit Losses—Multiple Possible Outcomes

825-15-55-5 Paragraph 825-15-25-5 requires that an estimate of expected credit losses, always reflect both the possibility that a credit loss results and the possibility that no credit loss results. However, in making this estimate, a variety of credit loss scenarios are not required to be identified and probability weighted to estimate expected credit losses, when a range of at least two outcomes is implicit in the method.

825-15-55-6 Some measurement methods (such as a loss-rate method, a roll-rate method, a probability-of-default method, and a provision matrix method using loss factors) rely on an extensive population of actual historical loss data as an input when estimating credit losses. Therefore, they implicitly satisfy the requirement in paragraph 825-15-25-5 as long as the population of actual loss data reflects items within that population that ultimately resulted in a loss and those items within that population that resulted in no loss. Similarly, as a practical expedient, an entity may use the fair value of collateral (less estimated costs to sell, as applicable) in estimating credit losses for collateral-dependent financial assets. Such an approach is considered a practical expedient because the fair value of collateral reflects several potential outcomes on a market-weighted basis and may result in expected credit losses of zero when the fair value of collateral exceeds the amortized cost basis of the asset.

> > Estimation of Expected Credit Losses—Lease Receivables

825-15-55-7 This Subtopic requires that an entity recognize an allowance for all expected credit losses on lease receivables recognized by a lessor in accordance with Topic 840. When measuring expected credit losses on lease receivables using a discounted cash flow method, the cash flows and discount rate used in measuring the lease receivable under Topic 840 would be used in place of the contractual cash flows and **effective interest rate** discussed in Section 825-15-25.

> > Estimation of Expected Credit Losses—Loan Commitments

825-15-55-8 This Subtopic requires that an entity recognize all expected credit losses on loan commitments that are not measured at fair value with qualifying changes in fair value recognized in net income. In estimating expected credit losses for such loan commitments, an entity would estimate credit losses over the full contractual period over which the entity is exposed to credit risk via a present legal obligation to extend credit, unless unconditionally cancellable by the issuer. For that period of exposure, the estimate of expected credit losses should consider both the likelihood that funding will occur (which may be affected by, for example, a material adverse change clause) and an estimate of expected credit losses on commitments expected to be funded.

> > Estimation of Expected Credit Losses—Effect of a Fair Value Hedge on the Discount Rate When Using a Discounted Cash Flow Model

825-15-55-9 Paragraph 825-15-25-4 indicates that to the extent that an entity estimates expected credit losses using a discounted cash flow model, the discount rate utilized should be the financial asset's effective interest rate. When the carrying amount of recorded investment in a debt instrument has been adjusted under fair value hedge accounting in Section 815-25-35, the effective interest rate is the discount rate that equates the present value of the debt instrument's future contractual cash flows with that adjusted recorded investment in the debt instrument.

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

825-15-55-10 This implementation guidance addresses the meaning of the term **portfolio segment.** The following are examples of portfolio segments:

a. Type of debt instrument
b. Industry sector of the borrower
c. Risk rate(s).

> > Disclosure—Application of the Term *Class of Financial Asset*

825-15-55-11 This implementation guidance addresses application of the term **class of financial asset**. An entity shall base its principal determination of class of financial asset on both of the following:

a. Measurement attribute. Classes shall first segregate financial assets on the basis of the model under which they are measured, such as any of the following:
    1. Amortized cost
    2. Fair value with qualifying changes in fair value recognized in other comprehensive income.
b. Entity assessment. Classes shall secondarily be disaggregated to the level that an entity uses when assessing and monitoring the risk and performance of the portfolio for various types of financial assets. This assessment shall consider the risk characteristics of the financial asset.

825-15-55-12 In determining the appropriate level of its internal reporting to use as a basis for disclosure, an entity should consider the level of detail needed by a user to understand the risks inherent in the entity's financial assets. An entity could further disaggregate its portfolio by considering numerous factors. Examples of factors that the entity could consider include any of the following:

a. Categorization of borrowers, such as any of the following:
    1. Commercial loan borrowers
    2. Consumer loan borrowers
    3. Related party borrowers.
b. Type of financial asset, such as any of the following:
    1. Mortgage loans
    2. Credit card loans
    3. Interest-only loans
    4. Corporate debt securities
    5. Trade receivables

    6. Lease receivable.
c. Industry sector, such as either of the following:
    1. Real estate
    2. Mining.
d. Type of collateral, such as any of the following:
    1. Residential property
    2. Commercial property
    3. Government-guaranteed collateral
    4. Uncollateralized (unsecured) financial assets.
e. Geographic distribution, including both of the following:
    1. Domestic
    2. International.

825-15-55-13 Classes of financial assets generally are a disaggregation of a portfolio segment. For determining the appropriate classes of financial assets that are related to a portfolio segment, the portfolio segment is the starting point.

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

825-15-55-14 This implementation guidance addresses application of the term **credit-quality indicator**. Examples of credit-quality indicators include all of the following:

a. Consumer credit risk scores
b. Credit rating agency ratings
c. An entity's internal credit risk grades
d. Loan-to-value ratios
e. Collateral
f. Collection experience
g. Other internal metrics.

825-15-55-15 An entity should use judgment in determining the appropriate credit-quality indicator for each class of financial asset. As of the balance sheet date, the entity should use the most current information it has obtained for each credit-quality indicator.

> Illustrations

825-15-55-16 This Section provides the following Examples:

a. Example 1—estimation of expected credit losses based on a loss-rate approach
b. Example 2—estimation of expected credit losses using a "base component" and a "credit risk adjustment"
c. Example 3—estimation of expected credit losses based on a by-vintage basis
d. Example 4—use of a collective estimation method and an individual asset estimation method
e. Example 5—estimation of expected credit losses for trade receivables using a provision matrix
f. Example 6—purchased credit-impaired financial assets
g. Example 7—disclosure of credit-quality information

h. Example 8—disclosure of past-due status.

> > Example 1: Estimation of Expected Credit Losses Based on a Loss-Rate Approach

825-15-55-17 The following Example illustrates how an entity might implement the guidance in Section 825-15-25 using a loss-rate method on an open portfolio of loans that continues to evolve as a result of new loan originations and paydowns on existing loans. Under a loss-rate method, an entity would typically estimate expected credit losses by applying a historical loss rate, updated for current conditions and reasonable and supportable forecasts that affect the collectibility of the financial assets' remaining contractual cash flows, to the amortized cost basis for applicable financial assets.

825-15-55-18 Entity A is a national bank that provides five-year amortizing commercial mortgage loans to customers on a nationwide basis. The entity estimates expected credit losses for pools of similar asset types by first segregating its assets into credit risk ratings (on the basis of internal risk ratings, which may align with regulatory risk ratings and/or credit rating agency data) as of the reporting date. Next, to measure the expected credit losses, the entity applies a current estimated loss-rate specific to that credit risk rating to the amortized cost basis of the assets in that rating category.

825-15-55-19 Entity A develops historical loss rates on the basis of its historical loss data for five-year commercial mortgage loans. Specifically, the entity forms cohorts (sometimes referred to as *static pools*) by grouping borrowers by risk rating at the beginning of each year. Each outstanding borrowing at the beginning of the period is assigned to a specific cohort. The entity then follows the cohort from that point forward through the life of the assets within the cohort, such that membership in the cohort remains constant. For each cohort, a historical loss rate applicable to the risk rating is determined on the basis of the amortized cost amount written off because of credit loss realized over the entire contractual term of financial assets within that cohort as compared with the beginning amortized cost basis of assets within the cohort. Utilizing this approach, the entity has developed historical trends for credit losses on assets by risk rating. To develop its current expected loss rate, the entity updates this historical data to reflect changes in current conditions and reasonable and supportable forecasts that differ from historical experience. Note that this Example illustrates one method for developing a loss rate through the use of cohort statistics. An entity may use other methods to calculate an appropriate loss rate to use when estimating expected credit losses.

825-15-55-20 Entity A has developed the current expected loss rates by risk rating, based on its historical loss rates, adjusted for current conditions and reasonable and supportable forecasts about the future (note that the loss rates used are for illustrative purposes only to demonstrate the theory presented and are not intended to reflect actual loss rates for regulatory risk ratings or any other ratings):

a. 0.5 percent for loans with a "Pass Category 2" risk rating
b. 3.0 percent for loans with a "Pass Category 4" risk rating

c. 8.0 percent for loans with a “Special Mention” risk rating.

Therefore, at December 31, 20X1, the entity calculates its estimate of expected credit losses for this portfolio as follows.

December 31, 20X1
($ in 000s)

	Risk-Rating Category			
	Pass Category 2	**Pass Category 4**	**Special Mention**	
Expected loss rates	0.50%	3.00%	8.00%	1.60%*
Ending balance	$27,500	$10,000	$2,500	$40,000
Expected credit loss estimate	$138	$300	$200	$638

* The 1.60% weighted-average loss rate is calculated as the total expected credit loss estimate divided by the ending balance.

825-15-55-21 During the first quarter of 20X2, Entity A originates new commercial loans at a volume that approximates that of paydowns on existing loans within the portfolio. In addition, some loans deteriorate during the quarter at the rate that was expected at the beginning of the quarter. At March 31, 20X2, the entity expects that the loss rates used in estimating expected credit losses will be the same as that used at December 31, 20X1, because the conditions on which the prior loss rate statistics were calculated remain consistent with the economic conditions expected over the remaining life of the loans at March 31, 20X2. Therefore, at March 31, 20X2, the entity calculates its estimate of expected credit losses for this portfolio as follows.

March 31, 20X2
($ in 000s)

	Risk-Rating Category			
	Pass Category 2	**Pass Category 4**	**Special Mention**	
Expected loss rates	0.50%	3.00%	8.00%	1.58%*
Beginning balance	$27,500	$10,000	$2,500	$40,000
New originations	2,300	-	-	2,300
Paydowns on outstanding loans	(1,510)	(560)	(130)	(2,200)
Loans charged off	-	-	(9)	(9)
Credit migration	(320)	115	205	-
Ending balance	$27,970	$9,555	$2,566	$40,091
Expected credit loss estimate	$140	$287	$205	$632

* The 1.58% weighted-average loss rate is calculated as the total expected credit loss estimated divided by the ending balance.

825-15-55-22 Before adjusting the allowance for expected credit losses for the March 31, 20X2 estimate of expected credit losses, Entity A would have an allowance for credit losses equal to $629,000 (that is, the $638,000 allowance as of December 31, 20X1, minus the $9,000 of loan losses that were charged off against the allowance during the quarter ended March 31, 20X2). As a result, the entity would record credit losses of $3,000 for the quarter ended March 31, 20X2, to reflect the increase in the entity’s estimate of expected credit losses from

December 31, 20X1, thereby increasing the allowance for expected credit losses from $629,000 to $632,000. Although the entity's estimate of expected credit losses has increased from the previous quarter, the estimate is largely consistent with the previous quarter because the extent of credit-quality deterioration experienced during the quarter generally was consistent with the entity's expectations. Similarly, a decrease in the credit risk in the portfolio resulting from paydowns on outstanding loans is largely offset by increases in the credit risk in the portfolio resulting from new loan originations.

825-15-55-23 In this illustration, Entity A calculated its loss rate as the ratio of the actual amortized cost amount written off and the amortized cost of financial assets, updated for current conditions and reasonable and supportable forecasts about the future. Alternatively, an entity might calculate its loss rate as the product of a probability-of-default statistic and a loss-given default statistic. Under such an approach, the probability-of-default statistic would reflect the likelihood of default occurring over the remaining tenor of the financial asset, which gives rise to a shortfall in the collection of contractual cash flows. The probability-of-default statistic might be derived from the entity's own historical loss experience or obtained from externally available data such as a rating agency transition matrix, which uses the data over the full contractual term of financial assets to capture cumulative default experience. The probability-of-default statistic would then be updated to reflect current conditions and reasonable and supportable forecasts about the future. The loss-given default statistic would reflect the severity of the credit loss (expressed as a ratio of the amortized cost amount written off due to credit loss and the total amortized cost of the assets outstanding, updated for current conditions and reasonable and supportable forecasts about the future) if the borrower does, in fact, default. A loss-given default statistic initially could be based on studies performed utilizing an entity's own historical loss experience or based on externally available data. A loss-given default statistic generally is differentiated by factors such as type of obligor (for example, large corporate or small private company), security provided by obligor (for example, collateral including cash, marketable securities, real estate, and so on), and the individual loan's seniority in the borrower's capital structure.

825-15-55-24 It typically would be inappropriate to estimate the expected credit losses for a long-term asset by multiplying an annual loss rate (that is, the net amount written off in a 12-month period divided by the average amortized cost) by the remaining years of the asset's contractual term because loss experience is often not linear. That is, for certain types of lending, credit losses are low shortly after origination, rise rapidly in the early years of a loan, and then taper to a lower rate until maturity. When estimating expected credit losses under this Subtopic, the loss rate should be commensurate with the current credit risk of the financial asset.

> > Example 2: Estimation of Expected Credit Losses Using a "Base Component" and a "Credit Risk Adjustment"

825-15-55-25 In Example 1, Entity A adjusted the historical loss rates for each risk rating category so that the resulting statistic reflects current conditions and reasonable and supportable forecasts that affect future cash flows. In lieu of actually adjusting each individual historical loss rate in that manner, an entity might instead calculate a base statistical loss estimate and a credit risk adjustment.

825-15-55-26 The base statistical estimate of credit loss may reflect a historical average of credit losses that would be expected for financial assets with similar risk characteristics. Because that base statistical loss estimate is based on historical averages that may not adequately consider the current point or forecasted direction of the economic cycle, the credit risk adjustment is necessary to adjust the base statistical loss estimate so that the current expected credit loss estimate reflects current conditions and reasonable and supportable forecasts that affect expectations about the collectibility of future cash flows.

825-15-55-27 The credit risk adjustment would be estimated using macro-level factors such as management's evaluation of the current point in the economic cycle, as well as other important current credit indicators such as borrower behavior and collateral values, how current underwriting standards compare with those in the base statistical loss estimate, and recent trends in economic conditions. Such macro-level factors are expected to emerge with more transparency as the economic cycle unfolds.

> > Example 3: Estimation of Expected Credit Losses Based on a By-Vintage Basis

825-15-55-28 The following Example illustrates how an entity might implement the guidance in Section 825-15-25 on a by-vintage basis.

825-15-55-29 Entity B is a lending institution that provides retail financing to consumers purchasing new or used farm equipment throughout the country. The four-year amortizing loans it originates are secured by the farm equipment purchased by the borrowers with proceeds from the loan using a relatively consistent range of loan-to-collateral-value ratios at origination. The underlying farm equipment collateral is repossessed and sold at auction by Entity B when the borrower becomes 90 days past due.

825-15-55-30 Entity B tracks these loans on the basis of the calendar-year of origination. The following pattern of credit loss experience has been developed based on the ratio of the amortized cost basis in each vintage that was written off because of credit loss and the original amortized cost basis, shown as a percentage.

Year of Origination	Loss Experience in Years Following Origination				
	Year 1	Year 2	Year 3	Year 4	Total
20X1	0.50%	1.20%	1.40%	0.30%	3.40%
20X2	0.60%	1.20%	1.60%	0.50%	3.90%
20X3	0.40%	1.10%	1.50%	0.30%	3.30%
20X4	0.60%	1.10%	1.50%	0.40%	3.60%
20X5	0.50%	1.30%	1.70%	0.50%	4.00%
20X6	0.70%	1.50%	1.80%		
20X7	0.80%	1.40%			
20X8	0.70%				
20X9					

825-15-55-31 In estimating expected credit losses on the remaining outstanding loans at December 31, 20X9, Entity B evaluates its historical loss experience. It notes that the majority of losses historically emerge in the second and third year of the loans. It notes that historical loss experience has worsened since 20X3 and that loss experience for loans originated in 20X6 has already equalled the loss experience for loans originated in 20X5 despite the fact that the 20X6 loans will be outstanding for one additional year as compared with those originated in 20X5. In considering current conditions and reasonable and supportable forecasts, Entity B notes that there is an oversupply of used farm equipment in the resale market that is expected to continue, thereby putting downward pressure on the resulting value of equipment. It also notes that severe weather in recent years has increased the cost of crop insurance and that this trend is expected to continue. On the basis of these factors, it estimates that cumulative loss experience on the remaining vintages outstanding will be 4.6 percent, 4.8 percent, 5.0 percent, and 5.1 percent for loans originated in 20X6, 20X7, 20X8, and 20X9, respectively. These rates would be applied to the amortized cost in each category, and the effects of those changes would be recognized currently in net income as an adjustment to the allowance for expected credit losses.

> > Example 4: Use of a Collective Estimation Method and an Individual Asset Estimation Method

825-15-55-32 An entity may estimate expected credit losses for some financial assets on a collective (pool) basis and may estimate expected credit losses for other assets on an individual basis. As a result, the method used to estimate expected credit losses for a financial asset may change over time. For example, a pool of homogeneous loans may initially use a loss-rate method, but the expected credit losses for certain individual loans may later be measured using a discounted cash flow approach as the credit quality of individual loans in the pool deteriorates. The following Example illustrates these concepts.

825-15-55-33 One loan program from Entity C, a community bank, provides unsecured commercial loans of up to $75,000 to small businesses and entrepreneurs. Given the relative homogeneity of the borrowers (in terms of credit risk) and loans (in terms of structure and amount) in the program, the entity manages this loan program on a collective basis. Entity C estimates expected credit losses for this loan program by individually estimating expected credit losses on loans that are more than 90 days past due and using a loss-rate method for estimating expected credit losses on the remainder of the portfolio.

825-15-55-34 To estimate expected credit losses for individual loans that are more than 90 days past due, Entity C uses a discounted cash flow model for each loan. The estimate of cash flows that are to be discounted at the loan's effective interest rate is weighted to reflect both an outcome in which a credit loss results and an outcome in which no credit loss results. Frequently, Entity C has insight into the likelihood of a credit loss as a result of information provided by the borrower and recent discussions with the borrower given its past-due status. Infrequently, it has limited insight into the likelihood of a credit loss and, instead, considers historical loss experience (updated for current conditions and reasonable and supportable forecasts) that would be applicable to a group of similar financial assets (even if Entity C holds no similar group of financial assets as of the reporting date). The expected credit loss is estimated as the difference between the amortized cost basis of the loan and the present value of expected future cash flows.

825-15-55-35 To estimate expected credit losses for the remainder of the loans, Entity C considers historical loss experience (updated for current conditions and reasonable and supportable forecasts that affect the expected collectibility of future cash flows) for groups of financial assets that have similar risk characteristics. It applies an adjusted historical loss rate to the amortized cost of each group of loans that have similar risk characteristics. In this case, the loss rate used to estimate expected credit losses reflects cash flows that the entity does not expect to collect over the life of the financial assets in the pool.

> > Example 5: Estimation of Expected Credit Losses for Trade Receivables Using a Provision Matrix

825-15-55-36 The following Example illustrates how an entity might implement the guidance in Section 825-15-25 for trade receivables using a provision matrix.

825-15-55-37 Entity D manufactures and sells toys to a broad range of customers, primarily retail toy stores. Customers typically are provided payment terms of 90 days with a 2 percent discount if paid within 60 days. The entity has tracked historical loss experience for its trade receivables over the past five years and calculated the following historical loss experience:

a. 0.3 percent for receivables that are current
b. 8 percent for receivables that are 1–30 days past due
c. 26 percent for receivables that are 31–60 days past due
d. 58 percent for receivables that are 61–90 days past due
e. 82 percent for receivables that are more than 90 days past due.

Entity D believes that this historical loss experience is consistent with what will be experienced for financial assets held at the reporting date because the composition of the receivables at the reporting date is consistent with that used in developing the historical statistics (that is, the shared risk characteristics of its customers has not changed significantly over time) and the economic conditions in which the historical statistics were calculated generally are consistent with the economic conditions expected over the remaining lives of the receivables.

825-15-55-38 At the reporting date, Entity D develops the following provision matrix to estimate current expected credit losses.

Past-Due Status	Carrying Value	Loss Rate	Expected Credit Loss Estimate
Current	$ 5,984,698	0.3%	$ 17,954
1–30 days past due	8,272	8%	662
31–60 days past due	2,882	26%	749
61–90 days past due	842	58%	488
More than 90 days past due	1,100	82%	902
	$ 5,997,794		$ 20,755

> > Example 6: Purchased Credit-Impaired Financial Assets

825-15-55-39 Under paragraph 825-15-25-9, for purchased credit-impaired financial assets, the discount embedded in the purchase price that is attributable to expected credit losses should not be recognized as interest income. In all other regards, purchased credit-impaired financial assets follow the recognition and measurement guidance in this Subtopic, including that the allowance for expected credit losses is an estimate of the contractual cash flows not expected to be collected. The following Example illustrates application of the purchased credit-impaired guidance to an individual financial asset.

825-15-55-40 Entity E is a bank that records purchased credit-impaired assets in its existing systems by recognizing the amortized cost of the asset, at acquisition, as equal to the sum of the purchase price and the associated expected credit loss at the date of acquisition. The difference between amortized cost and the par amount of the debt is recognized as a noncredit discount or premium. By doing so, the asset is accreted from this amortized cost to the contractual cash

flows without ever recognizing as interest income the purchase discount attributable to expected credit losses at acquisition.

825-15-55-41 Assume that Entity E pays $750,000 for a debt instrument with a par amount of $1,000,000. The instrument is classified at amortized cost. At the time of purchase, the expected credit loss embedded in the purchase price is $175,000. At that date of acquisition, the statement of financial position would reflect a financial asset carrying value of $925,000 (that is, par less the non-credit-related discount) and an associated allowance for expected credit losses of $175,000. The acquisition-date journal entry is as follows.

Loan—par amount	$1,000,000	
Loan—noncredit discount		$ 75,000
Allowance for credit losses		175,000
Cash		750,000

825-15-55-42 Subsequently, the $75,000 noncredit discount would be accreted into interest income over the life of the debt instrument consistent with other Topics. The $175,000 allowance for expected credit losses would be updated in subsequent periods consistent with the guidance in Section 825-15-25, with changes in the allowance for expected credit losses reflected immediately in the statement of financial performance as a provision for credit losses.

> > Example 7—Disclosure of Credit-Quality Information

825-15-55-43 The following table illustrates certain of the disclosures in paragraph 825-15-50-5.

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

Corporate Credit Exposure
Credit Risk Profile by Creditworthiness Category

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

Consumer Credit Exposure
Credit Risk Profile by FICO Score

	Residential—Prime		Residential—Subprime	
	20X1	20X0	20X1	20X0
<600	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
600–700	XX,XXX	XX,XXX	XX,XXX	XX,XXX
700–800	XX,XXX	XX,XXX	XX,XXX	XX,XXX
800+	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Pass	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Special mention	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Substandard	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity and Internal Risk Grades 1–5

	Consumer—Credit Card		Consumer—Other		Finance Leases		Consumer—Auto	
	20X1	20X0	20X1	20X0	20X1	20X0	20X1	20X0
1–2 internal grade	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
3–4 internal grade	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
5 internal grade	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Performing	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Nonperforming	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

Consumer Credit Exposure
Credit Risk Profile by Loan-to-Value Ratio

	Residential—Prime		Residential—Subprime	
	20X1	20X0	20X1	20X0
0–60%	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
60.01–80%	XX,XXX	XX,XXX	XX,XXX	XX,XXX
80.01–100%	XX,XXX	XX,XXX	XX,XXX	XX,XXX
100.01–120%	XX,XXX	XX,XXX	XX,XXX	XX,XXX
>120%	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

> > Example 8—Disclosure of Past-Due Status

825-15-55-44 The following table illustrates certain of the disclosures in paragraphs 825-15-50-16 and 825-15-50-17(c).

Age Analysis of Past Due Financial Assets
As of December 31, 20X1, and 20X0

	30–59 Days Past Due	60–89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total	Amortized Cost > 90 Days and Accruing
20X1							
Commercial	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
Commercial real estate:							
Commercial real estate construction	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Commercial real estate—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer:							
Consumer—credit card	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—auto	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential:							
Residential—prime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—subprime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Finance leases	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
20X0							
Commercial	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX
Commercial—real estate:							
Commercial real estate construction	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Commercial real estate—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer:							
Consumer—credit card	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—other	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Consumer—auto	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential:							
Residential—prime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Residential—subprime	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Finance leases	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX	$XX,XXX

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 201X-XX, *Financial Instruments—Credit Losses (Subtopic 825-15)*

825-15-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 201X-XX, *Financial Instruments—Credit Losses (Subtopic 825-15):*

a. The pending content that links to this paragraph shall be effective for fiscal years, and interim periods within those fiscal years, beginning on or after [date to be inserted after exposure].
b. An entity shall apply the pending content that links to this paragraph by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective.

c. Earlier application of the pending content that links to this paragraph is not permitted.
d. An entity shall provide the following disclosures in the period that the entity adopts the pending content that links to this paragraph.
    1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle.
    2. The method of applying the change.
    3. The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the guidance is effective. Presentation of the effect on financial statement subtotals is not required.
    4. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which the guidance is effective.
e. An entity that issues interim financial statements shall provide the disclosures in item (d) in each interim financial statement of the year of change and the annual financial statement of the period of the change.

