FINANCIAL ACCOUNTING STANDARDS BOARD

Post-Implementation Review of Topic 326, Credit Losses
Third Public Roundtable

May 12, 2026

10:00 a.m. to 1:00 p.m. EDT

Financial Accounting Standards Board
801 Main Avenue
Norwalk, Connecticut

Agenda

10:00–10:10 a.m.	**Welcome and Introductions**
10:10–10:55 a.m.	**Topic 1: Benefits** Questions 1 through 3
10:55–11:40 a.m.	**Topic 2: Costs** Questions 4 through 6
11:40–11:55 a.m.	Break
11:55–12:25 p.m.	**Topic 3: Specific Application Challenges** Questions 7 through 8
12:25–12:55 p.m.	**Topic 4: Standard-Setting Process** Questions 9 through 15
12:55–1:00 p.m.	**Closing Remarks**
1:00 p.m.	**Public Roundtable Adjourned**
1:00–2:00 p.m.	**Lunch**

FASB Participants

Participants	Title
Rich Jones	Board Chair
Hillary Salo	Board Vice Chair
Christine Botosan	Board Member (Outgoing)
Fred Cannon	Board Member
Sue Cosper	Board Member
Marsha Hunt	Board Member
Joyce Joseph	Board Member
Cathy Shakespeare	Board Member (Incoming)
Jackson Day	FASB Director
Rosemarie Sangiuolo	FASB Deputy Director
Nellie Debbeler	FASB Deputy Director
Alex Casas	FASB Assistant Director
Chandy Smith	FASB Senior Investor Liaison
Dan Stuhlemmer	FASB Staff
Julie Um	FASB Staff
Michael DiMarco	FASB Practice Fellow
John Schomburger	FASB Post-Doctoral Fellow
Sam Steigenberger	FASB Postgraduate Technical Assistant
Ari Skolnick-Schur	FASB Postgraduate Technical Assistant

External Participants

Participants	Affiliation
Practitioners	
Mark Northan	KPMG LLP
Bret Dooley	PwC LLP
Graham Dyer	Grant Thornton
Matt Whip	EY
JP Shelly	Crowe
Jon Howard	Deloitte
Preparers	
Chris Ackerlund	Bank of America
Jay Cochrane	Truist
Doug Uhl	Chik-fil-a Inc.
Mike Gullette	American Bankers Association
Chris Seidlich	Main Street Bank
Users	
Damon DelMonte	Keefe, Bruyette & Woods
Catherine Mealor	Keefe, Bruyette & Woods
Joe Stieven	Stieven Capital Advisors LP
Regulators	
Chris McGrath	National Credit Union Administration
Amanda Freedle	Office of the Comptroller of the Currency
Bryan Jonasson	Federal Deposit Insurance Corporation
Michelle Bowman	Federal Reserve Board
Observers	
Rachel Mincin	SEC Office of the Chief Accountant, Associate Chief Accountant
Heather Jossem	PCAOB Office of the Chief Auditor, Assistant Chief Auditor

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Project Background and Objective of the Third Roundtable

Post-Implementation Review (PIR) Process

1. The PIR process is part of the Financial Accounting Foundation's (FAF) Board of Trustees' oversight responsibilities for the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). The PIR process assists the Trustees in evaluating the effectiveness of the standard-setting process for both the FASB and the GASB.

2. The PIR process is an evaluation of whether a standard is achieving its objective by providing investors with relevant information in ways that justify the cost of providing it. It is an important quality-control mechanism built into the FASB's standard-setting process that begins after the issuance of select standards. During the PIR process, the Board solicits and considers diverse stakeholder input and other research to evaluate a selected standard that is issued and whether there are areas of improvements for the Board's consideration.[1]

3. The PIR process has three main objectives:[2]

   (a) Determine whether a standard is accomplishing its stated purpose

   (b) Evaluate the selected standard's implementation and continuing compliance costs and related benefits

   (c) Provide feedback to improve the standard-setting process.

4. To determine whether a standard is accomplishing its stated purpose, the PIR team assesses whether:

   (a) The standard resolved the issues underlying its need.

   (b) Decision-useful information is being reported to, and used by, investors, creditors, and other users of financial statements (hereinafter referred to as investors).

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[1] FASB website
[2] FASB website

(c) The standard is operable; that is, stakeholders can apply the standard as intended, the standard is understandable, and preparers are able to report the information reliably.

(d) Any significant unexpected changes to financial reporting or operating practices resulted from applying the standard.

(e) Any significant unanticipated consequences resulted from applying the standard.

5. To evaluate the selected standard's implementation and continuing compliance costs and related benefits, the PIR team assesses whether:

   (a) Implementation and continuing compliance costs are consistent with the costs that the Board considered and stakeholders expected.

   (b) Benefits are consistent with what the Board intended and stakeholders expected.

6. To provide feedback to improve the standard-setting process, the PIR team assesses whether the results of the review suggest that improvements are needed.

Credit Losses PIR

7. The PIR of Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (hereinafter referred to as "CECL" or "the standard") began in 2016 when the Update was issued. At issuance, the standard was effective for public business entities (PBEs) for fiscal years beginning after December 15, 2019; non-PBEs were required to adopt CECL for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The effective date for non-PBEs (including SEC filers that are eligible to be small reporting companies [SRCs] under the SEC definition) was subsequently changed such that those entities were required to adopt CECL for fiscal years, including interim periods, beginning after December 15, 2022.

8. Update 2016-13 replaced the incurred loss model with the CECL model after more than a decade of outreach and multiple alternative proposals. The incurred loss model had been criticized for delayed and inconsistent loss recognition. CECL was intended to require the timely recognition of lifetime expected credit losses for assets measured at amortized cost, in part by eliminating the "probable" threshold for recognition of credit losses, maintain separate presentation of interest income and credit losses, and provide flexibility in estimation methods to better align accounting with investors' expectations and economic reality.

9. Implementation challenges related to CECL included concerns about modeling complexity, data availability, judgment and estimation uncertainty, procyclicality, and consistency across entities—particularly for smaller and less complex institutions. Stakeholders also raised questions about

acceptable methodologies, operational burden, disclosures, and application to specific transactions such as purchased assets and loan modifications.

10. Following issuance, the FASB addressed these challenges through the Transition Resource Group (TRG), staff Question and Answer (Q&A) papers, implementation tools for smaller institutions, public roundtables, and targeted standard-setting updates to clarify and improve the guidance, including amendments related to troubled debt restructurings, disclosures, practical expedients, and purchased loans.

11. The TRG was created to assist with potential issues arising from the implementation of CECL. The TRG held five public meetings between September 2015 and January 2019, including two meetings held before the issuance of Update 2016-13. At each public meeting, the TRG discussed implementation issues raised by stakeholders and an analysis of each issue prepared by the FASB staff.

12. In addition, the Board provides ongoing implementation support through the FASB's technical inquiry service, and the FASB staff has hosted educational workshops and issued Q&A papers[3] to support CECL implementation. The Board maintains regular interaction with stakeholders to solicit feedback through direct outreach to individuals or small groups, advisory committee meetings, surveys, conferences, and roundtables.

13. The Board also has recurring meetings with the banking regulators to discuss the Board's technical agenda and any issues emerging in practice. The Board recognizes that GAAP serves as a starting point as it considers regulatory requirements and the Board collaborates with regulators to support the implementation or ongoing application of accounting standards. During the development of Update 2016-13, the Federal prudential regulators[4] of U.S. banks and credit unions (collectively, "regulators") supported the core objective of CECL—earlier recognition of credit losses utilizing an expected loss model—while urging the FASB to design the model to be scalable and operable. During the implementation of CECL, the Board and staff assisted with the regulator's development of simplified tools[5] that were intended to provide small lenders with a practical solution for implementing CECL.

14. Additional background on the Board's credit losses project and related PIR activities is included in Appendix A.

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[3] FASB Staff Q&A—Topic 326, No. 1, *Whether the Weighted-Average Remaining Maturity Method Is an Acceptable Method to Estimate Expected Credit Losses,* and FASB Staff Q&A—Topic 326, No. 2, *Developing an Estimate of Expected Credit Losses on Financial Assets*

[4] The Federal Reserve Board of Governors (FRB), Office of the Comptroller of the Currency (OCC), Federal Depository Insurance Corporation, and National Credit Union Administration (NCUA)

[5] The Scaled CECL Allowance for Losses Estimator (SCALE) and Expected Loss Estimator (ELE) tools developed by the FRB and the NCUA Simplified CECL Tool

15. Two previous roundtables have been held (January 2019 and May 2021) to obtain feedback on CECL implementation. The purpose of this third roundtable is to obtain additional feedback from stakeholders on (a) whether CECL has achieved its stated objectives and justifies the costs and (b) any opportunities to further improve CECL. Participant discussion questions are included within each topical area.