Amendments to the *FASB Accounting Standards Codification*®

1. The Proposed Guidance section of this proposed Update provides the new Subtopic (Subtopic 825-15, Financial Instruments—Credit Losses) that would be added to the *FASB Accounting Standards Codification*® (with a link to transition paragraph 825-15-65-1) as a result of this proposed Update.

2. This section provides amendments to existing guidance that would result from this proposed Update, other than the addition of the new Subtopic 825-15.

Summary of Proposed Amendments to the Accounting Standards Codification

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

Codification Section	**Description of Changes**
Master Glossary	Add the terms *debt instrument, expected credit loss,* and *purchased credit-impaired financial assets.* Amend the terms *class of financing receivable, collateral-dependent loan, credit-quality indicator, effective interest rate, financing receivable, holding gain or loss, loan commitment, portfolio segment,* and *remeasurement event.*
220-10 Comprehensive Income—Overall	Amend paragraph 220-10-45-10A to reflect the addition of Subtopic 825-15. Supersede paragraph 220-10-45-16A to reflect the addition of Subtopic 825-15.
270-10 Interim Reporting—Overall	Amend paragraph 270-10-50-1 to reflect the addition of Subtopic 825-15.

Codification Section	Description of Changes
310-10 Receivables—Overall	Supersede paragraphs 310-10-35-1 through 35-43 to reflect the addition of Subtopic 825-15. Supersede paragraphs 310-10-45-5 through 45-6 to reflect the addition of Subtopic 825-15. Supersede paragraphs 310-10-50-1 through 50-30 to reflect the addition of Subtopic 825-15. Add paragraph 310-10-50-1B to reflect the addition of Subtopic 825-15. Amend paragraph 310-10-50-32 to reflect the addition of Subtopic 825-15 and the removal of paragraph 310-10-50-7B. Supersede paragraphs 310-10-55-1 through 55-11 and paragraphs 310-10-55-13 through 55-22 to reflect the addition of Subtopic 825-15.
310-20 Receivables—Nonrefundable Fees and Other Costs	Supersede paragraphs 310-20-60-1 through 60-2 to reflect the addition of Subtopic 825-15 and the removal of Subtopic 325-40.
310-30 Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality	Supersede Subtopic 310-30 to reflect the addition of Subtopic 825-15.

Codification Section	Description of Changes
310-40 Receivables—Troubled Debt Restructurings by Creditors	Amend paragraph 310-40-15-11 to reflect the removal of Subtopic 310-30. Supersede paragraphs 310-40-35-8 through 35-9 to reflect the addition of Subtopic 825-15. Amend paragraph 310-40-35-10 to reflect the addition of Subtopic 825-15. Supersede paragraphs 310-40-50-2 through 50-6 to reflect the removal of paragraph 310-10-50-15, the removal of paragraph 310-10-50-20, and the addition of Subtopic 825-15. Amend paragraphs 310-40-55-13 through 55-15 to reflect the addition of Subtopic 825-15.
320-10 Investments—Debt and Equity Securities—Overall	Supersede paragraph 320-10-15-4 to reflect the addition of Subtopic 825-15. Amend paragraph 320-10-15-7 to reflect the addition of Subtopic 825-15. Supersede paragraphs 320-10-35-17 through 35-37 and paragraph 320-10-35-43 to reflect the addition of Subtopic 825-15. Supersede paragraphs 320-10-45-8A and 45-9A to reflect the addition of Subtopic 825-15 and the removal of paragraph 320-10-55-21A. Supersede paragraphs 320-10-50-6 through 50-8B to reflect the addition of Subtopic 825-15. Supersede paragraphs 320-10-55-21A through 55-23 to reflect the addition of Subtopic 825-15.
323-10 Investments—Equity Method and Joint Ventures—Overall	Amend paragraphs 323-10-55-34, 323-10-55-42, 323-10-55-44, and 323-10-55-46 to reflect the addition of Subtopic 825-15.

Codification Section	Description of Changes
325-40 Investments—Other—Beneficial Interests in Securitized Financial Assets	Supersede Subtopic 325-40 to reflect the addition of Subtopic 825-15.
450-20 Contingencies—Loss Contingencies	Amend paragraph 450-20-15-2 to reflect the addition of Subtopic 825-15. Amend paragraph 450-20-50-2A to reflect the addition of Subtopic 825-15. Amend paragraphs 450-20-60-2 through 60-3 to reflect the addition of Subtopic 825-15.
805-20 Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest	Amend paragraphs 805-20-30-2, 805-20-30-10, and 805-20-30-12 to reflect the addition of paragraph 805-20-30-24. Add paragraph 805-20-30-24.
810-10 Consolidation—Overall	Amend paragraph 810-10-30-8C to reflect the addition of Subtopic 825-15.
815-15 Derivatives and Hedging—Embedded Derivatives	Amend paragraph 815-15-25-5 to reflect the addition of Subtopic 825-15 and the amendment of the definition of *remeasurement event*.
815-25 Derivatives and Hedging—Fair Value Hedges	Amend paragraphs 815-25-35-11 through 35-12 to reflect the addition of Subtopic 825-15 and the substitution of the term *financial asset* for the term *loan*. Amend paragraphs 815-25-55-85 and 810-25-55-88 through 55-89 to reflect the addition of Subtopic 825-15.

Codification Section	Description of Changes
820-10 Fair Value Measurement—Overall	Amend paragraph 820-10-55-92 to reflect the removal of Subtopic 325-40.
830-20 Foreign Currency Matters—Foreign Currency Transactions	Supersede paragraph 830-20-35-7 to reflect the addition of Subtopic 825-15 and the removal of paragraph 320-10-35-37.
835-10 Interest—Overall	Supersede paragraphs 835-10-60-2 through 60-3 to reflect the removal of paragraph 310-10-35-39 and Subtopic 310-30.
840-30 Leases—Capital Leases	Amend paragraphs 840-30-50-4A and 840-30-50-5A to reflect the removal of paragraphs 310-10-50-5A, 310-10-50-11A, and 310-10-50-27.
860-10 Transfers and Servicing—Overall	Amend paragraph 860-10-50-5 to reflect the removal of paragraph 310-10-50-25.
860-20 Transfers and Servicing—Sales of Financial Assets	Amend paragraphs 860-20-30-2, 860-20-35-3, and 860-20-35-9 to reflect the removal of Subtopic 325-40 and the addition of Subtopic 825-15.
942-230 Financial Services—Depository and Lending—Statement of Cash Flows	Amend paragraph 942-230-55-2 to reflect the change from an incurred to an expected loss model.
942-310 Financial Services—Depository and Lending—Receivables	Amend paragraph 942-310-05-1 to reflect the addition of Subtopic 825-15. Supersede paragraph 942-310-05-4 to reflect the addition of Subtopic 825-15. Supersede paragraph 942-310-25-1 to reflect the addition of Subtopic 825-15. Supersede paragraphs 942-310-35-1 through 35-4 to reflect the addition of Subtopic 825-15.

Codification Section	Description of Changes
944-20 Financial Services—Insurance—Insurance Activities	Amend paragraphs 944-20-55-36 through 55-37 to reflect the addition of Subtopic 825-15.
944-80 Financial Services—Insurance—Separate Accounts	Amend paragraph 944-80-25-9 to reflect the addition of Subtopic 825-15. Amend paragraph 944-80-55-11 to reflect the addition of Subtopic 825-15.
944-310 Financial Services—Insurance—Receivables	Amend paragraphs 944-310-35-3 through 35-4 and paragraph 944-310-35-6 to reflect the addition of Subtopic 825-15. Amend paragraphs 944-310-45-4 through 45-4A to reflect the addition of Subtopic 825-15.
944-325 Financial Services—Insurance—Investments—Other	Amend paragraph 944-325-45-5 to reflect the addition of Subtopic 825-15.
948-310 Financial Services—Mortgage Banking—Receivables	Supersede paragraph 948-310-35-5 to reflect the addition of Subtopic 825-15.
954-320 Health Care Entities—Investments—Debt and Equity Securities	Supersede paragraph 954-320-35-1 to reflect the addition of Subtopic 825-15 and the removal of paragraphs 320-10-35-17 through 35-34E. Amend paragraph 954-320-45-1 to reflect the addition of Subtopic 825-15.
958-320 Not-for-Profit Entities—Investments—Debt and Equity Securities	Amend paragraph 958-320-55-5 to reflect the addition of Subtopic 825-15.

Codification Section	Description of Changes
958-325 Not-for-Profit Entities—Investments—Other	Amend paragraph 958-325-35-1 to reflect the addition of Subtopic 825-15.
978-310 Real Estate—Time-Sharing Activities—Receivables	Amend paragraphs 978-310-35-5 through 35-6 to reflect the addition of Subtopic 825-15.

Introduction

4. The Accounting Standards Codification is amended as described in paragraphs 5–58. 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 <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

5. Add the following Master Glossary terms, with a link to transition paragraph 825-15-65-1, as follows:

<u>Debt Instrument</u>

<u>A receivable or payable that represents a contractual right to receive cash (or other consideration) or a contractual obligation to pay cash (or other consideration) on fixed or determinable dates, whether or not there is any stated provision for interest.</u>

<u>Expected Credit Loss</u>

<u>An estimate of all contractual cash flows not expected to be collected from a recognized financial asset (or group of financial assets) or commitment to extend credit.</u>

<u>Purchased Credit-Impaired Financial Assets</u>

<u>Acquired individual assets (or acquired groups of financial assets with shared risk characteristics at the date of acquisition) that have experienced a significant deterioration in credit quality since origination, based on the assessment of the acquirer. Examples of shared risk characteristics may include:</u>

a. Asset type
b. Credit risk rating
c. Past-due status
d. Collateral type
e. Date of origination
f. Term to maturity
g. Industry
h. Geographical location of the debtor
i. The value of collateral relative to commitment for nonrecourse assets and other factors that may influence likelihood of debtor electing to default.

6. Amend the following Master Glossary terms, with a link to transition paragraph 825-15-65-1, as follows:

Class of ~~Financing Receivable~~ Financial Asset

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

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

~~See paragraphs 310-10-55-16 through 55-18 and 310-10-55-22.~~

Collateral-Dependent ~~Loan~~ Financial Asset

A ~~loan~~ financial asset for which repayment is expected to be provided ~~solely by the underlying collateral~~ primarily or substantially through the operation (by the lender) or sale of the collateral, on the basis of the entity's assessment as of the reporting date.

Credit-Quality Indicator

A statistic about the credit quality of ~~financing receivables~~ a debt instrument.

Effective Interest Rate

The rate of return implicit in the ~~loan~~ debt instrument, that is, the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the ~~loan~~ debt instrument. For purchased credit-impaired financial assets, however, the premium or discounting at acquisition excludes the discount embedded in the purchase price that is attributable to the acquirer's assessment of expected credit losses at the date of acquisition.

Financing Receivable

A financing arrangement that has both of the following characteristics:

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

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

Holding Gain or Loss

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

Loan Commitment

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

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

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

Portfolio Segment

The level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. ~~See paragraphs 310-10-55-21 through 55-22.~~

Remeasurement Event

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

Amendments to Subtopic 220-10

7. Amend paragraph 220-10-45-10A, with a link to transition paragraph 825-15-65-1, as follows:

Comprehensive Income—Overall

Other Presentation Matters

> > Items within Other Comprehensive Income

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

a. Foreign currency translation adjustments (see paragraph 830-30-45-12)
b. Gains and losses on foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign entity, commencing as of the designation date (see paragraph 830-20-35-3(a))
c. Gains and losses on intra-entity foreign currency transactions that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future), when the entities to the transaction are consolidated, combined, or accounted for by the equity method in the reporting entity's financial statements (see paragraph 830-20-35-3(b))
d. Gains and losses (effective portion) on derivative instruments that are designated as, and qualify as, cash flow hedges (see paragraph 815-20-35-1(c))
e. Unrealized holding gains and losses on available-for-sale securities (see paragraph 320-10-45-1)
f. Unrealized holding gains and losses that result from a debt security being transferred into the available-for-sale category from the held-to-maturity category (see paragraph 320-10-35-10(c))
g. Subparagraph superseded by Accounting Standards Update 201X-XX.~~Amounts recognized in other comprehensive income for debt securities classified as available-for-sale and held-to-maturity related to~~

~~an other-than-temporary impairment recognized in accordance with Section 320-10-35 if a portion of the impairment was not recognized in earnings~~

h. Subparagraph superseded by Accounting Standards Update 201X-XX.~~Subsequent decreases (if not an other-than-temporary impairment) or increases in the fair value of available-for-sale securities previously written down as impaired (see paragraph 320-10-35-18)~~
i. Gains or losses associated with pension or other postretirement benefits (that are not recognized immediately as a component of net periodic benefit cost) (see paragraph 715-20-50-1(j))
j. Prior service costs or credits associated with pension or other postretirement benefits (see paragraph 715-20-50-1(j))
k. Transition assets or obligations associated with pension or other postretirement benefits (that are not recognized immediately as a component of net periodic benefit cost) (see paragraph 715-20-50-1(j)).

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

8. Supersede paragraph 220-10-45-16A, with a link to transition paragraph 825-15-65-1, as follows:

220-10-45-16A Paragraph superseded by Accounting Standards Update 201X-XX. ~~An entity shall only determine reclassification adjustments for amounts recognized in other comprehensive income related to other-than-temporary impairments of debt securities classified as held-to-maturity if the loss is realized as a result of a sale of the security or an additional credit loss occurs. If the security is sold, Section 320-10-25 provides guidance on the effect of changes in circumstances that would not call into question the entity's intent to hold other debt securities to maturity in the future. If the held-to-maturity debt security is not sold and additional credit losses do not occur, the amount recognized in other comprehensive income shall be accounted for in accordance with Section 320-10-35.~~

Amendments to Subtopic 270-10

9. Amend paragraph 270-10-50-1, with a link to transition paragraph 825-15-65-1, as follows:

Interim Reporting—Overall

Disclosure

> Disclosure of Summarized Interim Financial Data by Publicly Traded Companies

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

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

income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.

j. All of the following information about defined benefit pension plans and other defined benefit postretirement benefit plans, disclosed for all periods presented pursuant to the provisions of Subtopic 715-20:
   1. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to a settlement or curtailment
   2. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 715-20-50-1. Estimated contributions may be presented in the aggregate combining all of the following:
      i. Contributions required by funding regulations or laws
      ii. Discretionary contributions
      iii. Noncash contributions.

k. The information about the use of fair value to measure assets and liabilities recognized in the statement of financial position pursuant to Section 820-10-50

l. The information about derivative instruments as required by Sections 815-10-50, 815-20-50, 815-25-50, 815-30-50, and 815-35-50

m. The information about fair value of financial instruments as required by Section 825-10-50

n. The information about certain investments in debt and equity securities as required by Sections 320-10-50 and 942-320-50

o. <u>Subparagraph superseded by Accounting Standards Update 201X-XX.</u> ~~The information about other-than-temporary impairments as required by Sections 320-10-50, 325-20-50, and 958-320-50~~

p. All of the following information about the credit quality of ~~**financing receivables**~~ <u>financial assets</u> and the allowance for credit losses determined in accordance with the provisions of ~~Topic 310~~ <u>Subtopic 825-15</u>:
   1. Nonaccrual and ~~past due financing receivables~~ <u>past-due financial assets</u> (see paragraphs ~~310-10-50-5A through 50-7B~~ <u>825-15-50-16 through 50-17</u>)
   2. Allowance for <u>expected</u> credit losses related to ~~financing receivables~~ <u>financial assets</u> (see paragraphs ~~310-10-50-11A through 50-11C~~ <u>825-15-50-8 through 50-10</u>)
   3. <u>Subparagraph superseded by Accounting Standards Update 201X-XX.</u>~~Impaired loans (see paragraphs 310-10-50-14A through 50-15)~~

4. Credit quality information related to ~~financing receivables~~ financial assets (see paragraphs ~~310-10-50-27 through 50-30~~ 825-15-50-4 through 50-7)
5. Modifications of financing receivables (see paragraphs 310-10-50-31 through 50-34).

q. The gross information and net information required by paragraphs 210-20-50-1 through 50-6.

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

Amendments to Subtopic 310-10

10. Supersede paragraphs 310-10-35-1 through 35-43 and their related headings, with a link to transition paragraph 825-15-65-1, as follows:

Receivables—Overall

Subsequent Measurement

310-10-35-1 Paragraph superseded by Accounting Standards Update 201X-XX. ~~This Subsection provides the following subsequent measurement guidance:~~

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

~~**> Loan Impairment**~~

310-10-35-2 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Subtopic 450-20 provides the basic guidance for recognition of impairment losses for all receivables (except those receivables specifically addressed by other Topics, such as debt securities). This Subsection provides more specific guidance on measurement and disclosure for a subset of the population of loans. That subset consists of loans that are identified for evaluation and that are individually deemed to be impaired (because it is **probable** that the creditor will be unable to collect all the contractual interest and principal payments as scheduled in the loan agreement). It also includes all loans that are restructured in a troubled debt restructuring involving a modification of terms, except for those loans that are excluded from the scope of this guidance, as discussed in paragraph 310-10-35-13(b) through (d).~~

310-10-35-3 Paragraph superseded by Accounting Standards Update 201X-XX. ~~This Subsection addresses both the impairment concepts applicable to all receivables, with references to the guidance in Subtopic 450-20 where appropriate, and the impairment concepts related to loans that are identified for evaluation and that are individually deemed to be impaired, as discussed in paragraph 310-10-35-2.~~

~~**> General Concepts**~~

310-10-35-4 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following provides an overview of generally accepted accounting principles (GAAP) for loan impairment:~~

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

~~**> Impairment of Receivables**~~

310-10-35-5 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following discusses the general principles for measurement impairment of receivables under Subtopic 450-20, specifically:~~

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

~~> > Applicability~~

310-10-35-6 Paragraph superseded by Accounting Standards Update 201X-XX. ~~A creditor needs to apply judgment based on individual facts and circumstances to determine what represents large groups of smaller-balance homogeneous loans. Paragraphs 310-10-35-7 through 35-11 would apply to those groups of smaller-balance loans as well as loans that are not identified for evaluation or that are evaluated but are not individually considered impaired.~~

~~> > Losses from Uncollectible Receivables~~

310-10-35-7 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The conditions under which receivables exist usually involve some degree of uncertainty about their collectibility, in which case a contingency exists.~~

310-10-35-8 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Subtopic 450-20 requires recognition of a loss when both of the following conditions are met:~~

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

310-10-35-9 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Losses from uncollectible receivables shall be accrued when both of the preceding conditions are met. Those conditions may be considered in relation to individual receivables or in relation to groups of similar types of receivables. If the conditions are met, accrual shall be made even though the particular receivables that are uncollectible may not be identifiable.~~

310-10-35-10 Paragraph superseded by Accounting Standards Update 201X-XX. ~~If, based on current information and events, it is probable that the entity will be unable to collect all amounts due according to the contractual terms of the receivable, the condition in paragraph 450-20-25-2(a) is met. As used here, all amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments will be collected as scheduled according to the receivable's contractual terms. However, a creditor need not consider an insignificant delay or insignificant shortfall in amount of payments as meeting the condition in paragraph 450-20-25-2(a). Whether the amount of loss can be reasonably estimated (the condition in paragraph 450-20-25-2(b)) will normally depend on, among other things, the experience of the entity, information about the ability of individual debtors to pay, and appraisal of the receivables in light of the current economic environment. In the case of an entity that has no experience of its own, reference to the experience of other entities in the same business may be appropriate.~~

310-10-35-11 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The inability to make a reasonable estimate of the amount of loss from uncollectible receivables (that is, failure to satisfy the condition in paragraph 450-20-25-2(b)) precludes accrual and may, if there is significant uncertainty as to collection, suggest that the installment method, the cost recovery method, or some other method of revenue recognition be used. See paragraphs 605-10-25-3 through 25-4 for further guidance.~~

~~> Loans that Are Identified for Evaluation or that Are Individually Considered Impaired~~

310-10-35-12 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following addresses impairment of loans that are identified for evaluation or that are individually considered impaired, specifically:~~

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

~~> > Applicability~~

310-10-35-13 Paragraph superseded by Accounting Standards Update 201X-XX. ~~This guidance applies to all creditors. It addresses the accounting by creditors for impairment of a loan by specifying how allowances for credit losses related to certain loans shall be determined. The accounting for impaired loans shall be consistent among all creditors and for all types of lending except for loans that are measured at **fair value** or at the lower of cost or fair value in accordance with specialized industry practice. Therefore, this guidance applies to all loans that are identified for evaluation, uncollateralized as well as collateralized, except the following:~~

~~a. Large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment. Those loans may include but are not limited to credit card, residential mortgage, and consumer installment loans.~~
~~b. Loans that are measured at fair value or at the lower of cost or fair value, for example, in accordance with Topic 948 or other specialized industry practice.~~
~~c. Leases as defined in Topic 840.~~
~~d. Debt securities as defined in Topic 320.~~

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

~~**> > Identifying Loans for Evaluation**~~

310-10-35-14 Paragraph superseded by Accounting Standards Update 201X-XX. ~~This guidance does not specify how a creditor should identify loans that are to be evaluated for collectibility. A creditor shall apply its normal loan review procedures in making that judgment. Sources of information useful in identifying loans for evaluation include the following:~~

~~a. A specific materiality criterion~~
~~b. Regulatory reports of examination~~
~~c. Internally generated listings such as watch lists, past due reports, overdraft listings, and listings of loans to insiders~~
~~d. Management reports of total loan amounts by borrower~~
~~e. Historical loss experience by type of loan~~
~~f. Loan files lacking current financial data related to borrowers and guarantors~~
~~g. Borrowers experiencing problems such as operating losses, marginal working capital, inadequate cash flow, or business interruptions~~
~~h. Loans secured by collateral that is not readily marketable or that is susceptible to deterioration in realizable value~~
~~i. Loans to borrowers in industries or countries experiencing economic instability~~
~~j. Loan documentation and compliance exception reports.~~

310-10-35-15 Paragraph superseded by Accounting Standards Update 201X-XX. ~~After a loan has been individually identified for evaluation, a creditor shall not aggregate loans with common risk characteristics when assessing whether loans are impaired. Only if a creditor can identify which individual loans (if any) are impaired (because it is probable that the creditor will be unable to collect all the contractual interest and principal payments as scheduled in the loan agreement) shall an allowance be measured for individual loans under this Subsection.~~

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

310-10-35-16 Paragraph superseded by Accounting Standards Update 201X-XX. ~~A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement. See Subtopic 310-40 for specific application of this guidance to loans restructured in a troubled debt restructuring.~~

310-10-35-17 Paragraph superseded by Accounting Standards Update 201X-XX. ~~This guidance does not specify how a creditor should determine that it is probable that it will be unable to collect all amounts due according to the contractual terms of a loan. A creditor shall apply its normal loan review procedures in making that judgment. An insignificant delay or insignificant~~

~~shortfall in amount of payments does not require application of this guidance. A loan is not impaired during a period of delay in payment if the creditor expects to collect all amounts due including interest accrued at the contractual interest rate for the period of delay. Thus, a demand loan or other loan with no stated maturity is not impaired if the creditor expects to collect all amounts due including interest accrued at the contractual interest rate during the period the loan is outstanding.~~

310-10-35-18 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The term *probable* is used consistent with its use in Subtopic 450-20, which defines probable as an area within a range of the likelihood that a future event or events will occur confirming the fact of the loss. That range is from probable to remote, as follows:~~

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

310-10-35-19 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The term probable is further described in paragraph 450-20-25-3, which indicates that the conditions for accrual in paragraph 450-20-25-2(a) are not intended to be so rigid that they require virtual certainty before a loss is accrued. They require only that it be probable that an asset has been impaired or a liability has been incurred and that the amount of loss be reasonably estimable. Application of the term probable in practice requires judgment, and probable does not mean virtually certain. Probable is a higher level of likelihood than more likely than not.~~

~~> > Measurement of Impairment~~

310-10-35-20 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Measuring impairment of a loan requires judgment and estimates, and the eventual outcomes may differ from those estimates. Creditors shall have latitude to develop measurement methods that are practical in their circumstances.~~

310-10-35-21 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Some impaired loans have risk characteristics that are unique to an individual borrower, and the creditor shall apply the measurement methods described in paragraphs 310-30-30-2; 310-10-35-22 through 35-28; and 310-10-35-37 on a loan-by-loan basis. However, some impaired loans may have risk characteristics in common with other impaired loans. A creditor may aggregate those loans and may use historical statistics, such as average recovery period and average amount recovered, along with a composite **effective interest rate** as a means of measuring impairment of those loans.~~

310-10-35-22 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~When a loan is impaired (see paragraphs 310-10-35-16 through 35-17), a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a~~

~~practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a **collateral-dependent loan**. If that practical expedient is used, Topic 820 shall apply.~~

310-10-35-23 Paragraph superseded by Accounting Standards Update 201X-XX. ~~If a creditor uses the fair value of the collateral to measure impairment of a collateral-dependent loan and repayment or satisfaction of a loan is dependent on the sale of the collateral, the fair value of the collateral shall be adjusted to consider estimated costs to sell. However, if repayment or satisfaction of the loan is dependent only on the operation, rather than the sale, of the collateral, the measure of impairment shall not incorporate estimated costs to sell the collateral.~~

310-10-35-24 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The creditor may choose a measurement method on a loan-by-loan basis. A creditor shall consider estimated costs to sell, on a discounted basis, in the measure of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral) is less than the **recorded investment** in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), a creditor shall recognize an impairment by creating a valuation allowance with a corresponding charge to bad-debt expense or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to bad-debt expense. The term *recorded investment in the loan* is distinguished from *net carrying amount of the loan* because the latter term is net of a valuation allowance, while the former term is not. The recorded investment in the loan does, however, reflect any direct write-down of the investment.~~

310-10-35-25 Paragraph superseded by Accounting Standards Update 201X-XX. ~~If a creditor bases its measure of loan impairment on a present value amount, the creditor shall calculate that present value amount based on an estimate of the expected future cash flows of the impaired loan, discounted at the loan's effective interest rate. A creditor's recorded investment in a loan at origination and during the life of the loan, as long as the loan performs according to its contractual terms, is the sum of the present values of the future cash flows that are designated as interest and the future cash flows that are designated as principal discounted at the effective interest rate implicit in the loan. A loan that becomes impaired (because it is probable that the creditor will be unable to collect all the contractual interest payments and contractual principal payments as scheduled in the loan agreement) shall continue to be carried at an amount that considers the discounted value of all expected future cash flows in a manner consistent with the loan's measurement before it became impaired.~~

310-10-35-26 Paragraph superseded by Accounting Standards Update 201X-XX. ~~If a creditor bases its measure of loan impairment on a present value calculation,~~

~~the estimates of expected future cash flows shall be the creditor's best estimate based on reasonable and supportable assumptions and projections. All available evidence, including estimated costs to sell if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan, shall be considered in developing the estimate of expected future cash flows. The weight given to the evidence shall be commensurate with the extent to which the evidence can be verified objectively. If a creditor estimates a range for either the amount or timing of possible cash flows, the likelihood of the possible outcomes shall be considered in determining the best estimate of expected future cash flows.~~

310-10-35-27 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~In addition, a creditor shall consider all available information reflecting past events and current conditions when developing the estimate of expected future cash flows. All available information would include existing environmental factors, for example, existing industry, geographical, economic, and political factors that are relevant to the collectibility of that loan and that indicate that it is probable that an asset had been impaired at the date of the financial statements.~~

310-10-35-28 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~If the loan's contractual interest rate varies based on subsequent changes in an independent factor, such as an index or rate, for example, the prime rate, the London Interbank Offered Rate (LIBOR), or the U.S. Treasury bill weekly average, that loan's effective interest rate may be calculated based on the factor as it changes over the life of the loan or may be fixed at the rate in effect at the date the loan meets the impairment criterion in paragraphs 310-10-35-16 through 35-17. The creditor's choice shall be applied consistently for all loans whose contractual interest rate varies based on subsequent changes in an independent factor. Projections of changes in the factor shall not be made for purposes of determining the effective interest rate or estimating expected future cash flows.~~

310-10-35-29 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The measurement method selected for an individual impaired loan shall be applied consistently to that loan. A change in method shall be justified by a change in circumstance.~~

310-10-35-30 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~There are two considerations related to measurement of impairment:~~

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

~~> > > Impact of Hedging~~

310-10-35-31 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Section 815-25-35 implicitly affects the measurement of impairment under this Topic by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted recorded investment~~

~~in a hedged loan. When the recorded investment of a loan has been adjusted under fair value hedge accounting, the effective rate is the discount rate that equates the present value of the loan's future cash flows with that adjusted recorded investment. The adjustment under fair value hedge accounting of the loan's carrying amount for changes in fair value attributable to the hedged risk under Section 815-25-35 shall be considered to be an adjustment of the loan's recorded investment. Paragraph 815-25-35-11 explains that the loan's original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value.~~

~~> > > Measurement of Impairment when Foreclosure Is Probable~~

310-10-35-32 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Regardless of the measurement method, a creditor shall measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable. When a creditor determines that foreclosure is probable, a creditor shall remeasure the loan at the fair value of the collateral so that loss recognition is not delayed until actual foreclosure. However, the requirement to discount may not preclude the need to recognize additional loss when foreclosure is probable because estimates of expected future cash flows are not remeasured using a market rate and because estimates of expected future cash flows may change when a creditor determines that foreclosure is probable.~~

~~> > Interaction with Subtopic 450-20~~

310-10-35-33 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The following provides guidance on the interaction between the impairment guidance for receivables in general, which is discussed in Subtopic 450-20, and the impairment guidance for loans that are identified for evaluation or that are individually considered impaired discussed in this Subsection.~~

310-10-35-34 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~In addition to the allowance calculated in accordance with the guidance in this Subsection, a creditor shall continue to recognize an allowance for credit losses necessary to comply with Subtopic 450-20. The total allowance for credit losses related to loans includes those amounts that have been determined in accordance with that Subtopic and with this Subsection. Double counting by applying this Subsection and then applying that Subtopic to measure the same loss again is inappropriate.~~

310-10-35-35 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~If a creditor concludes that an individual loan specifically identified for evaluation is impaired, the creditor shall not establish an allowance in addition to one measured under this Subsection. The allowance provided for a specific loan under this Subsection shall not be supplemented by an additional allowance under Subtopic 450-20. The allowance established under this Subsection shall be the sole measure of impairment for that loan. (See boxes C and G in the flowchart in paragraph 310-10-55-1). For a loan that is impaired, no additional~~

~~loss recognition is appropriate under Subtopic 450-20 even if the measurement of impairment under this Subsection results in no allowance. For example, a creditor might conclude for a collateral-dependent loan that it is impaired (because it is probable that the creditor will be unable to collect all the contractual interest and principal payments as scheduled in the loan agreement). The creditor might measure the impairment using the fair value of the collateral, which could result in no allowance if the fair value of the collateral is greater than the recorded investment in the loan. Another example would be when the recorded investment of an impaired loan has been written down to a level where no allowance is required.~~

310-10-35-36 Paragraph superseded by Accounting Standards Update 201X-XX. ~~If a creditor concludes that an individual loan specifically identified for evaluation is not impaired under this Subsection, that loan may be included in the assessment of the allowance for loan losses under Subtopic 450-20, but only if specific characteristics of the loan indicate that it is probable that there would be an incurred loss in a group of loans with those characteristics. Characteristics or risk factors must be specifically identified to support an accrual for losses that have been incurred but that have not yet reached the point where it is probable that amounts will not be collected on a specific individual loan. A creditor shall not ignore factors and information obtained in the evaluation of the loan's collectibility. For example, if an individual loan specifically identified for evaluation is fully collateralized with risk-free assets, then consideration of that loan as sharing characteristics with a group of uncollateralized loans is inappropriate. Under Subtopic 450-20, a loss is recognized if characteristics of a loan indicate that it is probable that a group of similar loans includes some losses even though the loss could not be identified to a specific loan. However, a loss would be recognized only if it is probable that the loss has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. (See boxes D, E, and F in the flowchart in paragraph 310-10-55-1.)~~

~~> > Changes in the Net Carrying Amount of an Impaired Loan~~

310-10-35-37 Paragraph superseded by Accounting Standards Update 201X-XX. ~~After the initial measurement of impairment, if there is a significant change (increase or decrease) in the amount or timing of an impaired loan's expected future cash flows, or if actual cash flows are significantly different from the cash flows previously projected, a creditor shall recalculate the impairment by applying the procedures specified in paragraphs 310-10-35-21 through 35-22 and 310-10-35-24 through 35-26 and by adjusting the valuation allowance. Similarly, a creditor that measures impairment based on the observable market price of an impaired loan or the fair value of the collateral of an impaired collateral-dependent loan shall adjust the valuation allowance if there is a significant change (increase or decrease) in either of those bases. However, the net carrying amount of the loan shall at no time exceed the recorded investment in the loan.~~

310-10-35-38 Paragraph superseded by Accounting Standards Update 201X-XX. ~~When an asset is carried on a discounted basis, the present value of expected future cash flows will increase from one reporting period to the next as a result of the passage of time. The present value also may change from changes in estimates of the timing or amount of expected future cash flows. Similarly, the observable market price of an impaired loan or the fair value of the collateral of an impaired collateral-dependent loan may change from one reporting period to the next. Because the net carrying amount of an impaired loan shall be the present value of expected future cash flows (or the observable market price or the fair value of the collateral) not only at the date at which impairment initially is recognized but also at each subsequent reporting period, recognition of changes in that measure is required. However, the net carrying amount of the loan shall never exceed the recorded investment in the loan.~~

310-10-35-39 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Except as noted in the next paragraph, this Subsection does not address how a creditor should recognize, measure, or display interest income on an impaired loan. Some accounting methods for recognizing income may result in a recorded investment in an impaired loan that is less than the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral). In that case, while the loan would meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17, no additional impairment would be recognized. Those accounting methods include recognition of interest income using a cost-recovery method, a cash-basis method, or some combination of those methods. The recorded investment in an impaired loan also may be less than the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral) because the creditor has charged off part of the loan.~~

310-10-35-40 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following are two alternative income recognition methods to account for changes in the net carrying amount of an impaired loan subsequent to the initial measure of impairment:~~

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

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

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

310-10-35-41 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Credit losses for loans and trade receivables, which may be for all or part of a particular loan or trade receivable, shall be deducted from the allowance. The related loan or trade receivable balance shall be charged off in the period in which the loans or trade receivables are deemed uncollectible. Recoveries of loans and trade receivables previously charged off shall be recorded when received.~~

310-10-35-42 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Practices differ between entities as some industries typically credit recoveries directly to earnings while financial institutions typically credit the allowance for loan losses for recoveries. The combination of this practice and the practice of frequently reviewing the adequacy of the allowance for loan losses results in the same credit to earnings in an indirect manner.~~

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

310-10-35-43 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Paragraph 825-10-35-1 states that an accrual for credit loss on a financial instrument with off-balance-sheet risk (including standby letters of credit and certain loan commitments) shall be recorded separate from a valuation account related to a recognized financial instrument and provides related guidance.~~

11. Supersede paragraphs 310-10-45-5 through 45-6 and their related heading, with a link to transition paragraph 825-15-65-1, as follows:

Other Presentation Matters

~~**> Bad-Debt Expense**~~

310-10-45-5 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The change in present value from one reporting period to the next may result not only from the passage of time but also from changes in estimates of the timing or amount of expected future cash flows. A creditor that measures impairment based on the present value of expected future cash flows is permitted to report the entire change in present value as bad-debt expense. Alternatively, a creditor may report the change in present value attributable to the passage of time as interest income. See paragraph 310-10-50-19 for a disclosure requirement applicable to creditors that choose the latter alternative and report changes in present value attributable to the passage of time as interest income.~~

310-10-45-6 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The observable market price of an impaired **loan** or the **fair value** of the collateral of an impaired **collateral-dependent loan** may change from one reporting period to the next. Changes in observable market prices or the fair~~

~~value of the collateral shall be reported as bad-debt expense or a reduction in bad-debt expense.~~

12. Supersede paragraphs 310-10-50-1 through 50-30 and their related headings and add paragraph 310-10-50-1B, with a link to transition paragraph 825-15-65-1, as follows:

Disclosure

310-10-50-1 Paragraph superseded by Accounting Standards Update 201X-XX. ~~This Subsection provides the following disclosure guidance for receivables, off-balance-sheet credit exposures, and foreclosed and repossessed assets:~~

- ~~a. Accounting policies for loans and trade receivables~~
- ~~b. Assets serving as collateral~~
- ~~c. Nonaccrual and past due financing receivables~~
- ~~d. Accounting policies for off-balance-sheet credit exposures~~
- ~~e. Foreclosed and repossessed assets~~
- ~~f. Allowance for credit losses~~
- ~~g. Impaired loans~~
- ~~h. Loss contingencies~~
- ~~i. Risks and uncertainties~~
- ~~j. **Fair value** disclosures~~
- ~~k. Credit quality information~~
- ~~l. Modifications.~~

~~**> Accounting Policies for Loans and Trade Receivables**~~

310-10-50-1A Paragraph superseded by Accounting Standards Update 201X-XX. ~~The guidance in paragraphs 310-10-50-2 through 50-4A applies only to the following **financing receivables**:~~

- ~~a. Loans~~
- ~~b. Trade receivables.~~

310-10-50-1B This Section provides disclosure guidance for troubled debt restructurings.

310-10-50-2 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The summary of significant accounting policies shall include the following:~~

- ~~a. The basis for accounting for loans and trade receivables~~
- ~~b. The method used in determining the lower of cost or fair value of nonmortgage loans held for sale (that is, aggregate or individual asset basis)~~
- ~~c. The classification and method of accounting for interest-only strips, loans, other receivables, or retained interests in securitizations that can~~

~~be contractually prepaid or otherwise settled in a way that the holder would not recover substantially all of its **recorded investment**~~

~~d. The method for recognizing interest income on **loan** and trade receivables, including a statement about the entity's policy for treatment of related fees and costs, including the method of amortizing net deferred fees or costs.~~

310-10-50-3 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~If major categories of loans or trade receivables are not presented separately in the balance sheet (see paragraph 310-10-45-2), they shall be presented in the notes to the financial statements.~~

310-10-50-4 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The allowance for credit losses (also referred to as the allowance for doubtful accounts) and, as applicable, any unearned income, any unamortized premiums and discounts, and any net unamortized deferred fees and costs, shall be disclosed in the financial statements.~~

310-10-50-4A <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Except for credit card receivables, an entity shall disclose its policy for charging off uncollectible trade accounts receivable that have both of the following characteristics:~~

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

~~**> Assets Serving as Collateral**~~

310-10-50-5 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~For required disclosures of the carrying amount of loans, trade receivables, securities and financial instruments that serve as collateral for borrowings, see paragraph 860-30-50-1A.~~

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

310-10-50-5A <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The guidance in paragraphs 310-10-50-6 through 50-8 does not apply to loans acquired with deteriorated credit quality (accounted for under Subtopic 310-30).~~

310-10-50-5B <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The guidance in paragraphs 310-10-50-6 through 50-7A shall be provided by **class of financing receivable** except for the following financing receivables:~~

~~a. Receivables measured at fair value with changes in fair value reported in earnings~~
~~b. Receivables measured at lower of cost or fair value~~
~~c. Trade accounts receivable, except for credit card receivables, that have both of the following characteristics:~~
    ~~1. They have a contractual maturity of one year or less.~~

~~2. They arose from the sale of goods or services.~~

~~d. Participant loans in defined contribution pension plans.~~

310-10-50-6 Paragraph superseded by Accounting Standards Update 201X-XX. ~~An entity's summary of significant accounting policies for financing receivables shall include all of the following:~~

~~a. The policy for placing financing receivables, if applicable, on nonaccrual status (or discontinuing accrual of interest)~~

~~b. The policy for recording payments received on nonaccrual financing receivables, if applicable~~

~~c. The policy for resuming accrual of interest~~

d. ~~Subparagraph superseded by Accounting Standards Update No. 2010-20~~

~~e. The policy for determining past due or delinquency status.~~

310-10-50-7 Paragraph superseded by Accounting Standards Update 201X-XX. ~~An entity shall provide both of the following disclosures related to nonaccrual and past due financing receivables as of each balance sheet date:~~

~~a. The recorded investment in financing receivables on nonaccrual status~~

~~b. The recorded investment in financing receivables past due 90 days or more and still accruing.~~

310-10-50-7A Paragraph superseded by Accounting Standards Update 201X-XX. ~~An entity shall provide an analysis of the age of the recorded investment in financing receivables at the end of the reporting period that are past due, as determined by the entity's policy.~~

310-10-50-7B Paragraph superseded by Accounting Standards Update 201X-XX. ~~The guidance in paragraph 310-10-50-7A does not apply to the following financing receivables:~~

~~a. Receivables measured at fair value with changes in fair value reported in earnings~~

~~b. Receivables measured at lower of cost or fair value~~

~~c. Except for credit card receivables, trade accounts receivable that have both of the following characteristics:~~

~~1. They have a contractual maturity of one year or less.~~

~~2. They arose from the sale of goods or services.~~

~~d. Participant loans in defined contribution pension plans~~. **[Content moved to paragraph 310-10-50-32]**

310-10-50-8 Paragraph superseded by Accounting Standards Update 201X-XX. ~~For trade receivables that do not accrue interest until a specified period has elapsed, nonaccrual status would be the point when accrual is suspended after the receivable becomes past due.~~

~~> Accounting Policies for Off-Balance-Sheet Credit Exposures~~

310-10-50-9 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~In addition to disclosures required by Subtopic 450-20, an entity shall disclose a description of the accounting policies and methodology the entity used to estimate its liability for off-balance-sheet credit exposures and related charges for those credit exposures. Such a description shall identify the factors that influenced management's judgment (for example, historical losses and existing economic conditions) and a discussion of risk elements relevant to particular categories of financial instruments.~~

310-10-50-10 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Off-balance-sheet credit exposures refers to credit exposures on off-balance-sheet loan commitments,~~ **~~standby letters of credit~~**~~, financial guarantees, and other similar instruments, except for instruments within the scope of Topic 815.~~

~~> Foreclosed and Repossessed Assets~~

310-10-50-11 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Paragraph 310-10-45-3 states that foreclosed and repossessed assets included in other assets on the balance sheet shall have separate disclosures in the notes to financial statements.~~

~~> Allowance for Credit Losses Related to Financing Receivables~~

310-10-50-11A <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The guidance in paragraph 310-10-50-11B does not apply to the following financing receivables:~~

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

310-10-50-11B <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~An entity shall disclose all of the following by~~ **~~portfolio segment~~**~~:~~

- ~~a. A description of the entity's accounting policies and methodology used to estimate the allowance for credit losses, including all of the following:~~
  - ~~1. A description of the factors that influenced management's judgment, including both of the following:~~
    - ~~i. Historical losses~~
    - ~~ii. Existing economic conditions.~~
  - ~~2. A discussion of risk characteristics relevant to each portfolio segment~~
  - ~~3. Identification of any changes to the entity's accounting policies or methodology from the prior period and the entity's rationale for the change.~~
- ~~b. A description of the policy for charging off uncollectible financing receivables~~

c. ~~The activity in the allowance for credit losses for each period, including all of the following:~~
   1. ~~The balance in the allowance at the beginning and end of each period~~
   2. ~~Current period provision~~
   3. ~~Direct write-downs charged against the allowance~~
   4 ~~Recoveries of amounts previously charged off.~~
d. ~~The quantitative effect of changes identified in item (a)(3) on item (c)(2)~~
e. ~~The amount of any significant purchases of financing receivables during each reporting period~~
f. ~~The amount of any significant sales of financing receivables or reclassifications of financing receivables to held for sale during each reporting period~~
g. ~~The balance in the allowance for credit losses at the end of each period disaggregated on the basis of the entity's impairment method~~
h. ~~The recorded investment in financing receivables at the end of each period related to each balance in the allowance for credit losses, disaggregated on the basis of the entity's impairment methodology in the same manner as the disclosure in item (g).~~

310-10-50-11C <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~To disaggregate the information required by items (g) and (h) in the preceding paragraph on the basis of the impairment methodology, an entity shall separately disclose the following amounts:~~

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

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

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

310-10-50-14 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Asset valuation allowances required by paragraph 310-10-45-13 shall have an appropriate disclosure.~~

~~**> Impaired Loans**~~

310-10-50-14A <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~For each class of financing receivable, an entity shall disclose both of the following for loans that meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17 (individually evaluated for impairment):~~

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

310-10-50-15 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~An entity shall disclose all of the following information about loans that meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17 by class of financing receivable:~~

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

310-10-50-16 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Those disclosures shall be provided for impaired loans that have been charged off partially. Those disclosures cannot be provided for loans that have been charged off fully because both the recorded investment and the allowance for credit losses will equal zero.~~

310-10-50-17 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~This guidance does not specify how a creditor shall calculate the average recorded investment in the impaired loans during the reporting period. A creditor shall develop an appropriate method for that calculation. Averages based on month-end balances may be considered an appropriate method.~~

310-10-50-18 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Information about loans meeting the scope of Subtopic 310-30 shall be included in the disclosures required by paragraph 310-10-50-15(a) through (b) if the condition in paragraphs 320-10-35-18 through 35-34 or 450-20-25-2(a), as discussed in paragraphs 310-30-35-8(a) and 310-30-35-10(a), is met.~~

310-10-50-19 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Paragraphs 310-10-45-5 through 45-6 explains that a creditor that measures impairment based on the present value of expected future cash flows is permitted to report the entire change in present value as bad-debt expense but may also report the change in present value attributable to the passage of time as interest income. Creditors that choose the latter alternative shall disclose the amount of interest income that represents the change in present value attributable to the passage of time.~~

310-10-50-20 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following table summarizes the scope of the disclosure requirements in paragraph 310-10-50-15.~~

	~~Required Disclosures about the Recorded Investment in Loans That Meet the Definition of an Impaired Loan in Paragraphs 310-10-35-16 through 35-17~~			
~~Description of Loans~~	~~(A) The Total Recorded Investment in the Impaired Loans~~	~~(B) Unpaid Principal Balance of the Impaired Loan~~	~~(C) The Recorded Investment in (A) for Which There Is a Related Allowance for Credit Losses~~	~~(D) The Recorded Investment in (A) for Which There Is No Related Allowance for Credit Losses~~
~~Loans that meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17 and that have not been charged off fully, separately reported by class~~	~~Included. The amount disclosed in (A) must equal the sum of (C) and (D).~~	~~Included.~~	~~Included if there is a related allowance for credit losses.~~	~~Included if there is no related allowance for credit losses.~~
~~Loans that meet the definition of an impaired loan in paragraphs 310-10-35-16 through 35-17 and that have been charged off fully~~	~~Excluded. The recorded investment and allowance for credit losses are equal to zero.~~			
~~Large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and other loans that are excluded from the scope of this Subtopic as defined in paragraph 310-10-35-13~~	~~Excluded unless restructured in a troubled debt restructuring (see paragraph 310-40-35-9 for requirements for a restructured loan).~~			

~~> Loss Contingencies~~

310-10-50-21 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Paragraph 450-20-50-3 provides disclosure guidance for circumstances in which no accrual is made for a loss contingency because one or both of the conditions in paragraph 450-20-25-2 (probable and reasonably estimated) are not met, or if an exposure to loss exists in excess of the amount accrued pursuant to the provisions of paragraph 450-20-25-2. The disclosures required by paragraphs 450-20-50-3 through 50-6 do not apply to loss contingencies arising from an entity's estimation of its allowance for credit losses.~~

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

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

310-10-50-24 Paragraph superseded by Accounting Standards Update 201X-XX. ~~See Section 450-20-50 for further guidance on required disclosures for loss contingencies.~~

~~**> Risks and Uncertainties**~~

310-10-50-25 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Certain loan products have contractual terms that expose entities to risks and uncertainties that fall into one or more categories, as discussed in paragraph 275-10-50-1. See Section 275-10-50 for disclosure guidance related to those loan products.~~

~~**> Fair Value Disclosures**~~

310-10-50-26 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Section 825-10-50 provides guidance on the required disclosure of fair values of certain assets and liabilities. Paragraph 825-10-50-14 explains that, for trade receivables and payables, no disclosure is required under that Subtopic if the carrying amount approximates fair value.~~

~~**> Credit Quality Information**~~

310-10-50-27 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The guidance in paragraphs 310-10-50-28 through 50-30 does not apply to the financing receivables listed in paragraph 310-10-50-7B.~~

310-10-50-28 Paragraph superseded by Accounting Standards Update 201X-XX. ~~An entity shall provide information that enables financial statement users to do both of the following:~~

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

310-10-50-29 Paragraph superseded by Accounting Standards Update 201X-XX. ~~To meet the objective in the preceding paragraph, an entity shall provide quantitative and qualitative information by class about the credit quality of financing receivables, including all of the following:~~

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

310-10-50-30 Paragraph superseded by Accounting Standards Update 201X-XX. ~~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.~~

13. Amend paragraph 310-10-50-32, with a link to transition paragraph 825-15-65-1, as follows:

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

a. Financing receivables listed ~~in paragraph 310-10-50-7B~~ below:
   1. Receivables measured at fair value with changes in fair value reported in earnings
   2. Receivables measured at lower of cost 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. **[Content moved from paragraph 310-10-50-7B]**

b. Subparagraph superseded by Accounting Standards Update 201X-XX.~~Loans acquired with deteriorated credit quality (determined under Subtopic 310-30) that are accounted for within a pool.~~

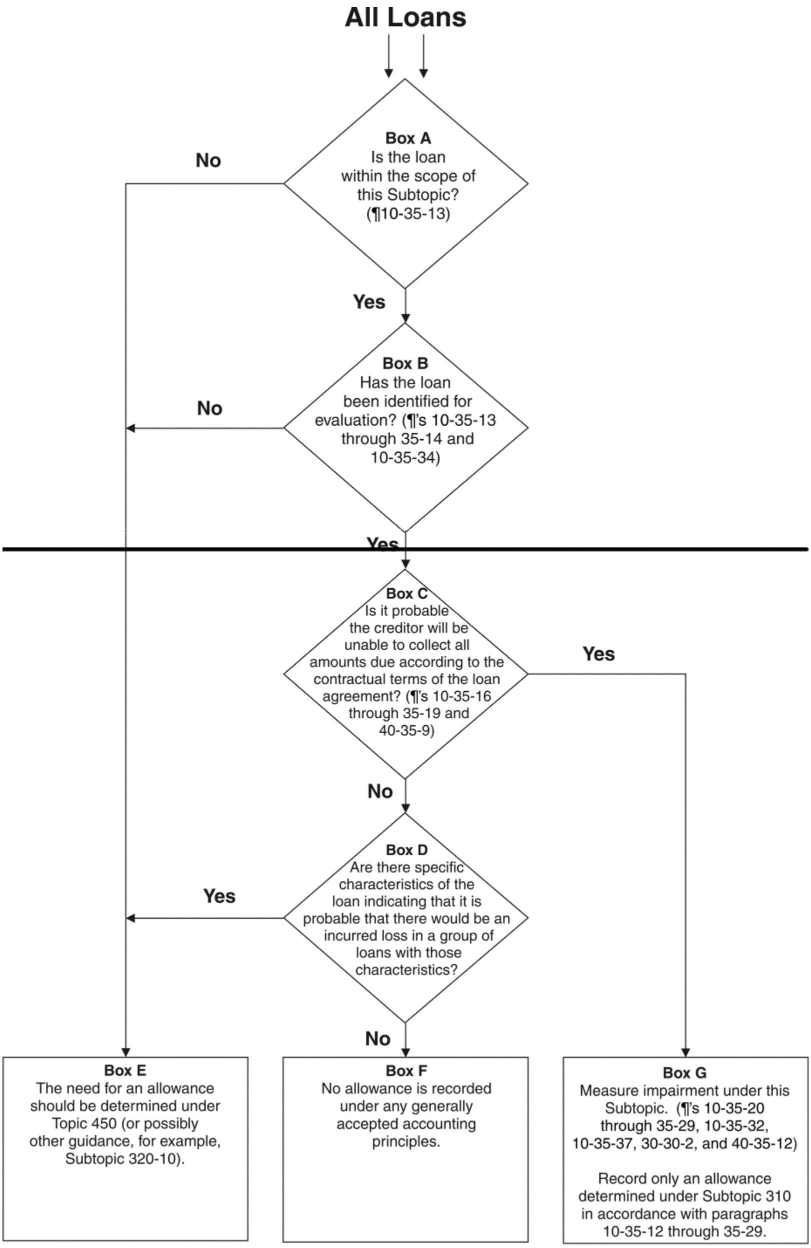
14. Supersede paragraphs 310-10-55-1 through 55-11 and paragraphs 310-10-55-13 through 55-22 and their related headings, with a link to transition paragraph 825-15-65-1, as follows:

Implementation Guidance and Illustrations

~~**> Implementation Guidance**~~

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

310-10-55-1 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following diagram illustrates the application of **loan** impairment guidance discussed in Section 310-10-35.~~



Note: All paragraph references are within Topic 310.