16. These materials are organized as follows:

    (a) Topic 1: Benefits

    (b) Topic 2: Costs

    (c) Topic 3: Specific Application Challenges

    (d) Topic 4: Standard-Setting Process

    (e) Appendix A: Summarized History of the CECL Project

    (f) Appendix B: Input from Banking Regulators

    (g) Appendix C: Specific Application Challenges (Detail).

Topic 1: Benefits

17. The purpose of Topic 1 is to summarize the expected benefits of CECL when the Board issued the standard (as articulated in the basis for conclusions of Update 2016-13), provide an overview of what the staff has learned through outreach performed during the PIR process, and obtain feedback from roundtable participants on the expected and actual benefits of CECL.

Expected Benefits

18. Paragraph BC7 of Update No. 2016-13 outlines the benefits expected by the Board at the time of its issuance, as follows:

> BC7. On the basis of extensive due process and significant input received from financial statement users and preparers, the Board concluded that the guidance in this Update will provide users of financial statements with more decision-useful information about the credit risk inherent in financial assets and the change in expected credit losses occurring during the period. The Board developed the amendments in this Update to provide users of financial statements with relevant information. The Board expects this updated guidance to accomplish the following:
>
> a. Result in an earlier measurement of credit losses
> b. Result in greater transparency about the extent of expected credit losses on financial assets held at the reporting date
> c. Improve a user's ability to understand the realizability of assets held at each reporting period
> d. Improve a user's ability to understand changes in expected credit losses that have taken place during the period
> e. Improve a user's ability to understand purchased financial assets with credit deterioration by enhancing the comparability of the reporting with

that of originated assets, while also reducing the cost and complexity of accounting for those assets

f. Provide greater transparency to the user in assessing the credit quality indicators of a financial asset portfolio and changes in composition of the financial asset portfolio over time.

PIR Feedback

19. A substantial amount of stakeholder feedback has been gathered during CECL PIR through extensive outreach with public and nonpublic company preparers, public company investors, private company financial statement users, advisory committees, and practitioners. Overall feedback from users has been mixed on whether the benefits in paragraph BC7(c) through (f) have been provided; however, most stakeholders indicated that CECL results in earlier measurement of credit losses and provides additional transparency about the extent of expected credit losses (paragraph BC7(a) and (b)). The FASB chairman also sent a request to the banking regulators asking for their input about whether CECL provides the appropriate starting point for their regulatory activities consistent with their prior input.

20. Investors that responded to the staff's outreach generally support recording the full amount of expected credit losses upon recognition of the asset under CECL(reducing the receivable to the net amount expected to be collected), but others said that it will take a full economic cycle to determine whether expected losses are an improvement from incurred losses.

21. Some investors noted that the timing for financial institutions adopting CECL was not ideal because of the unprecedented economic conditions imposed by the 2020 coronavirus pandemic, including the effect of government intervention intended to prevent economic downturn. Some investors said that it was useful to observe the reserve levels reported by financial institutions in 2020 but noted that they were still learning the relationship between expected loss accruals and charge-offs. Accounting Standards Update No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,* subsequently amended the charge-off information that PBEs are required to disclose under CECL, in part to address that concern.

22. Several investors recognized that more information was provided under CECL than under previous GAAP, but were disappointed with the nature of information being disclosed for the following reasons:

    (a) Lack of quantitative information on key assumptions, like unemployment and GDP, has made comparability difficult across banks.

    (b) Not enough information about the weightings and assumptions by banks using multi-scenario analysis. For example, several banks qualitatively described their downside or stressed scenarios during earnings calls, but no specific information was included in the footnotes. Some banks provided only a description of their allowance processes.

(c) Credit-quality indicators disclosed by vintage were not initially useful because of the macro factors affecting collectibility, such as government intervention.

(d) Banks appeared to be providing bare-minimum disclosures.

(e) Lack of information on the effect of a qualitative overlay, specifically the environmental factors[6] that affect collectibility.

23. Almost all investors found the accounting for purchased financial assets with credit deterioration (PCD) to be unintuitive. Specifically, those investors did not understand why the carrying amount for non-PCD assets was marked down for credit twice (referred to as "double counting") through the fair value measurement and allowance for credit losses. The fair value discount, including the amount attributable to credit risk, was accreted to interest income in future periods without disclosure that would enable the investor to understand the components of interest income. (That feedback was subsequently addressed by the issuance of Accounting Standards Update No. 2025-08, *Financial Instruments—Credit Losses (Topic 326): Purchased Loans,* discussed further below in Topic 3.)

24. Several investors were concerned about the extent to which financial institutions were relying on external service providers. Some of those investors noted that most economic forecasts were obtained from a single vendor.

25. Banking regulators supported the development of CECL and noted that requiring the measurement of credit losses without a predicate recognition event will assist the regulators in better achieving their safety-and-soundness objectives for supervised institutions. The anticipated responses from banking regulators to the aforementioned letter will provide the Board with insight regarding whether CECL remains appropriate for their supervisory objectives.

26. Preparers generally acknowledged the need to improve GAAP but had mixed views on several recognition and measurement aspects of the CECL guidance. That feedback is discussed further in Topic 2.

Questions for Participants

Question 1: How would you assess the decision usefulness of financial statement information produced under CECL?

Question 2: What observations do you have on the PIR feedback summarized above?

Question 3: Do you think that the expected benefits outlined by the Board at the time of issuance have been achieved? Are there any benefits that have been realized but were not expected by the Board?

[6] As discussed in SEC Staff Accounting Bulletin 119 (SAB119)

Topic 2: Costs

27. The purpose of Topic 2 is to summarize what the Board expected the costs of CECL to be at issuance (as articulated in the basis for conclusions of Update 2016-13), provide an overview of what the staff has learned from its PIR activities performed to date on the implementation and ongoing costs associated with applying CECL, and obtain feedback from roundtable participants on the expected and actual costs.

Expected Costs

28. Paragraph BC8 in Update 2016-13 provides details about the costs associated with implementing CECL and the Board's effort to mitigate those costs while developing the standard.

> BC8. The Board recognizes that the amendments in this Update may require significant effort for many entities to gather the necessary data for estimating expected credit losses. The Board also recognizes that the guidance will require additional effort to review, audit, and examine financial statements. During the course of developing the amendments, the Board sought to minimize the cost of implementing the credit loss guidance and its complexity by developing an approach that:
>
> a. Permits an entity to utilize its current internal credit-risk management approaches and systems as a framework for applying the new measurement objective
> b. Does not include multiple measurement objectives that would have required different measures of credit losses depending on whether credit deterioration for financial assets has occurred for assets measured on an amortized cost basis
> c. Does not prescribe specific estimation methods to be used in any specific circumstance but, rather, allows an entity to apply judgment to develop estimation methods that are appropriate, practical, and consistent with the principles of the guidance
> d. Does not change the guidance for writing off uncollectible assets
> e. Does not change interest income reporting for originated loans on the basis of feedback received that preparers manage and users seek separate reporting of credit risk and interest income separately
> f. Requires an entity to consider forward-looking information rather than limiting consideration to current and past events, at the date of the statement of financial position
> g. Allows an entity to revert to historical loss information, with a straightline or immediate reversion both being acceptable methods if the expected contractual term of financial assets goes beyond periods for which reasonable and supportable forecasts can be obtained
> h. Makes targeted improvements to the impairment of available-for-sale debt securities, which was supported by both users and preparers
> i. Provides transition relief for a prospective transition approach for assets for which the guidance in previous GAAP (Subtopic 310-30) had been applied and for assets for which an other-than-temporary impairment had been recognized before the effective date.

29. In addition, paragraph BC12 states:

> BC12. The Board considered feedback that the cost of implementation will not be known completely until all implementation issues are identified. Although the Board's entire due process procedures are designed to gather information about costs and benefits, the analysis of costs and benefits is unavoidably more qualitative than quantitative. The Board has created a Transition Resource Group (TRG) to assist with issues relating to circumstances that arise during implementation. The Board believes that the TRG will be in a position to monitor implementation efforts and provide support as needed. The Board has considered the role of the TRG when assessing costs and benefits. The Board also observes that the shortcomings of current GAAP create a need for users to derive their own estimates of expected credit losses. Therefore, the amendments in this Update will reduce costs for users. The Board acknowledges that some of those costs will shift to preparers but notes that the costs to the system as a whole should be reduced because management is in a position to make a more informed estimate based on information used in assessing collectibility and underwriting decisions. The Board made efforts to minimize the costs of compliance for preparers as noted in paragraph BC8.

PIR Feedback

30. Overall, stakeholders indicated that they were generally well prepared to adopt CECL; however, some financial institutions (or banks) noted that readiness and implementation costs exceeded their initial expectations. Most financial institutions indicated that significant time and effort were dedicated to data validation, modifying or implementing business processes, and validating CECL models[7] through parallel runs and back testing. Some institutions also noted unanticipated costs related to econometric modeling or economic forecasting services performed by vendors.

31. Several financial institutions said that a significant amount of time during 2020 was spent fielding questions from regulators and investors on the inputs and assumptions used in their loss estimate. Most financial institutions had to qualitatively adjust loss estimates at March 31, 2020 in accordance with SAB 119[8] for economic conditions (COVID-19) that are not reflected in historical loss data. Some of those banks said that they were not expecting investors and examiners to scrutinize the qualitative component of the allowance with a level of scrutiny that suggested those users were expecting entirely quantitative reserves under CECL.

32. Smaller financial institutions (primarily community banks and credit unions) and bank industry groups raised broad concerns about the complex statistical modeling associated with the implementation of CECL. To respond to those preparers' concerns, the Board engaged directly with those stakeholders, including during a 2016 public roundtable, to discuss the issues and communicate that CECL does not have rigid requirements for estimating expected losses and that the guidance is intended to be flexible and scalable to organizations of all sizes. In 2019, the FASB staff further supported

[7] The term *model* refers to the methodology and calculation used to express expected losses numerically (in dollars).

implementation by issuing two Q&A papers on acceptable methods for developing an estimate of expected loss. Following the issuance of CECL, the FASB and staff also supported the FRB and NCUA with the development of spreadsheet tools for CECL implementation by small institutions with non-complex loan portfolios. The FASB also participated in webinars hosted by bank regulators to support CECL implementation by their supervised entities.

33. Several investors noted that they use the FRB's annual CCAR and DFAST[9] supervisory stress testing results[10] to analyze banks' allowance levels. Investors described how the CCAR and DFAST economic scenarios provide a good benchmark to evaluate loan loss estimates and related CECL information among peer banks. However, the ability to perform this analysis is impaired by a large portion of the allowance being attributable to qualitative adjustments and opaque disclosures about forecasts.

34. Some financial institutions noted that they spent significant time reviewing peer financial statements to evaluate the adequacy of their own disclosures. Those preparers supported the flexibility of principles-based disclosure requirements but found it difficult to respond sufficiently to questions from their boards of directors or investors attempting to reconcile their allowance to peer banks.

35. Nonfinancial institutions, like financial institutions, also indicated that they were generally well prepared to adopt CECL at the beginning of 2020. Some nonfinancial institutions noted that identifying, analyzing, and documenting macroeconomic data (such as unemployment rates and real estate values, among others) as part of developing a reasonable and supportable forecast can be costly and generally does not have a material effect on the allowance for short-term assets. In certain instances, the limited availability of relevant economic data, such as the unemployment rate in the local area where an entity operates, makes it more challenging to apply the CECL guidance (see additional discussion on trade receivables in paragraphs 133–136).

Questions for Participants

Question 4: How would you assess the cost incurred to implement CECL? How does this compare with your expectations before adoption?

Question 5: How would you assess the ongoing cost incurred to apply CECL? How has your ongoing cost changed since adoption?

Question 6: What observations do you have on the PIR feedback summarized above? Are you aware of additional costs of applying CECL?

[9] The Comprehensive Capital Analysis and Review (CCAR) or the Dodd-Frank Act Stress Tests (DFAST)

[10] Using bank-submitted financial information, the FRB evaluates capital adequacy by remeasuring a bank's capital ratios under two hypothetical adverse economic scenarios. Each bank uses the same scenarios, which are developed by the FRB.

Topic 3: Specific Application Challenges

36. The purpose of Topic 3 is to solicit feedback from roundtable participants on areas of CECL that resulted in specific application challenges. As part of the PIR process, stakeholders identified several areas of the CECL guidance that were described as difficult to understand or challenging to operationalize. Those issues are detailed in Appendix C.

37. The Board responded to this feedback by establishing the TRG and performing standard setting in a timely manner. Amendments to Topic 326 included targeted transition relief, clarifications, practical expedients, policy elections, and other recognition or measurement changes that sought to reduce complexity and improve comparability by better aligning the accounting with the underlying economics of credit losses.

Questions for Participants
Question 7: Do you have any feedback on the application challenges and actions discussed in Appendix C? Do you think any of those areas require further action by the Board and, if so, do you have any suggested solutions or actions for the Board to consider or feedback on prioritization? **Question 8:** Are you aware of any ongoing pervasive challenges in applying CECL that have not been identified or discussed here?

Topic 4: Standard-Setting Process

38. The purpose of Topic 4 is to obtain feedback from roundtable participants on potential improvements to the standard-setting process.

Improvements to the Standard-Setting Process

39. Feedback received from stakeholders of all types and consideration of the evolution of the CECL guidance indicates that the following items may be potential opportunities for improvement to the standard-setting process:

    (a) Differing needs of financial statement users

    (b) Forward-looking information

    (c) Convergence

    (d) Multiple major standards simultaneously effective

    (e) TRG

    (f) Benefits-and costs

    (g) Entity scoping and effective dates

(h) Timeliness.

Differing needs of financial statement users

40. The Board is primarily focused on the needs of financial statement users for capital allocation decisions. The Board also understands that banking regulators use GAAP financial information as the starting point for regulatory reporting; however, the regulators' focus on safety and soundness of banking entities differs from the focus of other financial statement users.

41. When developing the CECL model, a significant amount of input was focused on how the information would be used by prudential regulators versus how it would be used for investment purposes. This created unique challenges.

42. The focus of standard setting should be to provide information that facilitates the analyses performed by users of financial statements. The manner in which that information is used, the adjustments that are made, and in the case of CECL the consideration of the macroeconomic environment are at the discretion of users of financial statements.

Forward-looking information

43. Following the recommendation in the July 2009 FCAG report, the Board developed an accounting model that requires expected credit losses to be measured by incorporating forward-looking information. Forward-looking information allows preparers to record known credit losses that some believed they were prevented from recording under prior GAAP. A forward-looking loss estimate also aligns with how users analyze credit losses. This requirement makes CECL distinct from measurements made under other areas of GAAP that are based on either events that have happened or, in the case of fair value, forward projections of income.

44. The Board recognized that forward-looking information is inherently imprecise and requires a significant degree of judgment. However, forecasted information was intended to incorporate more timely information in the estimate of expected credit loss, which would provide users of financial statements with more decision-useful information. The Board understood that the ability to develop forecasts about the future would vary between entities and clarified that CECL requires only reasonable and supportable forecasts. To the extent that the contractual life of a financial asset extended beyond the reasonable and supportable forecast period, an entity may revert to using its historical loss information. The Board acknowledged the challenges associated with including forward-looking information in the financial statements.

Convergence

45. The FASB and the IASB initiated a joint project to develop a converged financial instruments impairment standard in 2009. Although the FASB devoted a significant amount of time and effort to developing converged requirements, the FASB decided to continue developing CECL after disparate feedback was received from stakeholders on the FASB's and the IASB's credit loss models. The IASB stakeholders strongly preferred an impairment model that utilizes a dual measurement approach, while U.S. stakeholders strongly preferred the single measurement approach of the CECL model proposed by the FASB.

46. Because of the importance of stakeholders' input and the different feedback that each respective Board received, convergence was unachievable. It was identified that:

    (a) Before the issuance of IFRS 9, *Financial instruments,* and CECL, the practices for accounting for credit losses were different between GAAP and IFRS Accounting Standards preparers. The FASB and the IASB concluded that the preexisting differences influenced stakeholders' perceptions of the two models.