> Illustrations

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

310-10-55-2 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~This Example illustrates the guidance in paragraphs 310-10-35-13 through 35-24 and 310-10-35-34. Entity A (a bank) has 20 loans (not considered smaller-balance) to businesses in a town in which the principal employer is a major corporation. Some of the loans are secured by bonds or real estate, others are unsecured. The major corporation went bankrupt and fired all of its workers. Entity A concludes that the loss of that employer has had a dire effect on the economic health of the community and its businesses. Entity A decides to review all 20 of the loans individually.~~

310-10-55-3 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Two of the loans are not performing, and Entity A concludes that it is **probable** it will be unable to collect all of the cash flows on those loans as scheduled. Another five borrowers have approached Entity A for a concession, but those discussions are incomplete. Based on all available information, Entity A concludes that each of those five loans also is impaired. Entity A is unable to identify any other individual loan among the remaining 13 for which it is probable that it will not collect all of the cash flows.~~

310-10-55-4 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Entity A would measure impairment on the seven loans that are individually impaired using a method permitted by Section 310-10-35, as appropriate for the loan. Entity A would consider all available information to measure the amount of the loss including the value of any collateral. If the value of the collateral, less selling costs, exceeds the **recorded investment** in the loan, no allowance would be provided. Entity A would consider its own experience or, to the extent relevant, the industry's collection experience in similar situations as part of the available information. In doing so, Entity A would consider the effect of information it possesses about the current economic downturn in making its best estimate of expected future cash flows for those seven loans.~~

310-10-55-5 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Entity A would then assess whether it is probable that any loss has been incurred on the remaining 13 loans. If three of those loans are fully collateralized, no allowance should be provided under Subtopic 450-20 for those loans and they should be excluded from the assessment of the remaining 10 loans. Entity A would consider the effect of the current economic downturn to assess whether a loss has been incurred in that group of loans at the balance sheet date and to estimate the amount of loss. In doing so, Entity A would consider its historical loss experience in collecting loans in similar situations, such as the typical recovery rate, including amount and timing. However, the use of historical statistics alone would be inappropriate if the nature of the loans or current environmental conditions differ from those on which the statistics were based.~~

~~Any allowance that is recorded under that Subtopic must be reasonably estimable and supported by an analysis of all available and relevant information about circumstances that exist at the balance sheet date.~~

310-10-55-6 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The total allowance for the 20 loans should be the sum of the above components. A total allowance greater than the sum of the above components would be excessive. A total allowance less than the sum of the above components would be inadequate.~~

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

310-10-55-7 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following table illustrates certain of the disclosures required by paragraph 310-10-50-11B(c), (g), and (h).~~

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

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

310-10-55-8 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following table illustrates certain of the disclosures required by paragraph 310-10-50-29(b).~~

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

~~Corporate Credit Exposure~~
~~Credit Risk Profile by Creditworthiness Category~~

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

~~Consumer Credit Exposure~~
~~Credit Risk Profile by Internally Assigned Grade~~

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

~~Consumer Credit Exposure~~
~~Credit Risk Profile Based on Payment Activity~~

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

310-10-55-9 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following table illustrates certain of the disclosures required by paragraphs 310-10-50-7(b) and 310-10-50-7A.~~

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

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

310-10-55-10 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following table illustrates certain of the disclosures required by paragraph 310-10-50-15.~~

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

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

310-10-55-11 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The following table illustrates certain of the disclosures required by paragraph 310-10-50-7(a).~~

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

	~~20X1~~	~~20X0~~
~~Commercial~~	~~$XX,XXX~~	~~$XX,XXX~~
~~Commercial real estate:~~		
~~Commercial real estate construction~~	~~XX,XXX~~	~~XX,XXX~~
~~Commercial real estate—other~~	~~XX,XXX~~	~~XX,XXX~~
~~Consumer:~~		
~~Consumer—credit card~~	~~XX,XXX~~	~~XX,XXX~~
~~Consumer—other~~	~~XX,XXX~~	~~XX,XXX~~
~~Consumer—auto~~	~~XX,XXX~~	~~XX,XXX~~
~~Residential:~~		
~~Residential—prime~~	~~XX,XXX~~	~~XX,XXX~~
~~Residential—subprime~~	~~XX,XXX~~	~~XX,XXX~~
~~Finance leases~~	~~XX,XXX~~	~~XX,XXX~~
~~Total~~	~~$XX,XXX~~	~~$XX,XXX~~

~~> > Meaning of *Financing Receivable*~~

310-10-55-13 Paragraph superseded by Accounting Standards Update 201X-XX. ~~This implementation guidance addresses the meaning of the term **financing receivable**.~~

310-10-55-14 Paragraph superseded by Accounting Standards Update 201X-XX. ~~All of the following are examples of financing receivables:~~

- ~~a. Loans~~
- ~~b. Trade accounts receivable~~
- ~~c. Notes receivable~~
- ~~d. Credit cards~~
- ~~e. Receivables relating to a lessor's right(s) to payment(s) from a lease other than an operating lease that should be recognized as assets in accordance with the following paragraphs:~~
  - ~~1. Paragraph 840-30-25-8 (for leveraged leases)~~
  - ~~2. Paragraph 840-30-25-7 (for direct financing leases)~~
  - ~~3. Paragraph 840-30-25-6 (for sales-type leases).~~

310-10-55-15 Paragraph superseded by Accounting Standards Update 201X-XX. ~~None of the following meet the definition of financing receivables:~~

~~a. **Debt securities** within the scope of Topic 320 (see the guidance beginning in paragraph 320-10-15-5)~~
~~b. Unconditional promises to give (for example, contributions receivable) that should be recognized as an asset in accordance with paragraphs 958-605-25-7 through 25-15~~
~~c. Both of the following instruments, which are within the scope of Subtopic 325-40:~~
    ~~1. A transferor's interests in securitization transactions that are accounted for as sales under Topic 860~~
    ~~2. Purchased beneficial interests in securitized financial assets.~~

~~For related guidance, see paragraph 325-40-15.~~

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

310-10-55-16 Paragraph superseded by Accounting Standards Update 201X-XX. ~~This implementation guidance addresses application of the term **class of financing receivable**. An entity should base its principal determination of class of financing receivable on both of the following:~~

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

310-10-55-17 Paragraph superseded by Accounting Standards Update 201X-XX. ~~In determining the appropriate level of its internal reporting to use as a basis for disclosure, an entity should consider the level of detail needed by a user to understand the risks inherent in the entity's financing receivables. An entity could further disaggregate its financing receivables portfolio by considering numerous factors. Examples of factors that the entity should consider include any of the following:~~

~~a. Categorization of borrowers, such as any of the following:~~
    ~~1. Commercial loan borrowers~~
    ~~2. Consumer loan borrowers~~
    ~~3. **Related party** borrowers.~~
~~b. Type of financing receivable, such as any of the following:~~

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

~~An entity also may consider factors related to concentrations of credit risk as discussed in Section 825-10-55.~~

310-10-55-18 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Classes of financing receivables generally are a disaggregation of a **portfolio segment**. For determining the appropriate classes of financing receivables that are related to a portfolio segment, the portfolio segment is the starting point with further disaggregation in accordance with the guidance in paragraphs 310-10-55-16 through 55-17. The determination of class for financing receivables that are not related to a portfolio segment (because there is no associated allowance) also should be based on the guidance in those paragraphs.~~

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

310-10-55-19 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~This implementation guidance addresses application of the term **credit quality indicator**. Examples of credit quality indicators include all of the following:~~

    a. ~~Consumer credit risk scores~~
    b. ~~Credit-rating-agency ratings~~
    c. ~~An entity's internal credit risk grades~~
    d. ~~Loan-to-value ratios~~
    e. ~~Collateral~~
    f. ~~Collection experience~~
    g. ~~Other internal metrics.~~

310-10-55-20 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~An entity should use judgment in determining the appropriate credit quality indicator for each class of financing receivables. As of the balance sheet date, the entity should use the most current information it has obtained for each credit quality indicator.~~

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

310-10-55-21 Paragraph superseded by Accounting Standards Update 201X-XX. ~~This implementation guidance addresses the meaning of the term *portfolio segment*. All of the following are examples of portfolio segments:~~

- ~~a. Type of financing receivable~~
- ~~b. Industry sector of the borrower~~
- ~~c. Risk rate(s).~~

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

310-10-55-22 Paragraph superseded by Accounting Standards Update 201X-XX. ~~A creditor should determine, in light of the facts and circumstances, both of the following:~~

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

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

Amendments to Subtopic 310-20

15. Supersede paragraphs 310-20-60-1 through 60-2 and their related headings, with a link to transition paragraph 825-15-65-1, as follows:

Receivables—Nonrefundable Fees and Other Costs

Relationships

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

310-20-60-1 Paragraph superseded by Accounting Standards Update 201X-XX. ~~For guidance on the determination of whether an other-than-temporary impairment of beneficial interests exists and on interest income recognition on beneficial interests, see Section 320-10-15.~~

~~**> Investments—Other**~~

310-20-60-2 Paragraph superseded by Accounting Standards Update 201X-XX. ~~For guidance on the determination of whether an other-than-temporary impairment of beneficial interests exists and on interest income recognition on beneficial interests, see Section 325-40-15.~~

Amendments to Subtopic 310-30

16. Supersede Subtopic 310-30, with a link to transition paragraph 825-15-65-1.

Amendments to Subtopic 310-40

17. Amend paragraph 310-40-15-11, with a link to transition paragraph 825-15-65-1, as follows:

Receivables—Troubled Debt Restructurings by Creditors

Scope and Scope Exceptions

> > Troubled Debt Restructuring

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

a. Changes in lease agreements (for guidance, see Topic 840)
b. Changes in employment-related agreements, for example, pension plans and deferred compensation contracts
c. Unless they involve an agreement between debtor and creditor to restructure, either of the following:
    1. Debtors' failures to pay trade accounts according to their terms
    2. Creditors' delays in taking legal action to collect overdue amounts of interest and principal.
d. Subparagraph superseded by Accounting Standards Update 201X-XX.~~Modifications of loans within a pool accounted for in accordance with Subtopic 310-30 (see paragraph 310-30-15-6)~~
e. Subparagraph superseded by Accounting Standards Update 201X-XX.~~Changes in expected cash flows of a pool of loans accounted for in accordance with Subtopic 310-30 (see paragraph 310-30-15-6) resulting from the modification of one or more loans within the pool.~~

18. Supersede paragraphs 310-40-35-8 through 35-9 and amend paragraph 310-40-35-10, with a link to transition paragraph 825-15-65-1, as follows:

Subsequent Measurement

> Impairment

310-40-35-8 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Paragraph 310-10-35-16 explains that a loan is impaired when, based on current information and events, it is **probable** that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. For a loan that has been restructured in a troubled debt restructuring, the contractual terms of the loan agreement refers to the contractual terms specified by the original loan agreement, not the contractual terms specified by the restructuring agreement. That paragraph explains that the related guidance does not specify how a creditor should determine that it is probable that it will be unable to collect all amounts due according to the contractual terms of a loan. See paragraph 310-10-35-16 for guidance concerning the application of Topic 450 to contractual terms. See paragraph 310-10-35-17 for guidance concerning normal review procedures and insignificant delays and payment shortfalls.~~

310-40-35-9 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Usually, a loan whose terms are modified in a troubled debt restructuring already will have been identified as impaired because the condition specified in the preceding paragraph will have existed before a formal restructuring. However, if a loan is excluded from the scope of this Subtopic under paragraph 310-10-35-13(a), a creditor may not have accounted for that loan in accordance with this Subtopic before the loan was restructured. The creditor shall apply the provisions of this Subtopic to that loan when it is restructured.~~

310-40-35-10 A loan restructured in a troubled debt restructuring ~~is an impaired loan. It should~~ shall not be accounted for as a new loan because a troubled debt restructuring is part of a creditor's ongoing effort to recover its investment in the original loan. Accordingly, the cost basis of the modified asset shall be adjusted (with a corresponding adjustment to the allowance for expected credit losses) so that the **effective interest rate** on the modified asset continues to be the original effective rate, given the new series of contractual cash flows. The basis adjustment (that is, the adjustment to the amortized cost basis of the financial asset) would be determined as the amortized cost basis before modification less the present value of the new series of contractual cash flows (discounted at the original effective interest rate). ~~A loan usually will have been identified as impaired because the conditions specified in paragraphs 310-10-35-16 through 35-17 will have existed before a formal restructuring.~~

19. Supersede paragraphs 310-40-50-2 through 50-6 and their related headings, with a link to transition paragraph 825-15-65-1, as follows:

Disclosure

> Creditor Disclosure of Troubled Debt Restructurings

310-40-50-2 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Information about an impaired loan that has been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures required by paragraphs 310-10-50-15(a) and 310-10-50-15(c) in years after the restructuring if both of the following conditions exist:~~

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

310-40-50-3 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~That exception shall be applied consistently for paragraph 310-10-50-15(a) and 310-10-50-15(c) to all loans restructured in a troubled debt restructuring that meet the criteria in the preceding paragraph.~~

310-40-50-4 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Usually, a loan whose terms are modified in a troubled debt restructuring already will be identified as impaired. However, if the creditor has written down a loan and the measure of the restructured loan is equal to or greater than the **recorded investment**, no impairment would be recognized in accordance with this Topic. The creditor is required to disclose the amount of the write-down and the recorded investment in the year of the write-down but is not required to disclose the recorded investment in that loan in later years if the two criteria of paragraph 310-40-50-2 are met.~~

~~**> Loan Restructured Into Two (or More) Loan Agreements**~~

310-40-50-5 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~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.~~

~~**> Summary of Scope of Disclosure Requirements**~~

310-40-50-6 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~See paragraph 310-10-50-20 for a table that summarizes the scope of the disclosure requirements in paragraph 310-10-50-15.~~

20. Amend paragraphs 310-40-55-13 through 55-15, with a link to transition paragraph 825-15-65-1, as follows:

Implementation Guidance and Illustrations

> Illustrations

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

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

a. At December 31, 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;~~ <u>On March 31, 2003,</u> 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.

310-40-55-14 ~~Paragraphs 310-10-35-16 through 35-17 states that a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The lender determined that foreclosure is probable at March 31, 2003, and the impairment based on the fair value of the collateral less estimated costs to sell since the selling costs reduce the cash flows available to satisfy the loan as prescribed under paragraphs 310-10-35-22, 310-10-35-24, and 310-10-35-32.~~ <u>On March 31, 2003, the lender estimates expected credit losses using the fair value of the collateral in accordance with paragraph 825-15-55-2.</u> Accordingly, the lender should recognize ~~a loan loss~~ <u>an allowance for credit losses</u> 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.

310-40-55-15 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~~ credit losses recognized previously under Subtopic 825-15 are excluded from the measurement of cumulative losses under ~~that~~ Topic 360.

Amendments to Subtopic 320-10

21. Supersede paragraph 320-10-15-4 and amend paragraph 320-10-15-7, with a link to transition paragraph 825-15-65-1, as follows:

Investments—Debt and Equity Securities—Overall

Scope and Scope Exceptions

> Entities

320-10-15-4 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Paragraphs 320-10-35-17 through 35-34 provide guidance on identifying and accounting for impairment of certain securities and identifies the scope application of that guidance to not-for-profit entities (NFPs). No other part of this Topic applies to NFPs. Subtopic 958-320 establishes standards for investments in debt and equity securities by NFPs.~~

> Instruments

320-10-15-7 The guidance in this Topic does not apply to any of the following:

a. Derivative instruments that are subject to the requirements of Topic 815, including those that have been separated from a host contract as required by Section 815-15-25. If an investment would otherwise be in the scope of this Topic and it has within it an embedded derivative that is required by that Section to be separated, the host instrument (as described in that Section) remains within the scope of this Topic.
b. ~~Except with respect to the impairment guidance in Section 320-10-35, equity~~ Equity securities within the scope of Subtopic 325-20, that is, cost method investments.
c. Equity securities that, absent the election of the fair value option under paragraph 825-10-25-1, would be required to be accounted for under the equity method.

d. Investments in consolidated subsidiaries.

22. Supersede paragraphs 320-10-35-17 through 35-37 and their related headings and paragraph 320-10-35-43, with a link to transition paragraph 825-15-65-1, as follows:

Subsequent Measurement

~~> Impairment of Individual Available-for-Sale and Held-to-Maturity Securities~~

~~> > Scope of Impairment Guidance~~

320-10-35-17 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The guidance that follows on impairment of individual available-for-sale and held-to-maturity securities applies for investments in all of the following:~~

- ~~a. Debt and equity securities that are within the scope of this Subtopic, with the following clarifications:~~
  - ~~1. As indicated in paragraph 944-325-35-1, insurance entities are required to report equity securities at fair value even if they do not meet the scope criteria in paragraph 320-10-15-5. Therefore, the following guidance would apply to all equity securities held by insurance entities.~~
  - ~~2. Entities shall not look through the form of their investment to the nature of the securities held by an investee. For example, an investment in shares of a mutual fund that invests primarily in debt securities would be assessed for impairment as an **equity security** under Section 320-10-35.~~
  - ~~3. A bifurcated host instrument under Subtopic 815-15 would be evaluated for other-than-temporary impairment in accordance with the guidance in Section 320-10-35 if the bifurcated host instrument meets the scope of this guidance.~~
- ~~b. Debt and equity securities that are within the scope of Subtopic 958-320 and that are held by an entity that reports a performance indicator as defined in paragraphs 954-225-45-4 through 45-7~~
- ~~c Equity securities that are not subject to the scope of this Topic and Subtopic 958-320 and not accounted for under the equity method pursuant to Topic 323 and related interpretations (referred to as cost-method investments).~~

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

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

320-10-35-18 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~For individual securities classified as either available for sale or held to maturity, an entity shall determine whether a decline in fair value below the amortized cost basis is other than temporary. Providing a general allowance for unidentified impairment in a portfolio of securities is not appropriate.~~

320-10-35-19 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~The following are specific steps an entity shall take in identifying and accounting for impairment of individual securities classified as either available for sale or held to maturity.~~

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

320-10-35-20 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Impairment shall be assessed at the individual security level (referred to as an investment). Individual security level means the level and method of aggregation used by the reporting entity to measure realized and unrealized gains and losses on its debt and equity securities. (For example, equity securities of an issuer bearing the same Committee on Uniform Security Identification Procedures [CUSIP] number that were purchased in separate trade lots may be aggregated by a reporting entity on an average cost basis if that corresponds to the basis used to measure realized and unrealized gains and losses for the securities of the issuer.)~~

320-10-35-21 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~An investment is impaired if the fair value of the investment is less than its cost.~~

320-10-35-22 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Except as provided in paragraphs 320-10-35-25 through 35-27, an entity shall assess whether an investment is impaired in each reporting period. For entities that issue interim financial statements, each interim period is a reporting period.~~

320-10-35-23 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~An entity shall not combine separate contracts (a debt security and a guarantee or other credit enhancement) for purposes of determining whether a debt security is impaired or can contractually be prepaid or otherwise settled in such a way that the entity would not recover substantially all of its cost.~~

320-10-35-24 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~For investments other than cost-method investments (see paragraph 320-10-15-7(b)), if the fair value of the investment is less than its cost, proceed to Step 2.~~

320-10-35-25 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Because the fair value of cost-method investments is not readily determinable, the evaluation of whether an investment is impaired shall be determined as follows:~~

a. ~~If an entity has estimated the fair value of a cost-method investment (for example, for disclosure under Section 825-10-50), that estimate shall be used to determine if the investment is impaired for the reporting periods in which the entity estimates fair value. If the fair value of the investment is less than its cost, proceed to Step 2.~~
b. ~~For reporting periods in which an entity has not estimated the fair value of a cost-method investment, the entity shall evaluate whether an event or change in circumstances has occurred in that period that may have a significant adverse effect on the fair value of the investment (an impairment indicator).~~

320-10-35-26 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~For example, an entity may not estimate the fair value of a cost-method investment during a reporting period for Section 825-10-50 disclosure for any of the following reasons:~~

a. ~~Paragraph not used.~~
b. ~~The entity determined that, in accordance with paragraphs 825-10-50-17 through 50-19, it is not practicable to estimate the fair value of the investment.~~
c. ~~The entity is exempt under paragraph 825-10-50-3 from providing the disclosure for annual reporting periods.~~
d. ~~The entity is exempt under paragraph 825-10-50-2A from providing the disclosure for interim reporting periods.~~

320-10-35-27 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Impairment indicators include, but are not limited to the following:~~

a. ~~A significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee~~
b. ~~A significant adverse change in the regulatory, economic, or technological environment of the investee~~
c. ~~A significant adverse change in the general market condition of either the geographic area or the industry in which the investee operates~~
d. ~~A bona fide offer to purchase (whether solicited or unsolicited), an offer by the investee to sell, or a completed auction process for the same or similar security for an amount less than the cost of the investment~~
e. ~~Factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.~~

320-10-35-28 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~In addition, if an investment was previously tested for impairment under Step 2 and the entity concluded that the investment was not other-than-temporarily impaired, the entity shall continue to evaluate whether the investment is impaired (that is, shall estimate the fair value of the investment) in each subsequent reporting period until either of the following occurs:~~

a. ~~The investment experiences a recovery of fair value up to (or beyond) its cost.~~
b. ~~The entity recognizes an other-than-temporary impairment loss.~~

320-10-35-29 Paragraph superseded by Accounting Standards Update 201X-XX. ~~If an impairment indicator is present, the entity shall estimate the fair value of the investment. If the fair value of the investment is less than its cost, proceed to Step 2.~~

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

320-10-35-30 Paragraph superseded by Accounting Standards Update 201X-XX. ~~If the fair value of an investment is less than its amortized cost basis at the balance sheet date of the reporting period for which impairment is assessed, the impairment is either temporary or other than temporary. In addition to the guidance in this Section, an entity shall apply other guidance that is pertinent to the determination of whether an impairment is other than temporary, such as the guidance in Sections 323-10-35 and 325-40-35, as applicable. *Other than temporary* does not mean permanent.~~

320-10-35-31 Paragraph not used.

320-10-35-32 Paragraph not used.