    (b) The interaction between the role of prudential regulators and loss allowances determined for financial reporting purposes is historically more aligned in the United States.

    (c) Many users of financial statements prepared in accordance with GAAP place greater weight on the loss allowances on the balance sheet.

47. The issue of convergence was discussed at length throughout the project and convergence efforts consumed a significant amount of time and resources. However, after considering the differences in feedback received, the FASB continued with the CECL model that was proposed in the December 2012 proposed Update.

Multiple major standards simultaneously effective

48. Upon its issuance in June 2016, CECL was to be effective for fiscal years beginning after December 15, 2019, for public business entities and for fiscal years beginning after December 15, 2020, for all other entities.

49. From 2014 through 2019, the Board issued several other major standards (typically referred to at the time as "broad" projects on the Board's technical agenda) that also required resources to address their adoption. Those standards included substantive amendments to requirements related to revenue recognition, derivatives and hedging, and leases.

50. Feedback received from public entity and nonpublic entity stakeholders indicated that implementing multiple major accounting changes at the same time was costly and complex. In response to that feedback, the Board deferred the CECL effective date twice for nonpublic entities.

51. Also in response to stakeholder feedback surrounding the effective dates of CECL and other Updates, the Board implemented new processes to anticipate the length of time that it will take for a final standard to be issued and applied and how that timing affects the selection of the effective date. The new policy is articulated in the Board's internal policies and includes the following considerations:

(a) Urgency for new guidance

(b) Relationship between release date and quarterly and/or fiscal year-ends

(c) Complexity of new guidance

(d) Amount of time needed to update information systems and processes

(e) Amount of time needed to engage third-party experts and to implement the new guidance

(f) Effective dates of other Accounting Standards Updates

(g) Transition method.

Transition Resource Group

52. The Board created a TRG to assist with issues expected to arise in practice during implementation. The Board believed that the TRG was in the best position to monitor implementation efforts and provide support as needed. The TRG held five public meetings between September 2015 and January 2019, including two meetings held before the issuance of Update 2016-13. At each public meeting, the TRG discussed implementation issues raised by stakeholders and an analysis of each issue prepared by the FASB staff. Most issues discussed during those TRG meetings were clarified in a subsequent Accounting Standards Update issued by the Board. Use of a TRG in the manner that it was used during implementation of CECL could be considered a best practice for consideration in future projects of a similar breadth.

Benefits and Costs

53. The Board's assessment of the benefits and costs of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

54. While the FASB does not set regulatory capital requirements, the Board recognizes that the accounting standards it sets and the information they provide are used as a starting point by prudential regulators in developing those requirements. Accordingly, the FASB's benefit-cost considerations are grounded in the perspective of allocators of capital, while also acknowledging that its standards create financial information that regulators rely on as an important input for supervisory and regulatory purposes and can be changed for that purpose, subject to applicable rules and procedures

55. The Board considered all feedback when it finalized deliberations on CECL and noted that accounting requirements do not change the economics of lending. The loss realized when a loan is charged off will be the same; accounting guidance affects only the timing of recording that loss in the financial statements. To that end, CECL is measurement guidance for financial assets and off-balance-sheet commitments that are, or will be, recognized on the balance sheet through origination or acquisition. The underwriting decisions made during origination or acquisition considers the expected loss inherent in the financial asset recognized. The Board observed that financial assets would be overstated (and credit losses deferred) without measurement guidance that reflected the expected loss contemplated in the recognition event. Therefore, the Board ultimately finalized the CECL guidance to align with the economics of a lending transaction that includes underwriting decisions.[11]

56. After considering the expected benefits and expected costs associated with implementing CECL, the Board concluded that the benefits of more timely measurement of expected credit losses justify the costs.

Entity scoping and effective dates

57. Throughout the development of CECL and subsequent PIR, small financial institutions and nonfinancial entities expressed concern about operability and questioned the applicability of CECL to the traditional lending activities in which they are engaged. Those preparers were primarily concerned about the complexity required to comply with the CECL guidance and explained how small financial institutions and nonfinancial entities did not exhibit the financial reporting shortcomings that CECL was being developed to address. Those preparers asked the Board to reconsider the scope of entities required to adopt CECL or, alternatively, defer the effective date for nonpublic business entities to minimize the burden on available resources.

58. The Board decided not to amend the guidance or effective date for nonpublic business entities. Board members noted that CECL was developed to be flexible and scalable to entities of all sizes and complex modeling is not required to measure expected credit losses in accordance with GAAP. The Board incorporates this type of feedback into the PIR process and specific standard-setting, for example, the amendments in Update 2025-05 included a practical expedient for measuring expected losses on trade receivables.

Timeliness of standard setting

59. When standard setting is undertaken in response to a crisis, the perceived urgency and rationale for change are often shaped by the immediacy of the underlying conditions. As time passes and circumstances evolve, both the need for new requirements and stakeholder support for change may shift, particularly as other developments occur in parallel. In some cases, regulatory or supervisory

[11] Update 2016-13, paragraph BC11

actions, market practices, or other policy responses may emerge that some stakeholders believe more directly address the root causes of the crisis, thereby altering views about the necessity, scope, or timing of standard-setting interventions. This creates challenges when standard setting occurs over an extended period of time, particularly when stakeholder views may change.

60. The Board added an impairment project to its technical agenda in 2009 that ultimately led to the issuance of Update 2016-13. That period of extended standard setting included 3 proposed Updates, including 1 jointly proposed by the FASB and IASB, more than 3,000 comment letter responses, outreach with 265 preparers, 17 field visits with preparers, outreach with 120 investors, 6 public roundtable meetings, and 47 public Board meetings, including 17 meetings jointly held with the IASB. In the case of a standard-setting topic such as credit losses, the importance of robust standard-setting due process, attempts at convergence, and the added dimension of the use of financial information by prudential regulators can directly affect its timeliness.

Questions for Participants

Effective Date and Transition

Question 9: What factors should the Board consider when setting the effective date of new major standards to minimize the need for subsequent deferrals?

Question 10: Do you have any feedback on the transition methods and the transition requirements, including the practical expedients, in CECL?

Standard Setting

Question 11: Do you have any observations or feedback on the PIR process for CECL, including the activities performed to date (which are discussed in Appendix A)?

Question 12: How should the Board prioritize timeliness and its effect on scope, convergence, and significance of change in future standard setting?

Question 13: Do you have any other suggestions for improvements to the standard-setting process?

CECL—Overall

Question 14: Do you have feedback on the overall effectiveness of the standard-setting process related to CECL? Do you find the CECL guidance can be scaled to your entity?

Question 15: Considering the discussion during this session, do you think that the benefits of CECL justify its costs?

Appendix A: Summarized History of the CECL Project

A1. Before the CECL standard, credit impairment of financial assets carried at amortized cost was recognized using the *incurred loss* accounting model in Subtopic 450-20, Contingencies—Loss Contingencies. A credit loss was accrued in the financial statements as an incurred loss (credit loss expense) when the loss was *probable* and *reasonably estimable* based on information available as of the balance sheet date.

A2. The incurred-loss model was criticized for delayed recognition of credit losses, commonly referred to as "too little, too late." An entity could have had a reasonable expectation of future losses that were not reflected in its financial statements because the likelihood of loss was not yet probable. Diversity also existed in the application of the "probable" threshold and the indicators for when it had been reached. The combined effect of delayed recognition and diversity in practice resulted in a misalignment between accounting standards and the market's perception of credit risk, most evident during periods of economic stress when equity valuations by market participants incorporate loss assumptions for amounts not yet reflected in an entity's book value (which also likely included general reserves that have not yet emerged).

A3. In October 2008, as part of a joint approach to dealing with the reporting issues arising from the global financial crisis, the FASB and the IASB created the Financial Crisis Advisory Group (FCAG). FCAG considered how improvements in financial reporting could enhance investors' confidence in financial markets. In its report issued on July 28, 2009, FCAG identified delayed recognition of losses associated with loans (and other financial instruments) and the complexity of multiple impairment approaches as primary weaknesses in accounting standards and the application of those standards. FCAG recommended exploring alternatives to the incurred loss model that would use more forward-looking information because the incurred loss model delays recognition of credit losses until it is probable a loss has been incurred.

2010 Proposed Update

A4. In May 2010, the FASB issued the proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815),* which included proposals on classification and measurement, credit impairment, and hedge accounting. Regarding credit impairment, the objective of the amendments in the 2010 proposed Update was to ensure that the allowance balance reflected all estimated credit losses for the remaining life of a financial instrument. To accomplish that objective, the FASB proposed that an entity should measure credit impairment when the entity does not expect to collect all contractual amounts due. The credit loss would not need to be considered "probable" to be recorded under the amendments in the 2010 proposed Update. Rather, an entity would measure expected credit losses assuming that the economic conditions existing at the reporting date would remain unchanged for the remaining life of the financial assets. Additionally, interest income would be recognized by applying the effective interest rate to the amortized cost basis net of any allowance for credit losses.

A5. The Board performed extensive outreach to obtain feedback on the 2010 proposed Update from all stakeholders, including investors, preparers, auditors, and regulators. Stakeholders provided feedback through public comment letters, investor questionnaires, field visits with preparers, in-person meetings, and public roundtable meetings. More than 2,800 comment letters were received and posted on the FASB's website. Approximately 2,000 of those comment letters were submitted by banking institutions. The Board and staff completed eight field visits with various entities to discuss the operability and the expected benefits and expected costs. Field visit participants included banking institutions of various sizes, nonfinancial entities, and an insurance company. The Board and staff received feedback from 120 investors employed by more than 60 firms through in-person meetings and calls with individual investors and groups of investors representing a variety of perspectives. Investors included buy-side analysts employing long-only and long-short strategies, sell-side analysts specializing in either the bank- or the insurance-related sectors, as well as analysts from ratings agencies. The Board and staff also received feedback through 5 public roundtable meetings held with more than 65 participants, including investors, preparers, regulators, auditors, and others representing various perspectives.

A6. Many respondents to the 2010 proposed Update agreed with recording the entire credit loss in the period estimated. Furthermore, revising the probable threshold for recognizing credit losses was widely supported. Many investors noted that the probable threshold that had existed for recognizing credit losses prevented financial institutions from recognizing credit losses that were imminent in 2007 and 2008. While most stakeholders supported the objective of a single impairment model, some asserted that the 2010 proposed Update retained three different impairment models (that is, one for pools, one for individual assets, and one for purchased assets). Additionally, stakeholders expressed concern about the requirement to assume that economic conditions as of the reporting date would remain unchanged in the future because it would limit the information that is considered only to past events and current conditions. Respondents noted that restricting the ability to include future conditions would generate significant volatility in the income statement and the amount of reserves would be procyclical (overstated reserves at the trough of a cycle and understated reserves at the peak of a cycle) and, thus, could have severe, unfavorable effects on the overall economy.

A7. Finally, stakeholders (including investors) opposed the proposal that interest income should be recognized on the basis of applying the effective interest rate to the amortized cost basis net of any allowance for credit losses, preferring instead to maintain the approach in then-current generally accepted accounting principles (GAAP) that measures interest income and credit losses separately. Many of those respondents stated that the primary issue is delayed recognition of impairment losses in net income as opposed to the interest recognition model. Respondents noted that the model in the 2010 proposed Update would decrease transparency for investors because investors generally wanted interest income and net interest margin both to be based on the effective interest method with credit losses reported separately. Investors stated that the proposal would negatively affect their abilities to analyze net interest margin, a key metric for analysis of a financial institution's performance. Many investors stated that the interest income model would make many products look the same based on their reported yields because products that have a high effective contractual interest rate due to credit would reflect a similar net interest margin as that of products with a lower rate and little expected credit losses. Therefore, investors stated that interest income recognition that reflects an effective interest rate based on the contractual terms gives investors an indication of the risk characteristics of the underlying asset.

2011 Supplementary Document

A8. In redeliberating its original impairment proposal, the FASB issued a Supplementary Document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment*, in January 2011. The 2011 Supplementary Document was a variant of the 2010 proposed Update and would have eliminated any initial recognition threshold but introduced two different measurement objectives for the credit impairment allowance. For the "good book" (or performing loans), an entity would have recorded the higher of the time-proportionate expected credit loss or credit losses expected to occur within the foreseeable future (in other words, expected credit losses would be ratably recognized to better align with the credit-risk compensation embedded in the coupon accrual). For the "bad book" (or nonperforming loans), an entity would have recorded the entire amount of expected credit losses. An asset would have transferred from the good book to the bad book when the collectibility of a financial asset became so uncertain that the entity's credit risk management objective changed from receiving the regular payments from the debtor to recovery of a portion of the financial asset.

A9. The Board received more than 200 comment letters in response to the 2011 Supplementary Document. The FASB staff also performed extensive outreach with preparers, regulators, auditors, investors, and other interested parties during the comment period. Generally, preparers, and auditors supported developing an impairment model that would address the "too little, too late" concern. The potential for procyclicality[12] of reserving also was an overriding concern of those stakeholders. Furthermore, they supported moving away from the "probable" threshold that was required to recognize credit losses. Many respondents to the 2011 Supplementary Document indicated that the condition for when to transfer an asset between the good book and the bad book needed to be further

[12] In economics, *procyclicality* refers to the tendency of economic metrics to move in tandem with the overall business cycle. As it relates to CECL, procyclicality refers to a causal feedback loop by which the financial system amplifies the business cycle. Economic contraction results in banks recording higher provision for credit losses, which triggers further economic contraction and additional provision for credit losses.

refined for the proposed amendments to be operable. Some suggested that a bright line be established to promote consistent application. Many preparers and auditors noted that without stronger definitions of the important terms, the model would not be operable, auditable, or understandable, and comparability would not be achieved. Additionally, respondents said that the concept of "foreseeable future period" was vague and could lead to counterintuitive results (such as the foreseeable future being shortened during a downturn in the economy, thereby potentially decreasing the credit impairment allowance overall). Finally, many nonfinancial institutions stated that they do not manage their financial assets in the same way as financial institutions and, therefore, they found the good book and the bad book proposal unfamiliar and inconsistent with their current practices. In addition, preparers argued that reporting credit losses in a ratable fashion would not reflect actual loss experience, noting that the credit risk is greatest at origination and tapers down over the life of the asset. Those preparers also argued that ratably recognizing expected credit loss would not address the objective of addressing "too little, too late."

A10. Leveraging the feedback received from June 2011 through July 2012, the FASB developed a "three-bucket" impairment model. Similar to the model in the 2011 Supplementary Document, the three-bucket model would have eliminated any initial recognition threshold but utilized two different measurement objectives for the allowance for credit losses, depending on the extent of credit deterioration (or recovery) since origination or acquisition. For Bucket 1, an entity would have recorded an allowance for credit losses equal to 12 months of expected credit losses (sometimes referred to as "12 months of expected losses"). For Bucket 2 and Bucket 3, an entity would have recorded all lifetime expected credit losses. Bucket 2 would have included financial assets evaluated collectively. Bucket 3 would have included financial assets evaluated individually. On the basis of decisions reached through July 2012, an asset would "transfer" from Bucket 1 to Bucket 2 (or Bucket 3) when both (a) there had been a more-than-insignificant deterioration in credit quality and (b) it was at least reasonably possible that some or all of the cash flows may not be collected.

A11. While developing application guidance for the three-bucket model, the Board received requests to clarify a number of principles in the model, including the Bucket 1 measurement objective and the "transfer criteria" that trigger a change in the measurement of credit losses. Many stakeholders viewed the proposed transfer criteria as reintroducing an incurred loss recognition threshold for a full lifetime loss estimate. From April 2012 through July 2012, the FASB staff and individual Board members held detailed working sessions with stakeholders (including investors, preparers, auditors, and regulators) to address the application issues through additional clarifying guidance. Despite those efforts, stakeholders continued to express significant concerns about whether the three-bucket impairment model was operable, auditable, and understandable. The most significant operability concerns related to the use of two different measurement objectives—a portion of total expected losses for some assets and a full measurement approach for assets that have exhibited significant deterioration since origination or acquisition. Concerns were raised about (a) the ambiguity of the criteria for determining which measurement objective to utilize, (b) the potential for earnings management relating to the timing of the transfers between measurement objectives, and (c) the potential "cliff effect" of moving from an approach that measures a portion of total expected losses for some assets to a full measurement approach, and vice versa. Many stated that the model would result in inconsistent application and would not provide investors with comparable or transparent results. Furthermore, investors expressed concern about interpreting any model that utilizes two different measurement objectives to arrive at the allowance for credit losses recognized on the balance sheet.