~~**> > > > Equity Securities**~~

320-10-35-32A Paragraph superseded by Accounting Standards Update 201X-XX. ~~For equity securities, an entity shall apply guidance that is pertinent to the determination of whether an impairment is other than temporary, such as Sections 323-10-35 and 325-40-35.~~

320-10-35-33 Paragraph superseded by Accounting Standards Update 201X-XX. ~~In applying that guidance, questions sometimes arise about whether an entity shall recognize an other-than-temporary impairment only when it intends to sell a specifically identified available-for-sale equity security at a loss shortly after the balance sheet date. When an entity has decided to sell an impaired available-for-sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security shall be deemed other-than-temporarily impaired in the period in which the decision to sell is made, not in the period in which the sale occurs. However, an entity shall recognize an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made.~~

~~**> > > > Debt Securities**~~

320-10-35-33A Paragraph superseded by Accounting Standards Update 201X-XX. ~~If an entity intends to sell the debt security (that is, it has decided to sell the security), an other-than-temporary impairment shall be considered to have occurred.~~

320-10-35-33B Paragraph superseded by Accounting Standards Update 201X-XX. ~~If an entity does not intend to sell the debt security, the entity shall consider available evidence to assess whether it more likely than not will be required to sell the security before the recovery of its amortized cost basis (for example, whether its cash or working capital requirements or contractual or regulatory obligations indicate that the security will be required to be sold before a forecasted recovery occurs). If the entity more likely than not will be required to sell the security before recovery of its amortized cost basis, an other-than-temporary impairment shall be considered to have occurred.~~

320-10-35-33C Paragraph superseded by Accounting Standards Update 201X-XX. ~~If an entity does not expect to recover the entire amortized cost basis of the security, the entity would be unable to assert that it will recover its amortized cost basis even if it does not intend to sell the security. Therefore, in those situations, an other-than-temporary impairment shall be considered to have occurred. In assessing whether the entire amortized cost basis of the security will be recovered, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered (that is, a credit loss exists), and an other-than-temporary impairment shall be considered to have occurred.~~

320-10-35-33D Paragraph superseded by Accounting Standards Update 201X-XX. ~~In determining whether a credit loss exists, an entity shall use its best estimate of the present value of cash flows expected to be collected from the debt security. One way of estimating that amount would be to consider the methodology described in Section 310-10-35 for measuring an impairment on the basis of the present value of expected future cash flows. That Section provides guidance on this calculation. Briefly, the entity would discount the expected cash flows at the effective interest rate implicit in the security at the date of acquisition.~~

320-10-35-33E Paragraph superseded by Accounting Standards Update 201X-XX. ~~For debt securities that are beneficial interests in securitized financial assets within the scope of Subtopic 325-40, an entity shall determine the present value of cash flows expected to be collected considering the guidance in paragraphs 325-40-35-4 through 35-9 for determining whether there has been a decrease in cash flows expected to be collected from cash flows previously projected. In other words, the cash flows estimated at the current financial reporting date shall be discounted at a rate equal to the current yield used to accrete the beneficial interest. Additionally, for debt securities accounted for in accordance with Subtopic 310-30, an entity shall consider the guidance in that Subtopic in estimating the present value of cash flows expected to be collected from the debt security. A decrease in cash flows expected to be collected on an asset-backed security that results from an increase in prepayments on the underlying assets shall be considered in the estimate of the present value of cash flows expected to be collected.~~

320-10-35-33F Paragraph superseded by Accounting Standards Update 201X-XX. ~~There are numerous factors to be considered when estimating whether a credit loss exists and the period over which the debt security is expected to recover. The following list is not meant to be all inclusive. All of the following factors shall be considered:~~

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

320-10-35-33G Paragraph superseded by Accounting Standards Update 201X-XX. ~~In making its other-than-temporary impairment assessment, an entity shall consider all available information relevant to the collectibility of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of cash flows expected to be collected. That information shall include all of the following:~~

~~a. The remaining payment terms of the security~~
~~b. Prepayment speeds~~
~~c. The financial condition of the issuer(s)~~
~~d. Expected defaults~~
~~e. The value of any underlying collateral.~~

320-10-35-33H Paragraph superseded by Accounting Standards Update 201X-XX. ~~To achieve the objective in the preceding paragraph, the entity shall consider, for example, all of the following:~~

~~a. Industry analyst reports and forecasts~~
~~b. Sector credit ratings~~

~~c. Other market data that are relevant to the collectibility of the security.~~

320-10-35-33I Paragraph superseded by Accounting Standards Update 201X-XX. ~~An entity also shall consider how other credit enhancements affect the expected performance of the security, including consideration of the current financial condition of the guarantor of a security (if the guarantee is not a separate contract as discussed in paragraph 320-10-35-23) and/or whether any subordinated interests are capable of absorbing estimated losses on the loans underlying the security. The remaining payment terms of the security could be significantly different from the payment terms in prior periods (such as for some securities backed by nontraditional loans; see paragraph 825-10-55-1). Thus, an entity shall consider whether a security backed by currently performing loans will continue to perform when required payments increase in the future (including balloon payments). An entity also shall consider how the value of any collateral would affect the expected performance of the security. If the fair value of the collateral has declined, an entity shall assess the effect of that decline on the ability of the entity to collect the balloon payment.~~

~~> > > Recognition of an Other-Than-Temporary Impairment~~

~~> > > > Equity Securities—If the Impairment Is Other Than Temporary, Recognize an Impairment Loss Equal to the Difference between the Investment's Cost Basis and Its Fair Value~~

320-10-35-34 Paragraph superseded by Accounting Standards Update 201X-XX. ~~If it is determined in Step 2 that the impairment is other than temporary, then an impairment loss shall be recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment shall not include partial recoveries after the balance sheet date. The fair value of the investment would then become the new amortized cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.~~

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

320-10-35-34A Paragraph superseded by Accounting Standards Update 201X-XX. ~~If an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss.~~

320-10-35-34B Paragraph superseded by Accounting Standards Update 201X-XX. ~~If an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in~~

~~earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. In assessing whether the entity more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses, the entity shall consider the factors in paragraph 320-10-35-33F.~~

320-10-35-34C Paragraph superseded by Accounting Standards Update 201X-XX. ~~If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be separated into both of the following:~~

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

320-10-35-34D Paragraph superseded by Accounting Standards Update 201X-XX. ~~The amount of the total other-than-temporary impairment related to the credit loss shall be recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes.~~

320-10-35-34E Paragraph superseded by Accounting Standards Update 201X-XX. ~~The previous amortized cost basis less the other-than-temporary impairment recognized in earnings shall become the new amortized cost basis of the investment. That new amortized cost basis shall not be adjusted for subsequent recoveries in fair value. However, the amortized cost basis shall be adjusted for accretion and amortization as prescribed in paragraph 320-10-35-35.~~

~~> Accounting for Debt Securities After an Other-Than-Temporary Impairment~~

320-10-35-35 Paragraph superseded by Accounting Standards Update 201X-XX. ~~In periods after the recognition of an other-than-temporary impairment loss for debt securities, an entity shall account for the other-than-temporarily impaired debt security as if the debt security had been purchased on the measurement date of the other-than-temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other-than-temporary impairment recognized in earnings. For debt securities for which other-than-temporary impairments were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted in accordance with existing applicable guidance as interest income. An entity shall continue to estimate the present value of cash flows expected to be collected over the life of the debt security. For debt securities accounted for in accordance with Subtopic 325-40, an entity should look to that Subtopic to account for changes in cash flows expected to be collected. For all other debt securities, if upon subsequent evaluation, there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, such changes shall be accounted~~

~~for as a prospective adjustment to the accretable yield in accordance with Subtopic 310-30 even if the debt security would not otherwise be within the scope of that Subtopic. Subsequent increases and decreases (if not an other-than-temporary impairment) in the fair value of available-for-sale securities shall be included in other comprehensive income. (This Section does not address when a holder of a debt security would place a debt security on nonaccrual status or how to subsequently report income on a nonaccrual debt security.)~~

320-10-35-35A Paragraph superseded by Accounting Standards Update 201X-XX. ~~The other-than-temporary impairment recognized in other comprehensive income for debt securities classified as held-to-maturity shall be accreted over the remaining life of the debt security in a prospective manner on the basis of the amount and timing of future estimated cash flows. That accretion shall increase the carrying value of the security and shall continue until the security is sold, the security matures, or there is an additional other-than-temporary impairment that is recognized in earnings. If the security is sold, Section 320-10-25 provides guidance on the effect of changes in circumstances that would not call into question the entity's intent to hold other debt securities to maturity in the future.~~

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

320-10-35-36 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The entire change in the fair value of foreign-currency-denominated available-for-sale debt securities shall be reported in other comprehensive income.~~

320-10-35-37 Paragraph superseded by Accounting Standards Update 201X-XX. ~~An entity holding a foreign-currency-denominated available-for-sale debt security is required to consider, among other things, changes in market interest rates and foreign exchange rates since acquisition in determining whether an other-than-temporary impairment has occurred.~~

> Income Recognition for Certain Structured Notes

320-10-35-43 Paragraph superseded by Accounting Standards Update 201X-XX. ~~In accordance with the impairment guidance for structured notes in this Subtopic, an entity shall determine whether an individual structured note security has experienced a decline in value below amortized cost that is other than temporary requiring a write-down of amortized cost, with the amount of the write-down included in earnings. Following the recognition of an other-than-temporary impairment, for purposes of determining the revised effective yield at which income will be subsequently recognized, the entity shall factor collectibility into its determination of estimated future cash flows. Accordingly, immediately following the recognition of an other-than-temporary impairment, it is expected that the entity would not assume full repayment of the contractual interest and principal amounts of the note. For example, if the fair value of a structured note security with an original investment amount of $100 moves to $70, prompting the entity to recognize an other-than-temporary impairment of $30, and the entity does not~~

~~expect to collect more than $80 of principal at maturity, the entity shall assume collection of only $80 of principal in its determination of future cash flows. As noted in the scope discussion for this guidance, structured notes that include embedded features are subject to Subtopic 815-15, which requires that certain embedded derivatives be separated from the host contract and accounted for separately as a derivative at fair value.~~

23. Supersede paragraphs 320-10-45-8A and 310-10-45-9A and their related headings, with a link to transition paragraph 825-15-65-1, as follows:

Other Presentation Matters

~~**> > Other-Than-Temporary Impairment**~~

320-10-45-8A Paragraph superseded by Accounting Standards Update 201X-XX.~~In periods in which an entity determines that a security's decline in fair value below its amortized cost basis is other than temporary, the entity shall present the total other-than-temporary impairment in the statement of earnings with an offset for the amount of the total other-than-temporary impairment that is recognized in other comprehensive income, in accordance with paragraph 320-10-35-34D, if any. Example 2A (see paragraph 320-10-55-21A) illustrates the application of this guidance.~~

~~**> > Other-Than-Temporary Impairment**~~

320-10-45-9A Paragraph superseded by Accounting Standards Update 201X-XX. ~~An entity shall separately present, in the financial statement in which the components of accumulated other comprehensive income are reported, amounts recognized therein related to held-to-maturity and available-for-sale debt securities for which a portion of an other-than-temporary impairment has been recognized in earnings.~~

24. Supersede paragraphs 320-10-50-6 through 50-8B and their related heading, with a link to transition paragraph 825-15-65-1, as follows:

Disclosure

~~**> Impairment of Securities**~~

320-10-50-6 Paragraph superseded by Accounting Standards Update 201X-XX. ~~For all investments in an unrealized loss position, including those that fall within the scope of Subtopic 325-40, for which other-than-temporary impairments have not been recognized in earnings (including investments for which a portion of an other-than-temporary impairment has been recognized in other comprehensive income), an entity shall disclose all of the following in its interim and annual financial statements:~~

a. ~~As of each date for which a statement of financial position is presented, quantitative information, aggregated by category of investment—each major security type that the entity discloses in accordance with this Subtopic and cost-method investments—in tabular form:~~
   1. ~~The aggregate related fair value of investments with unrealized losses~~
   2. ~~The aggregate amount of unrealized losses (that is, the amount by which amortized cost basis exceeds fair value).~~

b. ~~As of the date of the most recent statement of financial position, additional information (in narrative form) that provides sufficient information to allow financial statement users to understand the quantitative disclosures and the information that the entity considered (both positive and negative) in reaching the conclusion that the impairment or impairments are not other than temporary. (The application of Step 2 in paragraph 320-10-35-30 shall provide insight into the entity's rationale for concluding that unrealized losses are not other-than-temporary impairments. The disclosures required may be aggregated by investment categories, but individually significant unrealized losses generally shall not be aggregated.) This disclosure could include all of the following:~~
   1. ~~The nature of the investment(s)~~
   2. ~~The cause(s) of the impairment(s)~~
   3. ~~The number of investment positions that are in an unrealized loss position~~
   4. ~~The severity and duration of the impairment(s)~~
   5. ~~Other evidence considered by the investor in reaching its conclusion that the investment is not other-than-temporarily impaired, including, for example, any of the following:~~
      i. ~~Performance indicators of the underlying assets in the security, including any of the following:~~
         01. ~~Default rates~~
         02. ~~Delinquency rates~~
         03. ~~Percentage of nonperforming assets.~~
      ii. ~~Loan-to-collateral-value ratios~~
      iii. ~~Third-party guarantees~~
      iv. ~~Current levels of subordination~~
      v. ~~Vintage~~
      vi. ~~Geographic concentration~~
      vii. ~~Industry analyst reports~~
      viii. ~~Sector credit ratings~~
      ix. ~~Volatility of the security's fair value~~
      x. ~~Any other information that the investor considers relevant.~~

320-10-50-7 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The disclosures in (a)(1) through (a)(2) in the preceding paragraph shall be segregated by those investments that have been in a continuous unrealized loss~~

~~position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer.~~

320-10-50-8 Paragraph superseded by Accounting Standards Update 201X-XX. ~~The reference point for determining how long an investment has been in a continuous unrealized loss position is the balance sheet date of the reporting period in which the impairment is identified. For entities that do not prepare interim financial information, the reference point is the annual balance sheet date of the period during which the impairment was identified. The continuous unrealized loss position ceases upon either of the following:~~

- ~~a. The recognition of the total amount by which amortized cost basis exceeds fair value as an other-than-temporary impairment in earnings~~
- ~~b. The investor becoming aware of a recovery of fair value up to (or beyond) the amortized cost basis of the investment during the period.~~

320-10-50-8A Paragraph superseded by Accounting Standards Update 201X-XX. ~~For interim and annual periods in which an other-than-temporary impairment of a debt security is recognized and only the amount related to a credit loss was recognized in earnings, an entity shall disclose by major security type, the methodology and significant inputs used to measure the amount related to credit loss. Examples of significant inputs include, but are not limited to, all of the following:~~

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

320-10-50-8B Paragraph superseded by Accounting Standards Update 201X-XX. ~~For each interim and annual reporting period presented, an entity shall disclose a tabular rollforward of the amount related to credit losses recognized in earnings in accordance with paragraph 320-10-35-34D, which shall include at a minimum, all of the following:~~

- ~~a. The beginning balance of the amount related to credit losses on debt securities held by the entity at the beginning of the period for which a portion of an other-than-temporary impairment was recognized in other comprehensive income~~
- ~~b. Additions for the amount related to the credit loss for which an other-than-temporary impairment was not previously recognized~~

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

25. Supersede paragraphs 320-10-55-21A through 55-23 and their related headings, with a link to transition paragraph 825-15-65-1, as follows:

Implementation Guidance and Illustrations

~~> > Example 2A: Presentation of Other-Than-Temporary Impairment~~

320-10-55-21A <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~This Example illustrates the presentation on the face of the statement of earnings required by paragraph 320-10-45-8A.~~

~~Total other-than-temporary impairment losses~~	~~$ (10,000)~~
~~Portion of loss recognized in other comprehensive income (before taxes)~~	~~4,000~~
~~Net impairment losses recognized in earnings~~	~~$ (6,000)~~

~~> > Example 3: Disclosures About Investments in an Unrealized Loss Position that Are Not Other-Than-Temporarily Impaired~~

320-10-55-22 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~This Example illustrates the guidance in Section 320-10-50 with a table followed by illustrative narrative disclosures. The following table shows the gross unrealized losses and fair value of Entity A's investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in millions), aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 20X3. This~~

~~Example illustrates the application of paragraphs 320-10-50-6 through 50-8 and, in doing so, describes the investor's rationale for not recognizing all unrealized losses presented in the table as other-than-temporary impairments. In the application of paragraph 320-10-50-6(b), the investor shall provide meaningful disclosure about individually significant unrealized losses. To facilitate the narrative disclosures and for simplicity, this Example presents only the quantitative information as of the date of the latest statement of financial position. However, pursuant to paragraphs 320-10-50-6 through 50-8, that information is required as of each date for which a statement of financial position is presented, except in the period of initial application of the other-than-temporary impairment guidance in this Subtopic.~~

	~~Less Than 12 Months~~		~~12 Months or Greater~~		~~Total~~	
~~Description of Securities~~	~~Fair Value~~	~~Unrealized Losses~~	~~Fair Value~~	~~Unrealized Losses~~	~~Fair Value~~	~~Unrealized Losses~~
~~U.S. Treasury obligations and direct obligations of U.S. government agencies~~	~~$ 172~~	~~$ 2~~	~~$ 58~~	~~$ 1~~	~~$ 230~~	~~$ 3~~
~~Federal agency mortgage-backed securities~~	~~367~~	~~5~~	~~18~~	~~1~~	~~385~~	~~6~~
~~Corporate bonds~~	~~150~~	~~7~~	~~-~~	~~-~~	~~150~~	~~7~~
~~Marketable equity securities~~	~~44~~	~~8~~	~~-~~	~~-~~	~~44~~	~~8~~
~~Investments in equity securities carried at cost~~	~~20~~	~~1~~	~~-~~	~~-~~	~~20~~	~~1~~
~~Total~~	~~$ 753~~	~~$ 23~~	~~$ 76~~	~~$ 2~~	~~$ 829~~	~~$ 25~~

320-10-55-23 <u>Paragraph superseded by Accounting Standards Update No. 201X-XX.</u> ~~Following are illustrative narrative disclosures that would follow the illustrative table.~~

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

~~not more likely than not that Entity A will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Entity A does not consider those investments to be other-than-temporarily impaired at December 31, 20X3.~~

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

~~Marketable equity securities. Entity A's investments in marketable equity securities consist primarily of investments in common stock of entities in the consumer tools and appliances industry ($17 of the total fair value and $2 of the total unrealized losses in common stock investments) and the air courier industry ($27 of the total fair value and $6 of the total unrealized losses in common stock investments). Within Entity A's portfolio of common stocks in the consumer tools and appliances industry (all of which are in an unrealized loss position), approximately 26 percent of the total fair value and 21 percent of Entity A's total unrealized losses are in Entity C. The remaining fair value and unrealized losses are distributed in six entities. The severity of the impairment (fair value is approximately 5 percent to 12 percent less than cost) and the duration of the impairment (less than 3 months) correlate with the weak 20X3 year-end sales experienced within the consumer tools and appliance industry, as reflected in lower customer transactions and lower-than-expected performance in traditional gift categories like hardware and power tools. Entity A evaluated the near-term prospects of the issuer in relation to the severity and duration of the impairment. Based on that evaluation and Entity A's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, Entity A does not consider those investments to be other-than-temporarily impaired at December 31, 20X3.~~

~~Entity A's portfolio of common stocks in the air courier industry consists of investments in 4 entities, 3 of which (or 78 percent of the total fair value of the investments in the air courier industry) are in an unrealized loss position.~~

~~The air courier industry and Entity A's investees are susceptible to changes in the U.S. economy and the industries of their customers. A substantial number of their principal customers are in the automotive, personal computer, electronics, telecommunications, and related industries, and their businesses have been adversely affected by the slowdown of the U.S. economy, particularly during the second half of 20X3 when Entity A's investments became impaired. In addition, the credit ratings of nearly all entities in the portfolio have decreased from A to BBB (S&P or equivalent designation). The severity of the impairments in relation to the carrying amounts of the individual investments (fair value is approximately 17 percent to 23 percent less than cost) is consistent with those market developments. The Entity A evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and Entity A's ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, Entity A does not consider those investments to be other-than-temporarily impaired at December 31, 20X3.~~

~~Investments in equity securities carried at cost. The aggregate cost of Entity A's cost-method investments totaled $45 at December 31, 20X3. Investments with an aggregate cost of $10 were not evaluated for impairment because Entity A did not estimate the fair value of those investments in accordance with paragraphs 825-10-50-16 through 50-19 and Entity A did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments. Of the remaining $35 of investments, Entity A estimated that the fair value exceeded the cost of investments (that is, the investments were not impaired) with an aggregate cost of $14.~~

~~The remaining $21 of cost-method investments consists of 1 investment in a privately owned entity in the consumer tools and appliance industry. That investment was evaluated for impairment because of an adverse change in the market condition of entities in the consumer tools and appliance industry. As a result of that evaluation, Entity A identified an unrealized loss of $1. The severity of the impairment (fair value is approximately 5 percent less than cost) and the duration of the impairment (less than 3 months) correlate with the weak 20X3 year-end sales experienced within the consumer tools and appliance industry, as reflected by lower customer transactions and lower-than-expected performance in traditional gift categories like hardware and power tools. Based on Entity A's evaluation of the near-term prospects of the investee and Entity A's ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value, Entity A does not consider that investment to be other-than-temporarily impaired at December 31, 20X3.~~

Amendments to Subtopic 323-10

26. Amend paragraphs 323-10-55-34, 323-10-55-42, 323-10-55-44, and 323-10-55-46, with a link to transition paragraph 825-15-65-1, as follows:

Investments—Equity Method and Joint Ventures—Overall

Implementation Guidance and Illustrations

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

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

a. Investor owns 40 percent of the outstanding common stock of Investee.
b. The common stock investment has been reduced to zero at the beginning of 20X1 because of previous losses.
c. Investor also has done both of the following:
    1. Invested $100 in preferred stock (classified as an available-for-sale security) of Investee (40 percent of the outstanding preferred stock of Investee)
    2. Extended $100 in loans to Investee (which represent 40 percent of all loans extended to Investee).
d. Investor is not obligated to provide any additional funding to Investee.

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

	Carrying Balance
Common stock	$ -
Loan	$ 100
Preferred stock	$ 100

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

Year	Investee Operating Income (Loss)	Carrying Value of the Loan Under Subtopic ~~310-10~~ 825-15	Fair Value of the Preferred Stock Under Subtopic 320-10
20X1	$ (200)	$ 95	$ 90
20X2	(400)	95	90
20X3	-	60	50
20X4	400	95	90
20X5	-	45	55
20X6	-	95	90
20X7	1,000	100	(a)

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

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

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

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

Equity method loss	$ 80	
Preferred stock investment		$ 80

b. In accordance with Subtopic ~~310-10~~ 825-15, record ~~a valuation allowance for the impaired~~ an allowance for credit losses on the loan.

~~Loan loss expense~~ Credit loss expense	$ 5	
~~Loan loss valuation allowance~~ Allowance for credit losses		$ 5

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

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

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

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

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

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

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

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

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

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

a. Because the adjusted basis of the loan was reduced to zero in 20X2 as a result of applying equity method losses to the loan, no entry is needed to reflect the Subtopic ~~310-10~~825-15 reduction in carrying amount from $95 to $60.
b. In accordance with Subtopic 320-10, record the changes in fair value for the available-for-sale preferred stock investment (market price of $50 less the carrying amount of $90 equals $40 unrealized loss).

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

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

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

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

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

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

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

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

comprehensive income is a credit of $70. The adjusted basis of the total combined investment in Investee is increased to $115 ($0 for the common stock investment, $95 for the loan, and $20 for the preferred stock investment).

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

a. In accordance with Subtopic ~~310-10~~ <u>825-15</u>, record ~~a valuation allowance for the impaired~~ <u>an allowance for credit losses for the</u> loan.

~~Loan loss expense~~ <u>Credit loss expense</u>	$ 50	
~~Loan loss valuation allowance~~ <u>Allowance for credit losses</u>		$ 50

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

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

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

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

a. In accordance with Subtopic ~~310-10~~ <u>825-15</u>, adjust the ~~valuation allowance for change in the expected future cash flows from~~ <u>allowance for credit losses on</u> the loan.

~~Loan loss valuation allowance~~ <u>Allowance for credit losses</u>	$ 50	
~~Loan loss expense~~ <u>Credit loss expense</u>		$ 50

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

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

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

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

a. Record the sale of the preferred stock.

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

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

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

c. In accordance with Subtopic ~~310-10~~ 825-15, adjust the ~~valuation allowance for change in the expected future cash flows from~~ allowance for credit losses on the loan.

~~Loan loss valuation allowance~~ Allowance for credit losses	$ 5	
~~Loan loss expense~~ Credit loss expense		$ 5

323-10-55-47 In 20X7, the total profit-and-loss credit is $395 ($70 gain from the sale of the preferred stock, $320 for the equity method income, and $5 from the loan). The carrying value of the total combined investment in Investee is

increased to $420 ($320 for the common stock investment and $100 for the loan), and the balance in accumulated other comprehensive income is $0. The adjusted basis of the total combined investment in Investee is increased to $420 ($320 for the common stock investment, $100 for the loan, and $0 for the preferred stock investment).