2012 Proposed Update

A12. As a result of the pervasive feedback from stakeholders about the three-bucket model, the Board decided in July 2012 to revisit some previous tentative decisions on the impairment project, primarily relating to the use of two different measurement objectives. In doing so, the Board developed the CECL model that retained certain concepts from the previously proposed credit loss models that were sound, while at the same time avoiding other concepts that stakeholders considered complex, inoperable, or otherwise problematic. The Board exposed this single measurement objective model for public comment in December 2012 with the issuance of its proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Subtopic 825-15).*

A13. The Board received significant input on the December 2012 proposed Update through 360 comment letters and through direct outreach with numerous preparers, auditors, and investors. It also obtained feedback through investor meetings with more than 70 analysts and investors. In addition, the Board conducted 17 field visits with preparers (including multinational and domestic, financial and nonfinancial, and public and private institutions). The Board held various roundtables with preparers, investors, and regulators, and outreach was performed with 265 preparers, of which approximately 60 percent were small banks or credit unions. The Board considered this feedback during its redeliberations at public meetings held in 2013 through 2016. Topic 326, Financial Instruments—Credit Losses, is the result of those redeliberations.

Basis for the Board's CECL Decisions (Update 2016-13, June 2016)

A14. In the basis for conclusions of Update 2016-13, the Board noted that its decisions in the CECL standard are consistent with the improvements made in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Update 2016-01 amended certain recognition, measurement, and presentation guidance to provide more decision-useful information about the carrying amount of financial instruments. The amendments in Update 2016-01 require that equity securities be measured at fair value, with changes in fair value included in net income in the period of the change, except for investments in consolidated subsidiaries and those that qualify for the equity method of accounting.

The Board placed weight on the fact that equity securities have no maturity and that the primary way to realize their total value (beyond periodic dividends) is through sale. Thus, an entity is not required to record credit losses from other changes in fair value for these instruments because value ultimately is realized through sale (that is, the entity will not realize value only by collection). The same measurement attribute applies to all trading securities because value is expected through sale, and any credit losses are reflected through changes in fair value recorded in earnings. For that reason, financial instruments classified as trading and equity securities do not require a separate credit loss model.

A15. Financial assets recorded at amortized cost, including loans and debt securities classified as held-to-maturity, are recorded at their amortized cost basis because under the measurement approach in Update 2016-01, an entity represents that the total value of the financial asset is expected to be realized through collection of the amortized cost basis. For these assets, changes in fair value from non-credit-related factors do not affect the collection of the amortized cost basis. However, changes due to credit-related factors would affect collection of the amortized cost basis. Therefore, a credit loss measurement to reduce the carrying value of these assets to the amount expected to be collected reflects the value expected to be realized for these assets. The Board noted that measurement of those assets at the amount expected to be collected, which may be different from fair value, is necessary for these assets because collection of the amortized cost basis is the economic phenomena that this measurement attribute is intended to reflect. Additionally, in developing the CECL model, the Board considered feedback from investors that presentation of interest income separate from credit losses provides more relevant information. The Board concluded that the economics of lending are faithfully represented under this approach because entities manage loans on a collective basis where the interest income recognized on good loans over time offsets the credit losses of bad loans that are commonly frontloaded.

A16. The Board acknowledged that available-for-sale debt securities are recorded at fair value with changes in fair value included in other comprehensive income because under the measurement approach in Update 2016-01, an entity represents that it may realize the total value of the securities either through collection or through sales of the securities. For these assets, a credit loss model is required to recognize in earnings any changes in fair value due to credit-related factors because those losses are expected to be realized regardless of whether the entity will realize value through collection or through sale. However, the Board decided that an allowance for credit losses on available-for-sale debt securities should be limited by the amount that fair value is less than amortized cost because an entity can sell its investment at fair value to avoid realization of credit losses.

A17. Stakeholders provided extensive feedback on whether the credit loss measurement for performing assets should differ from the credit loss measurement for assets that exhibited credit deterioration. Some stakeholders stated that the credit losses that an entity anticipated at acquisition or origination should be recorded in a pattern similar to the recognition of the related revenue (that is, interest income) on the basis that this compensates the entity for undertaking this risk. Those individuals often support a proportionate or time-based approach to recording credit losses or noted that no credit losses should be recorded until credit deterioration has occurred. Others stated that instruments measured using an amortized cost measurement attribute should be reflected in the balance sheet at each reporting date at an amount that reflects the present value of cash flows expected to be collected, discounted at the original effective interest rate. They noted that for instruments measured at amortized cost, it is potentially misleading to investors to allow the balance sheet to reflect an amount greater than the amount expected to be collected.

A18. The Board observed that expected credit losses could be recorded up-front, over time, or when the loss is realized, but the amount of credit loss reported in the income statement over the life of the asset is ultimately the same. Given the multitude of factors that affect pricing, it is impractical (if not impossible) to reliably isolate and measure the portion of the credit spread intended to compensate a lender for undertaking the credit risk from the portion of the credit spread that results from these other factors (particularly because credit losses rarely emerge in a linear fashion and, therefore, the portion of the credit spread compensating the lender for undertaking the credit risk may change over time). As a result, the Board concluded that it is impractical to report credit losses ratably over time by linking recognition with the compensation paid to the lender (interest) for undertaking that risk.

A19. The Board considered retaining an initial recognition threshold (such as probable) for recording credit losses but concluded that the model for recording credit losses should not be based on a notion of "incurred" losses because it would interfere with the timely measurement of changes in expected credit losses and the reporting of credit losses since credit losses can be expected before they are probable (as that term is used in Topic 450, Contingencies) of occurring (or have occurred). Similarly, an entity should not automatically conclude that there are no expected credit losses simply because all of the amounts due have been received to date. The Board concluded that it is misleading for investors to allow the balance sheet to reflect an amount greater than the amount expected to be collected for instruments measured using amortized cost. The Board also concluded that at each reporting date, the net amortized cost balance in an entity's balance sheet should reflect the amount expected to be collected.

A20. The Board acknowledged that any approach to estimating the collectibility of financial assets is subjective. The CECL standard permits entities to estimate expected credit losses using various methods because, in the Board's view, entities manage credit risk differently and should have flexibility over how to best report their expectations, recognizing that different methods may result in a range of acceptable outcomes. Because entities may have different levels of sophistication, the Board did not prescribe one type of methodology for measuring expected credit losses for financial assets measured at amortized cost. Different parties using different methodologies do not make a particular estimate unreasonable. While the range of reasonable outcomes is not unlimited, the Board concluded that it is rare that there will be only one acceptable choice in estimating credit losses. Estimates of credit losses may not precisely predict actual future events and, therefore, subsequent events may not indicate the reasonableness of those estimates.

Subsequent Activities

Transition Resource Group and Other FASB Staff Implementation Materials

A21. The Board created a Transition Resource Group (TRG) in advance of issuing the final Update to advise on the clarity and operability of the drafted Update. The TRG discussed suggestions with the Board in September 2015. After issuance of the final Update, the TRG assisted in identifying potential issues arising from the implementation of the CECL standard. The TRG monitored and supported implementation efforts by discussing several issues submitted by stakeholders between September 2015 and January 2019. Implementation issues were summarized in a detailed memorandum and discussed by TRG members at a public meeting. Recordings of TRG meetings and copies of memorandums are available to stakeholders on the Board's website.

A22. Additionally, the FASB staff received questions on acceptable, practical methods to measure expected credit losses. Specifically, questions were raised about (a) whether the weighted-average remaining maturity (WARM) method was appropriate for smaller, less complex pools of assets and (b) using historical loss experience and reasonable and supportable forecasts to estimate expected credit losses. Regulated financial institutions, primarily community banks, credit unions, and bank industry groups, also raised broad concerns about complex statistical modeling associated with the implementation of CECL. In response, FASB Staff Q&A—Topic 326, No.1[13] was issued in January 2019 and FASB Staff Q&A—Topic 326, No. 2[14] was issued in July 2019 to support ongoing implementation efforts in practice. The FASB also hosted a Small Bank Roundtable public meeting in February 2016 with representatives from community banks, credit unions, bank industry groups, regulators, and auditors. During that roundtable meeting, the Board clarified that CECL does not require complex modeling and entities may implement a loss estimation method that is tailored to the nature and complexity of each individual entity.

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[13] FASB Staff Q&A—Topic 326, No. 1, *Whether the Weighted-Average Remaining Maturity Method Is an Acceptable Method to Estimate Expected Credit Losses*

[14] FASB Staff Q&A—Topic 326, No. 2, *Developing an Estimate of Expected Credit Losses on Financial Assets*

A23. Following the issuance of CECL, the FASB supported the Federal Reserve and National Credit Union Administration with the development of spreadsheet tools[15] for CECL implementation by small institutions with non-complex loan portfolios. The FASB also participated in webinars hosted by bank regulators to support CECL implementation by their supervised entities.

2019 and 2021 Roundtables

A24. In January 2019, the FASB hosted a public roundtable meeting to gather views on (a) a proposal submitted to consider an alternative approach to presenting expected credit losses on the income statement and (b) whether gross write-offs and gross recoveries should be presented in the credit-quality disclosures. Participants represented a variety of stakeholders from 23 different organizations, including 4 large financial institutions, 4 mid-sized financial institutions (representing those who submitted the alternative proposal), 3 small financial institutions, 4 investment firms/investor associations, 3 audit firms, and 5 regulatory agencies.

A25. In May 2021, the FASB hosted a public roundtable meeting to discuss issues and concerns with (a) the accounting for purchased financial assets with credit deterioration (PCD) and non-PCD assets and (b) the accounting for troubled debt restructurings (TDRs) by creditors. Participants represented a variety of stakeholders from 30 different organizations, including 4 analysts (buy-side and sell-side), 13 banks, 2 insurers, 5 prudential regulators, and 6 accounting firms.

Standard Setting

A26. On the basis of feedback provided through the TRG, public roundtables, and other outreach with stakeholders, the Board has undertaken several standard-setting projects to improve or clarify the CECL guidance. Those include:

(a) Accounting Standards Update No. 2019-11, *Codification Improvements to Topic 326: Financial Instruments—Credit Losses*. The amendments in Update 2019-11 represented clarifications, error corrections, or improvements to the guidance in Topic 326.

(b) Accounting Standards Update No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in Update 2022-02 eliminated the TDR designation of a loan modification and the related accounting guidance in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors. Additionally, public business entities are required to include current-period gross write-offs by year of origination with their vintage disclosures.

[15] The Scaled CECL Allowance for Losses Estimator (SCALE) and Expected Loss Estimator (ELE) tools from the Federal Reserve and the Simplified CECL Tool from the National Credit Union Administration.

(c) Accounting Standards Update No. 2025-05, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*. The amendments in Update 2025-05 provide (i) all entities with a practical expedient and (ii) entities other than public business entities with an accounting policy election when applying the guidance in CECL to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, Revenue from Contracts with Customers.

(d) Accounting Standards Update No. 2025-08, *Financial Instruments—Credit Losses (Topic 326): Purchased Loans*. The amendments in Update 2025-08 expand the gross-up approach to purchased seasoned loans. Purchased seasoned loans are non-PCD loans, excluding credit cards, deemed seasoned by the acquirer's assessment of its involvement with the origination of the loan. Under current GAAP, only PCD assets are eligible to use the gross-up approach upon acquisition. Under the gross-up approach, an allowance for credit losses is initially recognized through an adjustment to the purchase price.

Appendix B: Input from Banking Regulators

B1. During the development of the CECL model, U.S. banking regulators provided extensive, formal input to the Board through comment letters, joint statements, meetings, and outreach. Their input can be summarized as follows:

(a) *Strong support for moving from an incurred loss to an expected loss model.* The federal banking agencies supported the FASB's decision to replace the incurred loss approach with an expected loss framework, including forecast of future conditions, emphasizing that earlier recognition of credit losses would improve transparency and risk awareness. This support was clearly articulated in interagency comment letters, including those dated September 30, 2010[16] and May 31, 2013.

(b) *Emphasis on scalability and operability.* Regulators stressed that any expected loss model needed to be scalable and operable for institutions of different sizes and complexity, particularly community banks and credit unions. They explicitly noted that CECL should not require sophisticated or costly modeling for smaller institutions. These views informed the FASB's emphasis on principles-based guidance rather than prescriptive modeling rules.

(c) *Practical observations on implementation and supervision.* Through letters and ongoing dialogue, regulators shared supervisory perspectives on:

(i) Data availability and historical loss information

(ii) Use of reasonable and supportable forecasts

(iii) Internal controls and governance over credit loss estimates

(iv) Examination and Call Report implications.

(d) *Coordination after issuance of Update 2016-13.* Shortly after the issuance of Update 2016-13, the banking agencies issued a Joint Statement (June 17, 2016) summarizing key aspects of CECL and providing initial supervisory views on implementation.

[16] Excerpt from Federal Financial Regulatory Agencies comment letter dated September 30, 2010: *"We also support a credit impairment model that is more forward looking and provides for earlier recognition of losses than the current incurred loss approach. We agree that impairment should be recognized for cash flows that management does not expect to collect. In measuring impairment, management is required to use judgment and should consider all reasonable and supportable information, including forecasts of future conditions. Accordingly, we cannot support the proposed aspects of the impairment model that would impose artificial constraints on management that they would not place on their own assessment of credit impairment, such as the "freezing" of current economic conditions. Such constraints also would be inconsistent with the views of the G20 leaders and the Financial Stability Board on strengthening impairment accounting by incorporating a broader range of credit information… Additionally, before the crisis, there were clear indications of increased credit risk in loan portfolios, with no commensurate increase in loan loss allowances. We believe that a move to an expected loss model will result in the earlier recognition of expected credit losses and would be an improvement over the current incurred loss approach."*

(e) *Continued dialogue through meetings and outreach.* Beyond formal letters, regulators participated in:

   (i) Public roundtables and advisory meetings

   (ii) Staff level discussions with the FASB

   (iii) Interagency coordination with the FASB on implementation issues.

   This dialogue reinforced regulator feedback on cost, complexity, and consistency with existing risk management practices.

B2. The agencies' public statements and comment letters submitted to the Board are available at:

(a) Joint Statement on the New Accounting Standard on Financial Instruments—Credit Losses

(b) Federal Financial Regulatory Agencies comment letter dated September 30, 2010: Comments on the 2010 proposed accounting guidance for financial instruments and impairment model

(c) Federal Financial Regulatory Agencies staff comment letter dated April 6, 2011: Comments on the 2011 Supplementary Document proposed accounting guidance for financial instruments and impairment model

(d) Federal Financial Regulatory Agencies staff comment letter dated May 31, 2013: Comments on the proposed accounting guidance, including support for the FASB's decision to move from an incurred loss model to an expected loss model for measuring impairment, and observations that the CECL model is scalable and can be implemented in a reasonable manner by entities of all sizes and levels of complexity

(e) Chairman McWilliams (Federal Deposit Insurance Corporation) letter dated March 19, 2020: Request for an option to delay CECL implementation for financial institutions currently required to apply CECL, and for a moratorium on the effective date for financial institutions not yet required to implement CECL

(f) Chairman Hood (National Credit Union Administration) letter dated April 30, 2020: Request for a permanent exemption from CECL for credit unions

(g) Federal Financial Regulatory Agencies staff comment letter dated December 22, 2021: Comments on the 2021 proposal to amend the accounting guidance for troubled debt restructurings by creditors and to require vintage table disclosures from public business entities under CECL.

(h) Federal Financial Regulatory Agencies staff comment letter dated August 28, 2023: Comments on the 2023 proposal to amend the CECL guidance related to the accounting for purchased financial assets.

Appendix C: Specific Application Challenges

Transition

C1. The FASB received several agenda request letters asking that the Board consider amending the transition guidance for Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The letters were submitted by financial statement preparers that at that time had begun to (or planned to) elect the fair value option on newly originated or purchased financial assets that, historically, had been measured at amortized cost. Without the ability to elect the fair value option for instruments within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Costs, at transition, those entities noted that they would be required to maintain dual measurement methodologies for identical or similar financial instruments that are being managed in the same manner. That is, the portion of an entity's financial instruments measured at fair value may not be comparable to other identical, or similar, financial instruments measured at amortized cost basis that are owned by the same entity. The letters noted that financial statement information is less decision useful when it lacks comparability.