Amendments to Subtopic 325-40

27. Supersede Subtopic 325-40, with a link to transition paragraph 825-15-65-1.

Amendments to Subtopic 450-20

28. Amend paragraph 450-20-15-2, with a link to transition paragraph 825-15-65-1, as follows:

Contingencies—Loss Contingencies

Scope and Scope Exceptions

> Transactions

450-20-15-2 The following transactions are excluded from the scope of this Subtopic because they are addressed elsewhere in the Codification:

a. Stock issued to employees, which is discussed in Topic 718.
b. Employment-related costs, including deferred compensation contracts, which are discussed in Topics 710, 712, and 715. However, certain postemployment benefits are included in the scope of this Subtopic through application of paragraphs 712-10-25-4 through 25-5.
c. Uncertainty in income taxes, which is discussed in Section 740-10-25.
d. Accounting and reporting by insurance entities, which is discussed in Topic 944.
e. <u>Recognition and measurement of credit losses for financial assets within the scope of Subtopic 825-15.</u>

29. Amend paragraph 450-20-50-2A, with a link to transition paragraph 825-15-65-1, as follows:

Disclosure

> Unrecognized Contingencies

450-20-50-2A The disclosures required by paragraphs 450-20-50-3 through 50-6 do not apply to ~~loss contingencies arising from an entity's recurring estimation of its allowance for~~ credit losses. (See ~~paragraph 310-10-50-21~~ Subtopic 825-15.)

30. Amend paragraphs 450-20-60-2 through 60-3, with a link to transition paragraph 825-15-65-1, as follows:

Relationships

> Receivables

450-20-60-2 For **contingencies** related to the collectibility of receivables, see ~~Section 310-10-35~~ Subtopic 825-15.

450-20-60-3 For ~~application of this Subtopic~~ contingencies related to the collectibility of a loan portfolio, see ~~Section 310-10-35~~ Subtopic 825-15.

Amendments to Subtopic 805-20

31. Amend paragraphs 805-20-30-2, 805-20-30-4, 805-20-30-10, and 805-20-30-12, with a link to transition paragraph 825-15-65-1, as follows:

Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest

Initial Measurement

> Measurement Principle

805-20-30-2 Exceptions to the measurement principle are identified and their accounting treatment is addressed in paragraphs 805-20-30-10 through ~~30-23~~ 30-24.

> > Assets with Uncertain Cash Flows (Valuation Allowances)

805-20-30-4 ~~The~~Except as discussed for purchased credit-impaired financial assets in paragraph 805-20-30-24, the acquirer shall not recognize a separate valuation allowance as of the **acquisition date** for assets acquired in a business combination that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure. ~~For example, because this Subtopic requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values, the acquirer does not recognize a separate valuation allowance for the contractual cash flows that are deemed to be uncollectible at that date.~~

> Exceptions to the Measurement Principle

805-20-30-10 Paragraph 805-20-25-16 notes that the Business Combinations Topic provides limited exceptions to the recognition and measurement principles applicable to business combinations. Paragraphs 805-20-30-12 through ~~30-23~~ 30-24 specify the types of identifiable assets and liabilities that include items for which this Subtopic provides limited exceptions to the paragraph 805-20-30-1 measurement principle. The acquirer shall apply the specified GAAP or the specified requirements rather than that measurement principle to determine how to measure the assets or liabilities identified in paragraphs 805-20-30-12 through ~~30-23~~ 30-24. That will result in some items being measured at an amount other than their acquisition-date fair values.

805-20-30-12 Guidance is presented on all of the following exceptions to the measurement principle:

a. Income taxes
b. Employee benefits
c Indemnification assets
d. Reacquired rights
e. Share-based payment awards
f. Assets held for sale
g. Certain assets and liabilities arising from contingencies.
h. **Purchased credit-impaired financial assets.**

32. Add paragraph 805-20-30-24 and its related heading, with a link to transition paragraph 825-15-65-1, as follows:

> Purchased Credit-Impaired Financial Assets

805-20-30-24 An acquirer shall recognize purchased credit-impaired financial assets in accordance with Subtopic 825-15. Paragraphs 825-15-55-39 through 55-42 illustrate that, under Subtopic 825-15, a related allowance for credit losses should be recognized for expected credit losses at the date of acquisition on the basis of the current amount of expected credit losses considering contractual cash flows not expected to be collected (that is, the expected credit losses embedded in the purchase price at acquisition). The expected credit losses embedded in the purchase price for purchased credit-impaired financial assets should never be accreted into interest income.

Amendments to Subtopic 810-10

33. Amend paragraph 810-10-30-8C, with a link to transition paragraph 825-15-65-1, as follows:

Consolidation—Overall

Initial Measurement

810-10-30-8C The measurement alternative in the preceding paragraph does not obviate the need for the primary beneficiary to recognize any accrued ~~interest,~~ interest or an allowance for credit losses, ~~or other-than-temporary impairment,~~ as appropriate. Other assets, liabilities, or noncontrolling interests, if any, that do not have an unpaid principal balance, and any items that are required to be carried at fair value under other applicable standards, shall be measured at fair value.

Amendments to Subtopic 815-15

34. Amend paragraph 815-15-25-5, with a link to transition paragraph 825-15-65-1, as follows:

Derivatives and Hedging—Embedded Derivatives

Recognition

> Fair Value Election for Hybrid Financial Instruments

815-15-25-5 The fair value election shall be supported by concurrent documentation or a preexisting documented policy for automatic election. That recognized hybrid financial instrument could be an asset or a liability and it could be acquired or issued by the entity. The fair value election is also available when a previously recognized **financial instrument** is subject to a **remeasurement event** (**new basis event**) and the separate recognition of an embedded derivative. The fair value election may be made instrument by instrument. For purposes of this paragraph, a remeasurement event (new basis event) is an event identified in generally accepted accounting principles~~, other than the recognition of an other-than-temporary impairment,~~ that requires a financial instrument to be remeasured to its fair value at the time of the event but does not require that instrument to be reported at fair value on a continuous basis with the change in fair value recognized in earnings. Examples of remeasurement events are business combinations and significant modifications of debt as defined in Subtopic 470-50.

Amendments to Subtopic 815-25

35. Amend paragraphs 815-25-35-11 through 35-12, with a link to transition paragraph 825-15-65-1, as follows:

Derivatives and Hedging—Fair Value Hedges

Subsequent Measurement

> > > Interaction with Loan Impairment

815-25-35-11 This Subtopic implicitly affects the measurement of credit losses ~~impairment~~ under ~~Section 310-10-35~~ Subtopic 825-15 by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted recorded investment in a hedged ~~loan~~ financial asset. Paragraph ~~310-10-35-31~~ 825-15-55-9 requires that, when the recorded investment of a ~~loan~~ financial asset has been adjusted under fair value hedge accounting, the effective rate is the discount rate that equates the present value of the ~~loan's~~ financial asset's future cash flows with that adjusted recorded investment. ~~That paragraph states that the~~ The adjustment under fair value hedge accounting of the ~~loan's~~ financial asset's carrying amount for changes in fair value attributable to the hedged risk under this Subtopic shall be considered to be an adjustment of the ~~loan's~~ financial asset's recorded investment. ~~As discussed in that paragraph, the loan's~~ The financial asset's original effective interest rate becomes irrelevant once the recorded amount of the ~~loan~~ financial asset is adjusted for any changes in its fair value. Because paragraph 815-25-35-10 requires that the ~~loan's~~ financial asset's carrying amount be adjusted for hedge accounting before the ~~impairment~~ recognition of credit losses requirements of Subtopic ~~310-10~~ 825-15 are applied, this Subtopic implicitly supports using the new effective rate and the adjusted recorded investment.

815-25-35-12 This guidance applies to all entities applying Subtopic ~~310-10~~ 825-15 to financial assets that are hedged items in a fair value hedge, regardless of whether those entities have delayed amortizing to earnings the adjustments of the ~~loan's~~ financial asset's carrying amount arising from fair value hedge accounting until the hedging relationship is dedesignated. The guidance on recalculating the effective rate is not intended to be applied to all other circumstances that result in an adjustment of a ~~loan's~~ financial asset's carrying amount.

36. Amend paragraphs 815-25-55-85 and its related heading and paragraphs 815-25-55-88 through 55-89, with a link to transition paragraph 825-15-65-1, as follows:

Implementation Guidance and Illustrations

> > Example 14: Interaction with ~~Loan Impairment~~ Recognition and Measurement of Credit Losses

815-25-55-85 This Example illustrates the application of paragraph 815-25-35-11 involving the interaction of hedge accounting and ~~loan impairment accounting~~ recognition and measurement of credit losses in Subtopic 825-15.

815-25-55-86 Entity A formally documents a qualifying fair value hedge (for fair value changes attributable to changes in the designated benchmark interest rate) between a fixed-rate loan receivable from Entity B and an interest rate swap. The 5-year, fixed-rate loan to Entity B has a principal amount of $1,000,000 payable at maturity and interest payable annually at a 10 percent rate. One year after inception of the hedging relationship, the change in the hedged item's fair value attributable to changes in the LIBOR swap rate (the designated benchmark interest rate) is a gain of $16,022. (See row B in the table in paragraph 815-25-55-90, which presents calculations—at the end of the first year of the loan's term—of the net present value of contractual cash flows based on the loan's original effective interest rate adjusted for a 50 basis point decrease in the LIBOR swap rate.)

815-25-55-87 In addition, one year after inception of the hedging relationship, both of the following conditions exist:

a. The market interest rates for debtors of Entity B's original credit sector have decreased to 9.2 percent (50 basis points related to changes in the LIBOR swap rate and 30 basis points related to changes in sector spread).
b. There has been an adverse change to Entity B's creditworthiness.

815-25-55-88 Assume that the repayment of the loan is not dependent on the underlying collateral. In applying the requirements of Subtopic ~~310-10~~ 825-15 to the loan, Entity A determines that ~~the loan is impaired and that~~ the present value of expected future cash flows discounted at the loan's effective interest rate at inception of the loan is $930,000. (See row C in the table in paragraph 815-25-55-90, which presents calculations—at the end of the first year of the loan's term—of the net present value of current estimates of expected future cash flows based on the loan's original effective interest rate.)

815-25-55-89 After adjusting the carrying amount of the hedged loan by $16,022 (pursuant to paragraph 815-25-35-1[b]) for the increase in the hedged item's fair value attributable to changes in the benchmark interest rate, Entity A should apply the guidance in ~~Section 310-10-35~~ Subtopic 825-15 by doing both of the following:

a. Comparing the recorded investment of the loan after the effect of the fair value hedge, or $1,016,022, to the $944,901 present value of expected

future cash flows discounted using the rate that reflects the rate of return implicit in the loan after adjusting the carrying amount of the hedged loan pursuant to paragraph 815-25-35-1(b) (that is, 9.5 percent)

b. Recognizing an ~~impairment by creating a valuation~~ allowance <u>for credit losses</u> (with the offsetting entry charged to expense) for the difference of $71,121 ($1,016,022 – $944,901).

815-25-55-90 Following are calculations (at the end of the first year of the loan's term) of the net present value of the contractual cash flows and the creditor's best estimate of expected future cash flows based on the loan's original effective interest rate and the new implicit rate.

			Net Present Value at End	Assumed Cash Flow in Year			
		Rate	of Year 1	2	3	4	5
A.	Original cash flows and original effective date	10.0%	$ 1,000,000	$ 100,000	$ 100,000	$ 100,000	$1,100,000
B.	Original cash flows and new implicit rate	9.5%	$ 1,016,022	$ 100,000	$ 100,000	$ 100,000	$1,100,000
C.	Expected future cash flows and original effective rate	10.0%	$ 930,000	$ 93,000	$ 93,000	$ 93,000	$1,023,000
D.	Expected future cash flows and new implicit rate	9.5%	$ 944,901	$ 93,000	$ 93,000	$ 93,000	$1,023,000

Amendments to Subtopic 820-10

37. Amend paragraph 820-10-55-92, with a link to transition paragraph 825-15-65-1, as follows:

Fair Value Measurement—Overall

Implementation Guidance and Illustrations

820-10-55-92 Because there is little, if any, trading activity to support a valuation technique using a market approach, Entity A decides to use an income approach using the discount rate adjustment technique described beginning in paragraph 820-10-55-10 to measure the fair value of the residential mortgage-backed security at the measurement date. (See also paragraphs 820-10-35-36 through 35-36A.) Entity A uses the contractual cash flows from the residential mortgage-backed security. ~~The discount rate adjustment technique described beginning in paragraph 820-10-55-10 would not be appropriate when determining whether there has been an other-than-temporary impairment and/or a change in yield in accordance with paragraph 325-40-35-4 when that technique uses contractual cash flows rather than most likely cash flows.~~

Amendments to Subtopic 830-20

38. Supersede paragraph 830-20-35-7, with a link to transition paragraph 825-15-65-1, as follows:

Foreign Currency Matters—Foreign Currency Transactions

Subsequent Measurement

> > Available-for-Sale Debt Securities

830-20-35-7 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Paragraph 320-10-35-37 explains that an entity holding a foreign-currency-denominated available-for-sale debt security is required to consider, among other things, changes in market interest rates and foreign exchange rates since acquisition in determining whether an other-than-temporary impairment has occurred.~~

Amendments to Subtopic 835-10

39. Supersede paragraphs 835-10-60-2 through 60-3, with a link to transition paragraph 825-15-65-1, as follows:

Interest—Overall

Relationships

> Receivables

835-10-60-2 Paragraph superseded by Accounting Standards Update 201X-XX. ~~For guidance on interest income recognition on impaired loans, see paragraph 310-10-35-39.~~

835-10-60-3 Paragraph superseded by Accounting Standards Update 201X-XX. ~~For guidance on interest income recognition on loans with evidence of deterioration of credit quality since origination that are acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable, see Subtopic 310-30.~~

Amendments to Subtopic 840-30

40. Amend paragraphs 840-30-50-4A and 840-30-50-5A, with a link to transition paragraph 825-15-65-1, as follows:

Leases—Capital Leases

Disclosure

Lessors

> Sales-Type Leases and Direct Financing Leases

840-30-50-4A For guidance on disclosures about **financing receivables**, which includes receivables relating to a lessor's rights to payments from sales-type and direct financing leases, see the guidance ~~beginning in paragraphs 310-10-50-5A, 310-10-50-11A, 310-10-50-27, and~~ in paragraph 310-10-50-31.

> Leveraged Leases

840-30-50-5A For guidance on disclosures about financing receivables, which include receivables relating to a lessor's rights to payments from leveraged leases, see the guidance ~~beginning in paragraphs 310-10-50-5A, 310-10-50-27, and~~ in paragraph 310-10-50-31.

Amendments to Subtopic 860-10

41. Amend paragraph 860-10-50-5, with a link to transition paragraph 825-15-65-1, as follows:

Transfers and Servicing—Overall

Disclosure

> > Aggregation of Certain Disclosures

860-10-50-5 In determining whether to aggregate the disclosures for multiple transfers, the reporting entity shall consider quantitative and qualitative information about the characteristics of the transferred financial assets, including all of the following:

a. The nature of the transferor's continuing involvement
b. The types of financial assets transferred
c. Risks related to the transferred financial assets to which the transferor continues to be exposed after the transfer and the change in the transferor's risk profile as a result of the transfer
d. The guidance in ~~paragraph 310-10-50-25 (for risks and uncertainties) and~~ paragraphs 825-10-55-1 through 55-2 (for concentrations involving loan product terms).

Amendments to Subtopic 860-20

42. Amend paragraphs 860-20-30-2, 860-20-35-3, and 860-20-35-9, with a link to transition paragraph 825-15-65-1, as follows:

Transfers and Servicing—Sales of Financial Assets

Initial Measurement

860-20-30-2 ~~The~~ Except as discussed in paragraph 805-20-30-24 for purchased credit-impaired financial assets, the **transferee** shall initially measure at fair value any asset or liability recognized under paragraph 860-20-25-3.

Subsequent Measurement

> Financial Assets Subject to Prepayment

860-20-35-3 Interest-only strips and similar interests that are not in the form of securities are not within the scope of Topic 320 but shall be measured like investments in debt securities classified as available for sale or trading. In that circumstance, all of the measurement provisions of that Topic~~, including those addressing recognition and measurement of impairment~~, as well as the provisions of Subtopic 825-15 addressing recognition and measurement of credit losses, shall be followed. However, other provisions of ~~that~~ Topic 320, such as those addressing disclosures, are not required to be applied. ~~Paragraph 320-10-15-9 explains that, for debt securities within its scope, Subtopic 325-40 provides incremental guidance on accounting for and reporting discount and impairment.~~

> Beneficial Interests

860-20-35-9 ~~Beneficial~~ An entity with beneficial interests that are carried at amortized cost or fair value with changes in fair value recognized through other comprehensive income shall apply the provisions of Subtopic 825-15. ~~be evaluated periodically for possible impairment, including at the time paragraphs 860-20-25-8 through 25-10 are applied. See Section 325-40-35 for impairment guidance applicable to beneficial interests in securitized financial assets.~~

Amendments to Subtopic 942-230

43. Amend paragraph 942-230-55-2, with a link to transition paragraph 825-15-65-1, as follows:

Financial Services—Depository and Lending—Statement of Cash Flows

Implementation Guidance and Illustrations

> > Example 1: Statement of Cash Flows Under the Direct Method for a Financial Institution

942-230-55-2 Presented below is a statement of cash flows for Financial Institution, Inc., a U.S. corporation that provides a broad range of financial services. This statement of cash flows illustrates the direct method of presenting cash flows from operating activities, as encouraged in paragraph 230-10-45-25.

FINANCIAL INSTITUTION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 19X1

Cash flows from operating activities:		
Interest received	$ 5,350	
Fees and commissions received	1,320	
Proceeds from sales of trading securities	20,550	
Purchase of trading securities	(21,075)	
Financing revenue received under leases	60	
Interest paid	(3,925)	
Cash paid to suppliers and employees	(795)	
Income taxes paid	(471)	
Net cash provided by operating activities		$ 1,014
Cash flows from investing activities:		
Proceeds from sales of investment securities	2,225	
Purchase of investment securities	(4,000)	
Net increase in credit card receivables	(1,300)	
Net decrease in customer loans with maturities of 3 months or less	2,250	
Principal collected on longer term loans	26,550	
Longer term loans made to customers	(36,300)	
Purchase of assets to be leased	(1,500)	
Principal payments received under leases	107	
Capital expenditures	(450)	
Proceeds from sale of property, plant, and equipment	260	
Net cash used in investing activities		(12,158)
Cash flows from financing activities:		
Net increase in demand deposits, negotiable order of withdrawal accounts, and savings accounts	3,000	
Proceeds from sales of certificates of deposit	63,000	
Payments for maturing certificates of deposit	(61,000)	
Net increase in federal funds purchased	4,500	
Net increase in 90-day borrowings	50	
Proceeds from issuance of nonrecourse debt	600	
Principal payment on nonrecourse debt	(20)	
Proceeds from issuance of 6-month note	100	
Proceeds from issuance of long-term debt	1,000	
Repayment of long-term debt	(200)	
Proceeds from issuance of common stock	350	
Payments to acquire treasury stock	(175)	
Dividends paid	(240)	
Net cash provided by financing activities		10,965
Net decrease in cash and cash equivalents		(179)
Cash and cash equivalents at beginning of year		6,700
Cash and cash equivalents at end of year		$ 6,521
Reconciliation of net income to net cash provided by operating activities:		
Net income		$ 1,056
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	$ 100	
Provision for ~~probable~~ credit losses	300	
Provision for deferred taxes	58	
Loss on sale of investment securities	75	
Gain on sale of equipment	(50)	
Increase in trading securities (including unrealized appreciation of $25)	(700)	
Increase in taxes payable	175	
Increase in interest receivable	(150)	
Increase in interest payable	75	
Decrease in fees and commissions receivable	20	
Increase in accrued expenses	55	
Total adjustment		(42)
Net cash provided by operating activities		$ 1,014
Supplemental schedule of noncash investing and financing activities:		
Conversion of long-term debt to common stock		$ 500

942-230-55-4 Summarized below is financial information for the current year for Financial Institution, Inc., which provides the basis for the statement of cash flows presented in paragraphs 942-230-55-2 through 55-3.

FINANCIAL INSTITUTION, INC.
STATEMENT OF FINANCIAL POSITION

	1/1/X1	12/31/X1	Change
Assets:			
Cash and due from banks	$ 4,400	$ 3,121	$ (1,279)
Federal funds sold	2,300	3,400	1,100
Total cash and cash equivalents	6,700	6,521	(179)
Trading securities	4,000	4,700	700
Investment securities	5,000	6,700	1,700
Credit card receivables	8,500	9,800	1,300
Loans	28,000	35,250	7,250
Allowance for credit losses	(800)	(850)	(50)
Interest receivable	600	750	150
Fees and commissions receivable	60	40	(20)
Investment in direct financing lease	-	421	421
Investment in leveraged lease	-	392	392
Plant, property, and equipment, net	525	665	140
Total assets	$ 52,585	$ 64,389	$ 11,804
Liabilities:			
Deposits	$ 38,000	$ 43,000	$ 5,000
Federal funds purchased	7,500	12,000	4,500
Short-term borrowings	1,200	1,350	150
Interest payable	350	425	75
Accrued expenses	275	330	55
Taxes payable	75	250	175
Dividends payable	-	80	80
Long-term debt	2,000	2,300	300
Deferred taxes	-	58	58
Total liabilities	49,400	59,793	10,393
Stockholders' equity:			
Common stock	1,250	2,100	850
Treasury stock	-	(175)	(175)
Retained earnings	1,935	2,671	736
Total stockholders' equity	3,185	4,596	1,411
Total liabilities and stockholders' equity	$ 52,585	$ 64,389	$ 11,804

FINANCIAL INSTITUTION, INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 19X1

Revenues:		
Interest income	$ 5,500	
Fees and commissions	1,300	
Net gain on sales of trading and investment securities	75	
Unrealized appreciation of trading securities	25	
Lease income	60	
Gain on sale of equipment	50	
Total revenues		$ 7,010
Expenses:		
Interest expense	4,000	
Provision for ~~probable~~ credit losses	300	
Operating expenses	850	
Depreciation	100	
Total expenses		5,250
Income before income taxes		1,760
Provision for income taxes		704
Net income		$ 1,056

Amendments to Subtopic 942-310

44. Amend paragraph 942-310-05-1 and supersede paragraph 942-310-05-4, with a link to transition paragraph 825-15-65-1, as follows:

Financial Services—Depository and Lending—Receivables

Overview and Background

942-310-05-1 This Subtopic provides guidance concerning <u>accounting for debt-equity swap fees and costs.</u> ~~the recognition of impairment on a receivable at the date of origination and subsequently.~~

942-310-05-4 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~See Section 310-10-35 for additional guidance on recognition and measurement of loan impairment.~~

45. Supersede paragraph 942-310-25-1 and its related heading, with a link to transition paragraph 825-15-65-1, as follows:

Recognition

~~> Loan Impairment at Origination~~

942-310-25-1 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Generally, a loan would be impaired at origination only if a faulty credit granting decision has been made or loan credit review procedures are inadequate or overly aggressive, in which case, the loss shall be recognized at the date of loan origination.~~

46. Supersede paragraphs 942-310-35-1 through 35-4 and their related heading, with a link to transition paragraph 825-15-65-1, as follows:

Subsequent Measurement

~~> Loans to Financially Troubled Countries~~

942-310-35-1 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Bank loans to financially troubled countries may meet the conditions in paragraph 450-20-25-2 for accrual of loss contingencies. As a result, a bank shall establish loan loss allowances for such loans by charges to income. Although placing a loan in a nonaccrual status, including loans accruing at a reduced rate, does not necessarily indicate that the principal of the loan is uncollectible in whole or in part, it generally warrants reevaluation of collectibility of principal and previously accrued interest.~~

942-310-35-2 Paragraph superseded by Accounting Standards Update 201X-XX. ~~If amounts are received on a loan on which the accrual of interest has been suspended, a determination should be made about whether the payment received should be recorded as a reduction of the principal balance or as interest income. If the ultimate collectibility of principal, wholly or partially, is in doubt, any payment received on a loan on which the accrual of interest has been suspended shall be applied to reduce principal to the extent necessary to eliminate such doubt.~~

942-310-35-3 Paragraph superseded by Accounting Standards Update 201X-XX. ~~When a country becomes current as to principal and interest payments and has normalized relations with the international financial community including, as appropriate, having in place an understanding with the International Monetary Fund regarding its economic stabilization program, and assuming that the allowance for loan losses is adequate, the creditor may recognize receipt of interest payments as income.~~

942-310-35-4 Paragraph superseded by Accounting Standards Update 201X-XX. ~~Although a country has met the conditions described in the preceding paragraph, that fact should not automatically lead to the conclusion that the loans should be returned to accrual status. Some period of payment performance generally is necessary in order to make an assessment of collectibility that would permit returning the loans to accrual status.~~

Amendments to Subtopic 944-20

47. Amend paragraphs 944-20-55-36 through 55-37 with a link to transition paragraph 825-15-65-1, as follows:

Financial Services—Insurance—Insurance Activities

Implementation Guidance and Illustrations

Reinsurance Contracts

> Implementation Guidance

> > Obligatory Retrospective Rating Provision

944-20-55-36 This implementation guidance discusses how the guidance on multiple-year retrospectively rated contracts in the Reinsurance Contracts Subsections of this Subtopic is based on the concept that there is a substantive difference between a contract that contains an obligatory retrospective rating provision and one that does not. ~~This distinction derives from Subtopic 450-20, which requires recognition of liabilities (which are defined as present obligations)~~

~~as of a financial reporting date, but prohibits recognition of losses and expenses that will result from future events. For example, it may be a virtual certainty that an entity will pay employee salaries next year. But because there is no present obligation to pay those salaries, they are not recognized today.~~

944-20-55-37 ~~Similarly, under Subtopic 450-20 even if there is a high probability that an asset will be impaired in the future or a liability incurred in the future, the conditions for accrual have not been met because there is no present impairment or obligation to be recognized. Consistent with this principle, the~~The guidance on multiple-year retrospectively rated contracts in the Reinsurance Contracts Subsections of this Subtopic does not permit recognition of the effects of retrospective rating provisions unless those provisions are obligatory.

Amendments to Subtopic 944-80

48. Amend paragraph 944-80-25-9, with a link to transition paragraph 825-15-65-1, as follows:

Financial Services—Insurance—Separate Accounts

Recognition

> Proportionate Interest in a Separate Account

944-80-25-6 Assets underlying an insurance entity's proportionate interest in a separate account (**seed money** or other investment) do not represent contract holder funds, and thus do not qualify for separate account accounting and reporting.

944-80-25-7 The insurance entity shall look through the separate account for purposes of accounting for its interest therein, and account for and classify the assets of the separate account underlying that interest based on their nature as if the assets of the separate account underlying the insurance entity's proportionate interest were held directly by the general account rather than through the separate account structure. Example 2 (see paragraph 944-80-55-4) illustrates the application of this guidance.

944-80-25-8 The guidance in the following paragraph applies if a separate account arrangement meets the criteria in paragraphs 944-80-25-2 through 25-3 and either of the following conditions exists:

a. The terms of the contract allow the contract holder to invest in additional units in the separate account.
b. The insurance entity is marketing contracts that permit funds to be invested in the separate account.

944-80-25-9 If the conditions in the preceding paragraph are met, the assets of the separate account underlying the insurance entity's proportionate interest in the separate account shall be accounted for in a manner consistent with the accounting for similar assets held by the general account that the insurance entity may be required to sell. For example:

a. For a debt ~~or equity~~ ~~security~~ ~~with an unrealized loss, the loss shall be accounted for as an other than temporary impairment under the guidance in Subtopic 320-10 and recognized immediately in the statement of operations as a realized loss.~~ security, the guidance in Subtopic 825-15 shall be followed for the recognition and measurement of credit losses.
b. The guidance in Subtopic 360-10 shall be followed for both real estate that is held for sale and real estate that is not held for sale. For real estate that does not meet that Subtopic's held-for-sale criteria, the impairment test shall be performed solely using undiscounted cash flows assuming immediate disposition.

49. Amend paragraph 944-80-55-11, with a link to transition paragraph 825-15-65-1, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > Example 2: Proportionate Interest in a Separate Account

944-80-55-11 The XYZ separate account's balances for net investment income and gains and losses follow.

	XYZ Separate Account Total	*Insurer's Interest*	*Apportioned Values*	*General Account Classification*
Net investment income	$ 65	10%	6.5	Revenue
Realized gains and losses	20	10%	2.0	Revenue
Unrealized gains and losses:				
Debt securities	8	10%	0.8	Revenue or other [(a)] comprehensive income
Equity securities	25	10%	2.5	Revenue or other [(a)] comprehensive income
Mortgage loans	5	10%	0.5	Not recognized [(b)]
Real estate	2	10%	0.2	Not recognized [(b)]
Total net investment income and gains and losses	$ 125		12.5	

(a) Unrealized gains shall be included in revenue or other comprehensive income depending on security classification as trading or available for sale. ~~Unrealized losses result in other than temporary impairments~~ Credit losses, as noted in paragraph 944-80-25-9(a), ~~and~~ shall be recognized ~~immediately~~ in accordance with Subtopic 825-15.

(b) Unrealized gains are not recognized. ~~Cumulative unrealized losses may result in recognition of an other-than-temporary impairment.~~

Amendments to Subtopic 944-310

50. Amend paragraphs 944-310-35-3 through 35-4 and paragraph 944-310-35-6 with a link to transition paragraph 825-15-65-1, as follows:

Financial Services—Insurance—Receivables

Subsequent Measurement

General

> Mortgage Loans

944-310-35-3 Paragraph 944-310-45-4 states that changes in the allowance for estimated uncollectible amounts relating to mortgage loans shall be included in income as prescribed in Subtopic ~~310-10~~ 825-15.

Reinsurance Contracts

> Reinsurance Receivables

944-310-35-4 Because the valuation of **reinsurance** receivables depends on the terms of the reinsurance contract and on estimates used in measuring the liabilities relating to the reinsured contracts, this Subtopic does not stipulate a specific valuation method. However, the **ceding entity** shall recognize an allowance for credit losses ~~assess the collectibility of those receivables~~ in accordance with Subtopic ~~450-20~~ 825-15.

Financial Guarantee Insurance Contracts

> Unearned Premium Revenue

> > Receivable for Future Premiums

944-310-35-6 An insurance entity shall adjust the premium receivable for the allowance for credit losses in Subtopic 825-15 ~~uncollectible premiums~~ with a corresponding adjustment to earnings. The insurance entity shall consider as part of its assessment of recognition and measurement of the claim liability (see the Financial Guarantee Insurance Contracts Subsections in Subtopic 944-40) whether the premiums expected to be collected (the premium receivable) are fully collectible.

51. Amend paragraphs 944-310-45-4 through 45-4A and its related heading, with a link to transition paragraph 825-15-65-1, as follows:

Other Presentation Matters

> Mortgage Loans

944-310-45-4 Changes in the allowance for estimated uncollectible amounts relating to mortgage loans shall be included in income as prescribed in Subtopic ~~310-10~~ 825-15.

> ~~Other-Than-Temporary Impairment~~Credit Losses

944-310-45-4A ~~Losses arising from an other-than-temporary impairment shall be presented in accordance with Subtopic 320-10.~~ Credit losses shall be presented in accordance with Subtopic 825-15.

Amendments to Subtopic 944-325

52. Amend paragraph 944-325-45-5, with a link to transition paragraph 825-15-65-1, as follows:

Financial Services—Insurance—Investments—Other

Other Presentation Matters

944-325-45-5 ~~Losses arising from an other-than-temporary impairment shall be presented in accordance with Subtopic 320-10.~~ Credit losses shall be presented in accordance with Subtopic 825-15.

Amendments to Subtopic 948-310

53. Supersede paragraph 948-310-35-5, with a link to transition paragraph 825-15-65-1, as follows:

Financial Services—Mortgage Banking—Receivables

Subsequent Measurement

> Loans Held as Long-Term Investments

948-310-35-5 Paragraph superseded by Accounting Standards Update 201X-XX. ~~If ultimate recovery of the carrying amount of a mortgage loan held as a long-term investment is doubtful and the impairment is considered to be other than temporary, the carrying amount of the loan shall be reduced to its expected collectible amount, which becomes the new cost basis. The amount of the~~

~~reduction shall be reported as a loss. A recovery from the new cost basis shall be reported as a gain only at the sale, maturity, or other disposition of the loan.~~

Amendments to Subtopic 954-320

54. Supersede paragraph 954-320-35-1 and its related heading, with a link to transition paragraph 825-15-65-1, as follows:

Health Care Entities—Investments—Debt and Equity Securities

Subsequent Measurement

~~> Investments in Debt Securities and Certain Equity Securities~~

954-320-35-1 <u>Paragraph superseded by Accounting Standards Update 201X-XX.</u> ~~Investors that report a **performance indicator** as defined in Subtopic 954-225 shall refer to paragraphs 320-10-35-17 through 35-34E when determining impairment and evaluating whether the impairment is other than temporary.~~

55. Amend paragraph 954-320-45-1, with a link to transition paragraph 825-15-65-1, as follows:

Other Presentation Matters

954-320-45-1 Investment return (including realized and unrealized gains and losses) not restricted by donors or by law shall be classified as changes in unrestricted net assets as follows:

a. Included in the **performance indicator** are:
   1. Dividend, interest, and other similar investment income
   2. Realized gains and losses
   3. Unrealized gains and losses on trading securities (trading securities are defined in Topic 320)
   4. ~~Other than temporary impairment losses.~~ <u>Provision for credit losses (see Subtopic 825-15).</u>
b. Excluded from the performance indicator are unrealized gains and losses on other than trading securities.

Amendments to Subtopic 958-320

56. Amend paragraph 958-320-55-5, with a link to transition paragraph 825-15-65-1, as follows:

Not-for-Profit Entities—Investments—Debt and Equity Securities

Implementation Guidance and Illustrations

> Illustrations

> > Example 1: An NFP that Separates Investment Return Into Operating and Nonoperating Amounts

958-320-55-4 This Example illustrates the disclosures required by paragraph 958-320-50-1 and a statement of activities that reports a portion of investment return within a measure of operations.

958-320-55-5 This Example is illustrative only; it does not indicate a preferred method of reporting investment return or defining operations (see paragraph 958-225-45-9). An NFP may separate investment return into operating and nonoperating amounts in ways that it believes will provide meaningful information to users of its financial statements. Distinctions may be based on any of the following:

a. The nature of the underlying transactions, such as classifying realized amounts as operating and unrealized amounts as nonoperating
b. Budgetary designations, such as classifying amounts computed under a spending-rate or **total return** policy as operating and the remainder of investment return as nonoperating
c. The reporting requirements for categories of investments used in Topic 320, such as classifying investment income, realized gains and losses, <u>and</u> unrealized gains and losses on trading securities~~, and other-than-temporary impairment losses on securities~~ (that is, all items included in net income of a business entity) as operating and classifying the remainder of investment return as nonoperating
d. Other characteristics that provide information that is relevant and understandable to donors, creditors, and other users of financial statements.

Amendments to Subtopic 958-325

57. Amend paragraph 958-325-35-1, with a link to transition paragraph 825-15-65-1, as follows:

Not-for-Profit Entities—Investments—Other

Subsequent Measurement

> Institutions of Higher Education

958-325-35-1 Institutions of higher education, including colleges, universities, and community or junior colleges, shall subsequently report other investments at either of the following measures:

a. Carrying value—that is, those that were acquired by purchase are reported at cost, and those that were contributed are reported at their **fair value** at the date of the gift. ~~However, the carrying value shall be adjusted if there has been an impairment of value that is not considered to be temporary.~~
b. Fair value.

Amendments to Subtopic 978-310

58. Amend paragraphs 978-310-35-5 through 35-6, with a link to transition paragraph 825-15-65-1, as follows:

Real Estate—Time-Sharing Activities—Receivables

Subsequent Measurement

> Collectibility of Receivable

978-310-35-5 Once an initial time-sharing sale transaction has been recorded (which includes a reduction of recognized revenue for estimated uncollectibles), accounting for the allowance for uncollectibles follows similar valuation principles as any receivable, except that there is no bad debt expense. Each reporting period and at least quarterly a seller evaluates its receivables, estimates the amount it expects to ultimately collect, and evaluates the adequacy of its allowance pursuant to ~~Section 310-10-35~~ Subtopic 825-15. The allowance is then adjusted, with a corresponding adjustment to current-period revenue through the estimated uncollectibles account, which is a contra-revenue account. A corresponding adjustment is also made to cost of sales and inventory.

978-310-35-6 The allowance for uncollectibles shall be determined based on consideration of uncollectibles by year of sale, as well as the aging of notes receivable and factors such as the location of the time-sharing units, contract terms, collection experience, economic conditions, reasonable and supportable forecasts, and other qualitative factors as appropriate in the circumstances. See

Example 5 (paragraph 978-605-55-50) for an illustration of the determination of the allowance for uncollectibles.

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

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

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 Board decided that the primary objective of the proposed guidance should be to improve the decision usefulness of the reporting of credit losses on financial assets for users of financial statements by removing the perceived constraints to timely recognition of credit losses and by requiring consideration of a broader range of reasonable and supportable information to inform those estimates than is currently permitted under U.S. GAAP. Also, given that current U.S. GAAP includes five different credit impairment models for debt instruments, the Board believes that simplification of the accounting requirements also is an objective of this proposed guidance.

Background Information

BC3. In October 2008, as part of a joint approach to dealing with the reporting issues arising from the global financial crisis, the Financial Accounting Standards Board (FASB or Board) and the International Accounting Standards Board (IASB) set up the Financial Crisis Advisory Group (FCAG). FCAG was asked to consider how improvements in financial reporting could help enhance investors' confidence in financial markets. In its report, published in July 2009, FCAG identified delayed recognition of losses associated with loans (and other financial instruments) and the complexity of multiple impairment approaches as primary weaknesses in accounting standards and their application. One of FCAG's recommendations was to explore alternatives to the incurred loss model that would use more forward-looking information because the incurred loss model delays recognition until a loss is probable of occurring or has been incurred.

BC4. In November 2009, the IASB published the Exposure Draft, *Financial Instruments: Amortised Cost and Impairment* (the IASB's original Exposure Draft on this subject), which proposed requirements for amortized cost measurement including the impairment of financial assets. That Exposure Draft aimed to provide information about the effective return on a financial asset by allocating interest revenue over the expected life of the asset. To accomplish this objective, the Exposure Draft proposed that an entity use a discounted cash flow model to

recalculate the amortized cost basis of a financial asset at each reporting date, based on the then-current expected cash flows discounted at the original credit-adjusted effective interest rate. Credit losses were inherently contemplated in this model through their inclusion in the expected cash flow estimates.

BC5. Many respondents to the IASB's original Exposure Draft agreed that a new impairment approach should be more forward-looking and based on expected credit losses, as opposed to the current incurred loss model. While in principle many supported the expected cash flow model proposed in the Exposure Draft, most thought it was operationally too difficult to apply, especially in the context of open portfolios (whose composition changes as loans mature and new loans are originated).

BC6. In May 2010, the FASB published a proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities,* which included proposals on classification and measurement, credit impairment, and hedge accounting requirements. With regard to credit impairment, the Board's objective was to ensure that the allowance balance reflected all estimated credit losses for the remaining life of an instrument. To accomplish this objective, the FASB proposed that an entity recognize credit impairment when the entity does not expect to collect all contractual amounts due. Unlike existing guidance, the credit loss would not need to be considered "probable" to be recognized under the proposed Update. For purposes of measuring credit impairment, the proposed Update would have required that an entity assume that the economic conditions existing at the reporting date would remain unchanged for the remaining life of the financial assets. Furthermore, the FASB proposed that interest income be recognized based on applying the effective interest rate to the amortized cost basis net of any allowance for credit losses.

BC7. Many respondents to the FASB's proposed Update agreed with the recognition of the entire credit loss in the period estimated. Furthermore, elimination of the current probability threshold for recognizing credit losses was widely supported. Many investors noted that the "probable" threshold may have prevented institutions from recognizing credit losses that were imminent in 2007 and 2008. While most stakeholders supported the objective of having a single impairment model, some asserted that the proposed Update retained three different impairment models (that is, one for pools, one for individual assets, and one for purchased assets). Additionally, stakeholders expressed concern about the requirement to assume that economic conditions as of the reporting date would remain unchanged in the future. Finally, stakeholders (including users) generally opposed the proposal that interest income should be recognized based on applying the effective interest rate to the amortized cost basis net of any allowance for credit losses, preferring instead to maintain the approach in current U.S. GAAP that measures interest income and credit losses separately.

BC8. In redeliberating their original impairment proposals, each Board began to develop a model for impairment accounting that was a variant of its original proposal. The Boards sought to achieve a common solution to this important issue and, as a result, in January 2011 the FASB and the IASB published a Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment.* This common proposal would have eliminated any initial recognition threshold but introduced two different measurement objectives for the credit impairment allowance. For the "good book" of performing loans, an entity would recognize the higher of the time-proportionate expected credit loss or credit losses expected to occur within the foreseeable future. For the "bad book," an entity would recognize the entire amount of expected credit losses. An asset would "transfer" from the good book to the bad book when the collectibility of a financial asset became so uncertain that the entity's credit risk management objective changed from receiving the regular payments from the debtor to recovery of all or a portion of the financial asset. This proposal had features that partly satisfied each of the Board's primary objectives as described above.

BC9. Many respondents to the Supplementary Document indicated that in order to be implementable, the condition for when to transfer an asset between the "good book" and "bad book" needed to be further refined. Some suggested that a bright line be established to promote consistent application. Many preparers and auditors noted that without much stronger definitions around key terms, the model would not be operational, auditable, or understandable, and comparability would not be achieved. Additionally, the concept of "foreseeable future period" was said to be vague and could lead to counterintuitive results (such as when the economy is in a downturn, the foreseeable future shortens, thereby potentially decreasing the credit impairment allowance overall). Finally, many nonfinancial institutions stated that they do not manage their financial assets in the same way as financial institutions and, therefore, they found the "good book" and "bad book" proposal unfamiliar and inconsistent with their current practices.

BC10. Leveraging the feedback received, from June 2011 through July 2012 the FASB and the IASB jointly developed the so-called three-bucket impairment model. Similar to the model in the Supplementary Document, the three-bucket model would have eliminated any initial recognition threshold but utilized two different measurement objectives for the credit impairment allowance, depending on the extent of credit deterioration (or recovery) since origination or acquisition. For Bucket 1, an entity would recognize lifetime expected losses for the financial assets upon which a loss event is expected in the next 12 months (sometimes referred to as "12 months of expected losses"). For Bucket 2 and Bucket 3, an entity would recognize all lifetime expected losses. Based on decisions reached through July 2012, an asset would "transfer" from Bucket 1 to Bucket 2 (or Bucket 3) when both (a) there has been a more than insignificant deterioration in

credit quality and (b) it is at least reasonably possible that some or all of the contractual cash flows may not be collected.

BC11. While developing application guidance for the three-bucket model, the FASB received requests to clarify a number of principles in the model, including the Bucket 1 measurement objective and the “transfer criteria” that determine when to change measurement objectives. Many stakeholders viewed the proposed transfer criteria as reintroducing an incurred loss recognition trigger for a full lifetime loss estimate. From April 2012 through July 2012, the FASB staff and individual Board members held detailed working sessions with stakeholders (including investors, preparers, auditors, and regulators) to try and address the issues through additional clarifying guidance. Despite these efforts, stakeholders continued to express significant concerns about the operability, auditability, and understandability of the three-bucket impairment model. The most significant concerns related to the use of two different measurement objectives—a portion of total expected losses for some assets and a full recognition approach for assets that have exhibited significant deterioration since origination or acquisition. Concerns were raised about (a) the ambiguity of the criteria for determining which measurement objective to utilize, (b) the potential for earnings management relating to the timing of the transfers between measurement objectives, and (c) the potential “cliff effect” of moving from an approach that recognizes a portion of total expected losses for some assets to a full recognition approach, and vice versa. Many stated that the model would result in inconsistent application and would not provide users with comparable or transparent results. Furthermore, users expressed concern over interpreting any model that utilizes two different measurement objectives to arrive at a single recognized allowance for credit losses on the balance sheet, which was a core concept in the three-bucket model.

BC12. As a result of the pervasive feedback about the three-bucket model, in July 2012 the Board decided to revisit some previous tentative decisions on the impairment project, primarily relating to the use of two different measurement objectives. The Board revisited the feedback received on the other models that were considered during this project, which are described above. In doing so, the Board believes that it has developed a model that retains certain concepts that are sound and achieves the project’s objective, while at the same time avoiding other concepts that have proven complex, inoperable, or otherwise problematic.

Basis for Conclusions

Measurement Objective and Initial Recognition Threshold

BC13. The Board and stakeholders have extensively debated whether the credit loss measurement for performing assets should differ from the credit loss measurement for assets that have exhibited credit deterioration. Some believe

that the credit losses that the entity anticipated at acquisition or origination should be recognized in a pattern similar to the recognition of the related revenue (that is, interest income), on the basis that this compensates the entity for undertaking this risk. These individuals often support a proportionate or time-based approach to recognizing credit losses or believe that no credit losses should be recognized until credit deterioration has occurred. Others believe that instruments measured using an amortized cost measurement attribute should be reflected in the balance sheet at each reporting date at an amount that reflects the present value of cash flows expected to be collected, discounted at the original effective interest rate. These individuals believe that for instruments measured at amortized cost it is potentially misleading to investors to allow the balance sheet to reflect an amount greater than the present value of cash flows expected to be collected. The Board's decision between these two fundamentally different alternatives was influenced by a number of key economic and practical considerations.

BC14. First, the Board understands from experts in the lending community that credit losses do not occur ratably through the life of a loan. Rather, many credit losses are very low shortly after origination, rise rapidly in the early years of a loan, and then taper to a lower rate until maturity. As a result, the Board believes that there is a fundamental disconnect between the economics of lending (that is, the "lumpy" pattern of actual credit losses) and a time-based accounting approach that attempts to link the recognition of credit losses anticipated at origination or acquisition with the recognition of interest income.

BC15. Second, the Board understands that assets are priced (a credit spread is established) on the basis of a number of factors, including competitive forces in the marketplace, the extent of the existing or desired relationship with the borrower, and the extent of security or collateral. Clearly, the borrower's creditworthiness is a key factor in pricing the asset. Nevertheless, given the multitude of factors that affect pricing, it is impractical (if not impossible) to reliably isolate and measure the portion of the credit spread that is actually intended to compensate the lender for undertaking the credit risk from the portion of the credit spread that results from these other factors (particularly given that credit losses are rarely expected to emerge in a linear fashion and, therefore, the portion of the credit spread that is actually compensating the lender for undertaking the credit risk may change over time). Furthermore, the Board understands that even the creditworthiness evaluation that influences pricing is based on historical experience for groups of similar assets. As a result, while the credit spread charged on the lender's overall portfolio of individual loans may be expected to compensate the entity for credit losses for a large portfolio of assets over time, the credit spread on any individual loan is not established in a way to necessarily compensate the lender for credit losses on that individual asset. As a result, the Board believes that it is impractical to link accurately the recognition of credit losses anticipated at origination or acquisition with the compensation paid to the lender (interest) for undertaking that risk.

BC16. Third, the Board believes that the net amortized cost (net of the allowance for credit losses) presented on the balance sheet should reflect the present value of cash flows expected to be collected, discounted at the original effective interest rate. The Board believes that it is potentially misleading to investors to allow the balance sheet to reflect an amount greater than the present value of cash flows expected to be collected for instruments measured using amortized cost, which would be the result of an approach that recognizes only some of the contractual cash flows not expected to be collected (that is, only those expected to occur in the next 12 months). The amortized cost of an asset (excluding the allowance for credit losses) generally reflects the present value of contractual cash flows, discounted at the original effective interest rate. As a result, the Board believes that when the allowance for credit losses reflects the present value of all contractual cash flows that are not expected to be collected, the net amortized cost presented on the balance sheet is representationally faithful.

BC17. As a result, the Board decided that expected credit losses should reflect management's estimate of the contractual cash flows not expected to be collected from a recognized financial asset (or group of financial assets). This decision was based on the belief that, at each reporting period, the amortized cost (on a net basis) should reflect the present value of cash flows expected to be collected (using the original effective interest rate). The Board decided not to recognize only a portion of total expected credit losses because the resulting net amortized cost amount would not reflect the present value of cash flows expected to be collected. Rather, that net amortized cost basis would include some cash flows that are actually not expected to be collected, and losses often are expected beyond a 12-month horizon. Furthermore, the Board believes that concerns about the reliability of the estimate as a result of the potential uncertainty of the timing of the losses should not be the primary driver of whether the credit losses should be recognized.

BC18. The Board decided that the recognition of credit losses should be based on an entity's expectations about the collectibility of contractual cash flows for financial assets held at the reporting date. Despite the fact that an entity is required to estimate credit losses over the entire contractual term of the financial assets (recognizing that expected prepayments affect the estimate of expected credit losses), the Board decided not to characterize expected credit losses as "lifetime" expected credit losses. The use of the term *lifetime* is interpreted in many different ways and may lead some to believe that an entity must identify the exact amount and timing of uncollectible cash flows in each year of the asset's life for use in a discounted cash flow technique to estimate expected credit losses. For others, the term *lifetime* suggests the recognition of a stress-case (or worst-case) credit loss scenario after a default has occurred. Also, inclusion of the term *lifetime* may lead some to believe that estimating expected credit losses must be done on an individual asset basis rather than having the ability to estimate expected credit losses on a collective (pool) basis.

BC19. The Board believes that an entity's expectations about the collectibility of contractual cash flows should consider all available information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that inform the entity about the estimated collectibility of remaining contractual cash flows. In considering past events, an entity should evaluate changes in loan underwriting practices, including their affect on the assessments of business plans and strategies, and collateral values. In considering current conditions and forecasts about the future, the Board decided that an entity should consider both the current point in the economic cycle and the forecasted direction of the economic cycle because that best reflects the economic environment facing the entity as of the reporting date. As a result, the recognition of credit losses under this guidance would not follow a so-called dynamic provisioning approach that averages the highs and lows of the economic cycle.

BC20. The Board considered retaining an initial recognition threshold (such as probable) for recognition of credit losses. The Board decided that the model for recognizing credit losses should not be based on a notion of "incurred" losses because it was perceived to interfere with the timely recognition of credit losses. Similarly, an entity should not automatically conclude that there are no expected credit losses simply because all of the contractual amounts due have been received to date. Furthermore, the Board believes that the concept of a "credit loss" due to a shortfall in contractual cash flows is a measurement issue (as opposed to a recognition issue) and is consistent with paragraphs 85 and 87-89 of FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*. The Board believes that the credit loss recognition guidance in this proposal would differ from an incurred loss model because recognition of credit loss would not be based on a specific triggering event or line of determination. The Board believes that removing the probable threshold would result in an entity recognizing expected credit losses in net income on a timelier basis because losses can be expected before they are probable of occurring (or have occurred). The Board believes that the relevance of balance sheet amounts that reflect expected future cash flows without consideration of a recognition threshold outweighs potential concerns with the subjective nature of the estimate. Furthermore, eliminating the probable threshold would be consistent with the Board's decisions in FASB Staff Position FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* issued in April 2009, which modified the impairment guidance for debt securities. One of the changes made by that FSP was to remove the probable threshold for assessing whether a debt security is other than temporarily impaired. The Board made that change to clarify that an entity should not wait for an event of default or other actual shortfall of cash flows to conclude that a credit impairment exists.

BC21. Some may believe that the Board's approach would recognize losses prematurely and in uneconomic amounts. Those views appear to focus on individual assets rather than groups of similar assets, which is inconsistent with how most financial institutions manage their assets, particularly loans, and how users analyze financial institutions. Specifically, financial institutions manage loans in a fluid, open-portfolio setting, wherein new loans are originated, existing loans are paid down, and some loans may be bought and some loans may be sold. The estimate of credit losses under the Board's proposal would be based on the current credit risk of the assets in that open-portfolio setting and the entity's loss experience (and expectation) with assets of similar risk characteristics. For example, if a group of similar assets is fully performing at the end of a reporting period, the entity's experience might reflect that it typically suffers minimal losses. Conversely, if a group of similar assets is exhibiting increased credit risk, the entity's experience might suggest that it typically suffers more significant losses. Each period, the entity would take a fresh look at the credit risk and expected performance of its assets and revise its estimate of expected losses accordingly. Because there is no "trigger" for recognition, the method should reflect changes in the status of the assets, as well as changes in the entity's experience and expectations in a timely manner, and the allowance should be commensurate with the expected losses inherent in the assets held at the reporting date.

BC22. The Board understands that some stakeholders believe that a requirement to recognize the full estimate of expected losses may inhibit lending, particularly to less credit-worthy borrowers. The Board observes that any collateral relating to riskier borrowers would be considered in the estimate of expected credit losses. Likewise, in a stable pool of assets, one would expect the changes in the allowance to relate primarily to changes in credit risk, as opposed to the recognition of new loans (as illustrated in Example 1). However, the Board acknowledges that a growing business involving riskier credits could give rise to recognition of incremental losses in the first reporting period after recognition of the loan(s). The Board weighed that effect against the alternative, which would be to recognize a portion of the total expected losses rather than the full amount (for example, the IASB's proposed approach of recognizing lifetime expected losses for the financial assets upon which a loss event is expected in the next 12 months). The Board understands that most credit losses emerge early in the life of most asset classes. Therefore, the Board was concerned about an approach that would not recognize losses that are currently expected on a timely basis. In addition to potentially overstating assets in a given period, such an approach may provide an incentive for riskier lending because the full estimate of credit losses would not be recognized until a recognition trigger is met, even though those losses can be estimated and are expected to occur.

Measurement of Expected Credit Losses

BC23. The Board acknowledges that any approach to estimating credit losses (and conversely the present value of cash flows expected to be collected) is subjective. The Board believes that investors understand the subjective nature of credit loss estimates. The Board's proposal would require that an entity's estimate be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets' remaining contractual cash flows. In doing so, the Board expects that an entity should not ignore relevant market data. An entity must use judgment in considering the relative effect of conflicting forecasts about the future and their implications for expected credit losses. The Board expects that the adjustment for current conditions and reasonable and supportable forecasts would be the most subjective aspect of the estimate and therefore decided to require specific disclosure about those factors in paragraph 825-15-50-9. The Board believes that removing any trigger to the recognition of the cumulative expected loss estimate removes a significant element of discretion from current U.S. GAAP and from alternatives previously considered. That is, because the measurement objective is the same every period, there is no need to identify when an asset has deteriorated enough to warrant full recognition of expected credit losses.

BC24. The Board also acknowledges that estimating expected credit losses over longer periods of time (such as the contractual term of financial assets) requires a significant amount of judgment, especially when discounted cash flow techniques are used. Although an entity is required to estimate credit losses over the entire contractual term of the financial assets, the Board recognizes that as the forecast horizon increases, the degree of judgment involved in estimating expected credit losses increases because the availability of detailed estimates for periods far in the future decreases. An entity should not ignore available information that is relevant to the estimated collectibility of contractual cash flows.

BC25. The Board considered including specific guidance that would have prescribed when credit losses are to be estimated on an individual asset basis and when credit losses are to be estimated on a collective (or pool) basis. The Board decided not to specify the unit of measurement or require certain methods to be followed in specific circumstances. Instead, the Board decided to provide a consistent set of measurement principles that could be implemented for both individual assets and groups of similar assets, understanding that the estimation techniques might differ.

Time Value of Money

BC26. The Board decided that an estimate of expected credit losses should reflect the time value of money. The Board believes that this decision is consistent with the amortized cost framework and with how credit losses often

are estimated under current practice. The amortized cost basis of a financial asset is equal to principal and interest cash flows discounted at the original effective interest rate. As a result, the amortized cost amount implicitly reflects the time value of money. The Board considered whether expected credit losses should be based on the expected loss of principal only, without consideration of the time value of money. An estimation approach that considers the present value of principal and interest cash flows may provide a similar result as an estimation approach that considers principal cash flows on an undiscounted basis. However, given that the amortized cost framework implicitly reflects the time value of money, the Board believes that the estimate of expected credit losses should be conceptually consistent with that framework.

BC27. This proposed Update would not require that a discounted cash flow model be used that explicitly estimates the timing and amount of expected cash flows (or expected cash shortfalls). The Board believes that an entity should have the flexibility to utilize estimation techniques that are practical and relevant to its circumstance. The Board acknowledges that other methods implicitly reflect the time value of money by (a) developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss (adjusted for current conditions and reasonable and supportable forecasts) and the amortized cost basis of the asset and (b) applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Because the amortized cost basis of a financial asset implicitly reflects the time value of money, the Board decided that such methods implicitly reflect the time value of money in a manner consistent with the principle.

BC28. Consistent with the basis for conclusions in FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan,* the Board continues to believe that a financial asset's effective interest rate should be the rate used to discount expected cash flows when expected credit losses are estimated using a discounted cash flow method. The Board believes that the credit-loss measurement should reflect only credit risk, which is evidenced by contractual cash flows not expected to be collected from the financial asset. The Board decided that the credit-loss measurement should not reflect changes in market rates of interest, because that would fundamentally change the measurement attribute from amortized cost. The effective interest rate is the rate of return implicit in the financial asset (that is, the contractual interest rate adjusted for any net deferred fees or costs, premium, or discount). The Board observed that the amortized cost of a financial asset is the present value of the contractual future cash inflows—both those designated as principal and those as interest—discounted at the financial instrument's historical or effective interest rate. Thus, the measurement basis for credit losses will be the same as the measurement basis for the amortized cost of the same financial asset.

BC29. The Board decided that measurement approaches for collateral-dependent financial assets that estimate expected credit losses by comparing the amortized cost basis with the fair value of collateral are acceptable practical expedients for estimating expected credit losses in a manner that reflects the time value of money because fair value is, by definition, a present value. The Board acknowledges that there is an inherent inconsistency in how the time value of money is reflected in an amortized cost amount (wherein the discount rate implicit in the present value is a historical rate) and a fair value amount for collateral (wherein the discount rate implicit in the present value is a current rate). Nevertheless, the Board decided that such an approach would be acceptable as a practical expedient if the obligation is expected to be satisfied by sale of the collateral.

Multiple Possible Outcomes

BC30. The Board understands that many entities evaluate financial assets for impairment by aggregating assets with similar risk characteristics or, for securities, by evaluating the current rating of the asset or other instruments of the issuer, which also is based on aggregated historical data. Therefore, the Board anchored its analysis on the expected losses for groups of similar financial assets rather than a particular financial asset held by the entity.

BC31. The Board believes that financial assets generally are priced assuming an estimated likelihood of credit losses on similar assets even though the entity initially expects to collect all of the contractual cash flows on each individual asset. Similarly, while an entity might not currently expect a loss on an individual asset, it ordinarily would expect some level of losses in a group of assets with similar risk characteristics. Therefore, the Board decided that an estimate of expected credit losses should reflect both the possibility that a credit loss results and the possibility that no credit loss results. Furthermore, the Board decided to prohibit an entity from estimating expected credit losses on the basis of the most likely outcome (that is, the statistical mode).

BC32. This proposed Update would not require that a variety of scenarios always be identified and probability-weighted to estimate expected credit losses. The Board believes that an entity should utilize estimation techniques that are practical and relevant to its circumstance, provided the technique is consistent with the principles for measuring expected credit losses. The Board acknowledges that some measurement methods (such as a loss-rate method, a roll-rate method, a probability-of-default method, and a provision matrix method using loss factors) rely on an extensive population of actual loss data as an input when estimating credit losses and, therefore, implicitly reflect multiple outcomes in a manner consistent with the principle because the population of actual loss data reflects items within that population that ultimately resulted in a loss and those that resulted in no loss.

BC33. The Board decided that measurement approaches for collateral-dependent financial assets that estimate expected credit losses by comparing the amortized cost basis with the fair value of collateral are acceptable practical expedients for estimating expected credit losses in a manner that reflects multiple possible outcomes because the fair value of collateral explicitly or implicitly reflects several potential outcomes on a market-weighted basis.

Use of a Valuation Allowance for Expected Credit Losses

BC34. The Board decided that expected credit losses for all financial assets should be reflected through a valuation allowance rather than a direct adjustment to the cost basis of the asset. However, the Board also decided that an entity should write off a financial asset (or portion of a financial asset) when the entity determines that it has no reasonable expectation of recovery.

BC35. Existing impairment guidance for loans requires the recognition of an allowance (a contra-asset) and permits an entity to reverse a previously recognized allowance if there is an upward change in expectations about the collection of future cash flows. In contrast, existing impairment guidance for debt securities requires that if an entity recognizes an other-than-temporary impairment, the impairment is reflected as an adjustment to the amortized cost basis of the security. Any subsequent increases in cash flows expected to be collected are reflected in net income on a prospective basis as interest income through an adjustment of the effective interest rate. The requirement to adjust the effective interest rate on a prospective basis can result in an unusually high effective rate if a large credit impairment is recognized and there are significant subsequent increases in expectations about the collection of cash flows.

BC36. Some stakeholders have expressed concerns that the current requirement to adjust the cost basis of a security when an entity recognizes an other-than-temporary impairment can distort yields because those amounts are recognized as interest income in future periods. As a result, the Board decided that expected credit losses should be recognized through a valuation allowance for all financial assets and that the allowance (as opposed to the yield) should be adjusted if credit loss expectations subsequently improve.

Debt Securities and Financial Assets Classified at Fair Value with Qualifying Changes in Fair Value Recognized in Other Comprehensive Income

BC37. The Board decided that debt securities should utilize the same credit loss recognition model as debt instruments that are not securities (for example, loans). The Board found no conceptual or practical reasons to justify a different credit loss measurement objective for debt securities. This decision is consistent with the Board’s decision that the form of the debt instrument does not determine

the classification of a financial asset as amortized cost, fair value through other comprehensive income (FV-OCI), or fair value through net income (FV-NI).

BC38. Similarly, the Board decided that financial assets that are classified at FV-OCI should utilize the same credit loss recognition model as financial assets that are classified at amortized cost. To the extent reasonably possible, the Board believes that interest income recognition and credit losses recognition in net income should be the same for financial assets classified at FV-OCI and financial assets classified at amortized cost. The Board recognizes, however, that expected credit losses for financial assets classified at FV-OCI may more frequently be measured on an individual asset basis because the business model involves selling individual assets. Therefore, in an effort to minimize the cost of compliance when expected credit losses are insignificant, the Board decided to allow a practical expedient such that an entity need not separately measure and recognize expected credit losses for financial assets measured at FV-OCI when both the fair value of the asset is greater than (or equal to) the amortized cost basis and expected credit losses on the asset are insignificant. One way that the Board expects that an entity could assess whether expected credit losses are insignificant is by considering the general expectation of the range of expected credit losses given the credit-quality indicator(s) for the asset as of the reporting date.

Purchased Credit-Impaired Financial Assets

BC39. In recent years, investors and preparers have expressed concerns about the complexity of applying and interpreting the existing model for purchased credit-impaired assets in Subtopic 310-30. Specifically, investors and preparers expressed concern about the asymmetrical treatment of favorable and unfavorable changes in expected cash flows. Additionally, investors expressed concern about interpreting the markedly different approach for estimating credit losses for purchased credit-impaired and other assets under existing guidance. Furthermore, preparers expressed concern about the cost and complexity of applying the model in Subtopic 310-30 that practically requires a “closed pool” calculation methodology (that is, the assets must be segregated and tracked as a group), as well as concerns about the interpretation of the scope of Subtopic 310-30. Stakeholders also expressed concern about the lack of comparability between impaired loans acquired in a business combination and impaired loans originated by the entity, especially in regards to differences in the amount of allowance for credit losses recognized for similar assets.

BC40. To the extent possible, the Board believes that purchased assets and originated assets should follow the same model. At the same time, recognizing interest revenue on the basis of contractual cash flows for all purchased assets could result in situations in which an entity accretes to an amount that it does not expect to collect, which would result in artificially inflated yields. For this reason, the Board believes that when recognizing interest income on certain assets, it is

inappropriate to accrete from the purchase price to the contractual cash flows. Specifically, when a purchased asset has deteriorated significantly since origination such that there is a significant difference between the contractual cash flows and the expected cash flows, it is more representationally faithful to recognize yield by accreting from the purchase price to the cash flows expected to be collected at acquisition. As a result, the Board decided that the discount embedded in the purchase price that is attributable to credit losses at the date of acquisition of a purchased credit-impaired asset should never be recognized as interest income.

BC41. The Board recognizes that there are different perspectives on whether a credit loss allowance for a purchased credit-impaired asset should be based on (a) changes in the amount of expected credit losses since acquisition or (b) the current (that is, absolute) amount of expected credit losses considering contractual cash flows not expected to be collected. The Board decided that the measurement objective of the allowance for credit losses should be the same for all financial assets and, therefore, chose the “absolute” approach. The Board believes that it is easier to understand the nature of the allowance by not creating a separate or distinct credit allowance measurement objective for purchased credit-impaired assets. Similarly, the Board decided that both favorable and unfavorable changes in the allowance for credit losses for all assets, including purchased credit-impaired assets, should be reflected in net income in the period of change. The Board understands that in addition to aiding in user understanding and comparability of purchased credit-impaired and non-purchased-credit-impaired assets, these decisions will allow preparers to utilize the same tools and methodology for estimating expected credit losses for both purchased credit-impaired assets and non-purchased-credit-impaired assets.

BC42. For purposes of measuring expected credit losses, the Board believes that there is no inherent difference between assets acquired in a business combination and those that are purchased outside a business combination. Accordingly, the Board does not believe it is necessary to require an entity to recognize and measure expected credit losses for assets acquired in a business combination differently from those that are acquired outside one. In addition, in the definition of purchased credit-impaired assets, the Board decided to indicate that determining a purchased credit-impaired asset often pertains to acquired groups of financial assets with shared risk characteristics at the date of acquisition. From a practical perspective, the Board believes that it is unrealistic to expect that an entity could individually evaluate each purchased financial asset in an asset acquisition or business combination within the reporting deadlines to determine whether each individually qualifies as purchased credit-impaired. The Board believes that an entity should have flexibility to assess whether individual financial assets or groups of financial assets with shared risk characteristics qualify as having experienced a significant deterioration in credit quality since origination. Thus, the proposed definition of purchased credit-impaired assets

would not preclude application to individual assets, but it also would not require application to only individual assets.

Interest Income Recognition

BC43. The existing interest income recognition method for loans (other than loans acquired with evidence of deterioration in credit quality) is based on the initial investment without deducting the allowance for credit losses, which may allow certain entities to continue to recognize interest income on principal that is not expected to be collected. Regulatory instructions for certain financial institutions currently mitigate this concern by requiring that interest accrual cease when collection of principal, interest, or both becomes doubtful (so-called nonaccrual practices that are permissible under existing U.S. GAAP).

BC44. In the May 2010 proposed Update, the Board proposed that interest income should always be calculated on the basis of the amortized cost less any allowance for credit impairments of the financial asset. This proposed change was strongly opposed by many stakeholders, including preparers, some auditors, regulators, and many investors. Stakeholders noted that the existing approach to recognizing interest income and credit losses separately provides users with relevant information about the credit risk of the underlying assets. Therefore, in redeliberations the Board decided generally to retain the existing guidance for interest income recognition. Furthermore, the Board decided to provide specific guidance for nonaccrual assets in this proposed Update to promote consistency and comparability between regulated and nonregulated entities.

Modifications

BC45. Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. The Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike more than minor modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument following a troubled debt restructuring as a continuation of the original debt instrument.

BC46. While recognizing that the economic concession granted to the borrower may manifest itself in either (or both) a change in the contractual interest or a change in principal terms, the Board believes that the concession in a troubled debt restructuring is granted as a result of the borrower's credit problems. As noted previously, the Board decided that the credit loss measure should not reflect changes in market rates of interest and, therefore, decided to hold constant the discounting factor when a discounted cash flow method is used

(that is, the expected future cash flows should be discounted at the financial asset's original effective interest rate). Because the Board believes that the modified debt instrument following a troubled debt restructuring is a continuation of the original debt instrument, the Board believes that, within the context of the amortized cost framework, the effective interest rate on a debt instrument following a troubled debt restructuring should be the debt instrument's premodification original effective interest rate (as opposed to a post-troubled-debt-restructuring modified rate). The Board believes that allowing a current credit concession to be deferred and recognized prospectively through a lower yield in the future would be inconsistent with this project's objective to improve the timely recognition of credit losses.

BC47. The Board believes that when a creditor modifies a debt instrument in a troubled debt restructuring, it forgoes its unconditional right to the original contractual cash flows and, instead, accepts a modified series of contractual cash flows as what constitutes the legal contractual arrangement with the borrower. Consistent with the writeoff principle in the proposed amendments (that is, when there is no reasonable expectation of recovery), the Board decided that when an entity executes a troubled debt restructuring, the cost basis of the asset should be adjusted so that the effective interest rate (post-troubled debt restructuring) is the same as the original effective interest rate, given the new series of contractual cash flows. The basis adjustment would be calculated as the amortized cost basis before modification less the present value of the modified contractual cash flows (discounted at the original effective interest rate). The Board believes that this approach avoids the need for a "special model" for troubled debt restructurings and simplifies the resulting guidance.

Disclosure

BC48. The Board believes that financial statement disclosures should provide information that is useful in analyzing an entity's exposures to credit risk and the recognition of credit losses. Accordingly, the proposed financial statement disclosures are intended to enable users of the financial statements to understand (a) the credit risk inherent in the portfolio and how management monitors the credit quality of the portfolio, (b) management's estimate of expected credit losses, and (c) changes in the estimate of expected credit losses that have taken place during the period.

BC49. The proposed financial statement disclosures retain many of the existing disclosures of Accounting Standards Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,* primarily those regarding an entity's credit risk exposures and its evaluation of the adequacy of allowance for credit losses. Similar to those disclosures, the proposed amendments would require an entity to provide information either by portfolio segment or by class of financial asset. The Board believes that when disclosing information by portfolio segment or

class of financial asset, an entity should determine, in light of the facts and circumstances, how much detail it must provide and how it disaggregates information into segments or classes for assets with different risk characteristics. An entity must strike a balance between obscuring important information as a result of too much aggregation and overburdening financial statements with excessive detail that may not assist financial statement users to understand the entity's financial assets and allowance for expected credit losses.

BC50. The Board decided that the same disclosure requirements should apply to debt instruments within the scope of the proposed amendments without regard to whether the debt instrument qualifies as a security or whether the debt instrument is measured at amortized cost or FV-OCI. This decision is consistent with the Board's decision that, for purposes of recognition and measurement of credit losses, the same approach should apply for securities and nonsecurities and for financial assets measured at amortized cost and financial assets measured at FV-OCI.

BC51. While the Board chose to retain many existing financial statement disclosures about an entity's allowance for credit losses, the change from an incurred to an expected loss model introduces the need for additional disclosures, most notably those about the estimate of expected credit losses and the effect of collateral on that estimate. Requiring an entity to use expected loss data when determining expected credit losses will require an entity to incorporate new types of information into its measurement of expected credit losses and increase the significance of forecasts and an entity's judgment in calculating the allowance for expected credit losses of its financial assets. As a result, the Board believes that users will benefit from an understanding of how an entity derives and uses this information. Furthermore, given the importance of collateral when estimating expected credit losses, the proposed amendments also would require disclosures about collateral securing an entity's financial assets. The Board believes that this additional information will enable users to understand the effect of collateral on an entity's exposure to credit.

BC52. Under the proposed amendments, an entity would be required to estimate expected credit losses on purchased credit-impaired assets on the basis of shortfalls in contractual cash flows. In addition, an entity would not be allowed to recognize as interest income the discount attributable to credit. Because of these proposed amendments, the Board believes it is necessary to reconcile the amount paid for the purchased credit-impaired asset to the asset's par value, particularly to provide transparency about the discount inherent in the asset's purchase price due to expected credit losses.

BC53. Furthermore, the Board decided to include roll-forward disclosures for debt instruments measured at amortized cost and for debt instruments measured at FV-OCI. The Board understands that quantitative roll forwards for both the amortized cost basis of debt instruments and the related allowance for expected credit losses would provide users with useful insight into the extent of and type of

growth (or decline) that an entity is experiencing (for example, organic or purchased) and the corresponding changes in credit risk exposure and expected credit losses inherent in the portfolio.

Transition

BC54. The Board decided that the proposed guidance should require a cumulative-effect adjustment to the statement of financial position as of the effective date. The Board rejected other methods, including methods requiring full retrospective transition. The Board acknowledges that retrospective transition methods generally provide the most useful information. However, the Board determined them to be impracticable to apply in prior periods in this case because the use of hindsight would be necessary in making estimates of expected credit losses.

Similarities and Differences with IFRS

BC55. At the time of this printing, the IASB had not yet concluded its deliberations on credit losses. Once those deliberations are complete, the FASB will summarize any differences and invite comments on those alternatives.

Benefits and Costs

BC56. 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 the preparer and, by extension, the preparer's investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more quantitative than qualitative 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.

BC57. On the basis of extensive due process and significant input received from financial statement users, the Board believes that the proposed guidance would provide users with more relevant, reliable, and timely information about the credit risk inherent in the portfolio and the change in expected credit losses occurring during the period. The Board developed this proposed guidance to provide users of financial statements with relevant information about the timely recognition of expected credit losses. The proposed guidance is expected to:

a. Result in a more timely recognition of credit losses through the statement of financial performance
b. Result in greater transparency about the extent of expected credit losses on financial assets held at the reporting date
c. Improve a user's ability to understand the realizability of assets held at each reporting period and the credit risk inherent in the portfolio, regardless of the form of the asset
d. Improve a user's ability to understand changes in expected credit losses that have taken place during the period
e. Improve a user's ability to understand purchased credit-impaired financial assets by enhancing their comparability with originated impaired assets, while also reducing the cost and complexity of accounting for such instruments
f. Improve understanding and comparability of interest income between entities by providing a nonaccrual principle
g. Enhance consistency when credit impairment is measured at the individual asset level as compared with at the portfolio level.

BC58. The Board recognizes that the proposed guidance may require significant effort for many entities to gather the necessary data for estimating expected credit losses and that the review and audit procedures to ensure compliance with the proposed guidance may require additional effort. During the course of developing the proposed guidance, the Board sought to minimize the cost of improving the credit losses guidance by:

a. Proposing an approach that, while different from current practice, should allow an entity to leverage its current internal credit risk management approach and systems as a framework for applying the new measurement objective
b. Proposing an approach that is based on credit risk as of the reporting date (as opposed to a model based on the relative change in credit risk over time)
c. Proposing an approach that does not require a separate "impairment determination" (that is, there is no initial recognition threshold)
d. Proposing an approach that does not include multiple measurement objectives that would require analysis to determine which measurement objective is appropriate or the application of a trigger based on deterioration
e. Including a practical expedient to limit the extent to which expected credit losses need to be measured for certain assets classified at FV-OCI
f. Proposing an approach that does not prescribe specific estimation methods to be used in any specific circumstance but rather allows an entity to apply judgment to develop estimation methods that are appropriate and practical for the circumstance.

BC59. Notwithstanding the potential additional costs described above, the Board decided that the benefits of more timely recognition of expected credit losses and simplification of the guidance justify the costs associated with applying and interpreting the proposed guidance, given the Board's efforts to minimize the cost of compliance as noted above.

Amendments to the XBRL Taxonomy

The FASB will expose for public comment the proposed changes to the U.S. GAAP Financial Reporting Taxonomy (UGT) that would be required were the provisions of this Exposure Draft finalized as proposed. The proposed changes to the UGT will be available on the FASB website when the proposed Accounting Standards Update on the recognition and measurement of financial assets and financial liabilities is issued.

The FASB will alert the public of the availability of proposed UGT changes and the deadline for comment through an announcement on its website and in its *Action Alert* email service.