C2. The amendments in Accounting Standards Update No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief,* provide entities that have certain instruments within the scope of Subtopic 326-20 with an option to irrevocably elect the fair value option in Subtopic 825-10, Financial Instruments—Overall, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently apply the guidance in Subtopics 820-10, Fair Value Measurement—Overall, and 825-10.

Effective Dates

C3. On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation of several major Updates, the Board gained a greater understanding about the implementation challenges that entities overcome to adopt a major Update. Those challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations due to limited resources and other entity-specific factors.

C4. In response, the Board developed an approach to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two), including private companies, smaller public companies, not-for-profit organizations, and employee benefit plans.

C5. The Board issued Accounting Standards Update No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815) and Leases (Topic 842) Effective Dates*, to apply this change in philosophy to the effective dates for Update 2016-13. Following the effective date philosophy, the mandatory effective dates for CECL were as follows:

(a) Public business entities that meet the definition of an SEC filer, excluding entities eligible to be small reporting companies (SRCs) as defined by the SEC, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years

(b) All other entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

Transition Relief for Troubled Debt Restructurings

C6. At the June 2017 Credit Losses Transition Resource Group (TRG) meeting, stakeholders noted the operational complexities of calculating a prepayment-adjusted effective interest rate on troubled debt restructurings (TDRs) using prepayment assumptions in effect immediately before the restructuring. They requested transition relief when adjusting the effective interest rate for TDRs existing as of the adoption date. The amendments in Accounting Standards Update No. 2019-11, *Codification Improvements to Topic 326: Financial Instruments—Credit Losses*, provide transition relief by permitting entities an accounting policy election to adjust the effective interest rate on existing TDRs using prepayment assumptions on the date of adoption of Topic 326 rather than the prepayment assumptions in effect immediately before the restructuring.

Accrued Interest

C7. The unit-of-account for the guidance in Subtopic 326-20 and Subtopic 326-30, Financial Instruments—Credit Losses—Available-for-Sale Debt Securities, is the amortized cost basis of individual financial assets within the scope of those Subtopics. The amortized cost basis includes contractual interest accrued but not yet collected, which preparers raised as operably burdensome to implement. Many financial reporting processes are configured such that balances and transactions are maintained for individual financial assets on sub-ledger systems and recorded to the primary financial reporting ledger in the aggregate. Many preparers said that they expected to incur significant costs from reconfiguring existing sub-ledger systems to provide asset-level accrued interest information necessary to estimate expected credit losses and preplace disclosures of the amortized cost basis.

C8. The Board clarified that it defined amortized cost basis to represent the amount expected to be collected, and the Board did not intend to impose significant system and operability challenges on preparers. As a result, the Board issued Accounting Standards Update No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and*

Hedging, and Topic 825, Financial Instruments, with amendments that allowed an entity to measure an allowance for credit losses on accrued interest separately from the allowance measured on the remaining components of the amortized cost basis.

C9. The guidance in paragraph 326-20-35-8 (and by reference in paragraph 326-30-35-13) requires that write-offs of financial assets within the scope of Subtopics 326-20 and 326-30 be deducted from the allowance for credit losses when the financial assets are deemed uncollectible. Because accrued interest is included in the definition of amortized cost basis, an entity would be required to write off accrued interest amounts through the allowance for credit losses. The application of the write-off guidance in paragraph 326-20-35-8 (and by reference in paragraph 326-30-35-13) to accrued interest potentially imposed unintended costs to implement Update 2016-13.

C10. The amendments in Update 2019-04 allow an entity to:

(a) Measure the allowance for credit losses on accrued interest receivable balances separately from other components of the amortized cost basis of associated financial assets.

(b) Make an accounting policy election not to measure an allowance for credit losses on accrued interest receivable amounts if an entity writes off the uncollectible accrued interest receivable balance in a timely manner and makes certain disclosures.

(c) Make an accounting policy election to write off accrued interest amounts by reversing interest income or recognizing credit loss expense, or a combination of both. The entity also is required to make certain disclosures.

(d) Make an accounting policy election to present accrued interest receivable balances and the related allowance for credit losses for those accrued interest receivable balances separately from the associated financial assets on the balance sheet. If the accrued interest receivable balances and the related allowance for credit losses are not presented as a separate line item on the balance sheet, an entity should disclose the amount of accrued interest receivable balances and the related allowance for credit losses and where the balance is presented.

(e) Elect a practical expedient to disclose separately the total amount of accrued interest included in the amortized cost basis as a single balance to meet certain disclosure requirements. Update 2019-11 further amended this practical expedient to all relevant disclosures involving amortized cost basis.

Transfers between Classifications or Categories for Loans and Debt Securities

C11. Subtopics 310-10, Receivables—Overall, and 948-310, Financial Services—Mortgage Banking—Receivables, provide guidance on how an entity should account for loans with various classifications. While a significant portion of that guidance was superseded by CECL, stakeholders questioned how to account for the allowance for credit losses or valuation allowance when transferring nonmortgage loans between classifications (that is, not-held-for-sale and held-for-sale classifications) and mortgage loans between classifications (that is, held-for-long-term-investment and held-for-sale classifications).

C12. Subtopic 320-10, Investments—Debt Securities—Overall, provides guidance on how an entity should account for transfers of debt securities between categories. Similar to nonmortgage loans, stakeholders questioned how to account for the allowance for credit losses when transferring debt securities between the available-for-sale category and the held-to-maturity category.

C13. The amendments in Update 2019-04 require that upon classification, an entity reverse in earnings any allowance for credit losses or valuation allowance previously measured on a loan or debt security, reclassify and transfer the loan or debt security to the new classification or category, and apply the applicable measurement guidance in accordance with the new classification or category.

Recoveries

C14. The guidance in paragraph 326-20-35-8 states that recoveries of financial assets and trade receivables previously written off should be recorded when received. Without proper clarification, stakeholders noted that this guidance could be interpreted to prohibit the inclusion of recoveries in the estimation of expected credit losses on financial assets measured at amortized cost basis. Furthermore, stakeholders questioned how an entity should account for an amount expected to be collected greater than the amortized cost basis.

C15. The amendments in Update 2019-04 clarify that an entity should include recoveries when estimating the allowance for credit losses. The amendments clarify that expected recoveries of amounts previously written off and expected to be written off should be included in the valuation account and should not exceed the aggregate of amounts previously written off and expected to be written off by the entity. In addition, for collateral dependent financial assets, the amendments clarify that an allowance for credit losses that is added to the amortized cost basis of the financial asset(s) should not exceed amounts previously written off.

Projections of Interest Rate Environments for Variable-Rate Financial Instruments

C16. Stakeholders asked whether the prohibition of using projections of future interest rate environments in estimating expected future cash flows and determining the effective interest rate to discount expected cash flow for variable-rate financial instruments was consistent with the Board's intent. As written, an entity that chooses to use a discounted cash flow method to determine expected credit losses on a variable-rate financial instrument is precluded from forecasting changes in the variable rate for the purposes of estimating expected cash flows and determining the effective interest rate with which to discount those cash flows. Stakeholders also asked if an entity is required to use a prepayment-adjusted effective interest rate if it uses projections of interest rate environments for variable-rate financial instruments in estimating expected cash flows.

C17. The amendments in Update 2019-04 clarify the Board's intent to provide flexibility in determining the allowance for credit losses by removing the prohibition of using projections of future interest rate environments when using a discounted cash flow method to measure expected credit losses on variable-rate financial instruments. The amendments clarify that an entity that uses projections or expectations of future interest rate environments in estimating expected cash flows should use the same assumptions in determining the effective interest rate used to discount those expected cash flows. The amendments also clarify that if an entity uses projections of future interest rates when using a discounted cash flow method to measure expected credit losses on variable-rate financial instruments, it also should adjust the effective interest rate to consider the timing (and changes in the timing) of expected cash flows resulting from expected prepayments.

Consideration of Prepayments in Determining the Effective Interest Rate

C18. Stakeholders asked whether an entity may adjust the effective interest rate used to discount expected cash flows in a discounted cash flow method for the entity's expectations of prepayments on financial assets. Stakeholders noted that expected prepayments are required to be considered in estimating expected cash flows. However, they noted that without incorporating those expected prepayments into determining the effective interest rate, the discounted cash flow calculation fails to appropriately isolate credit risk in the determination of an allowance for credit losses.

C19. The amendments in Update 2019-04 permit an entity to make an accounting policy election to adjust the effective interest rate used to discount expected future cash flows for expected prepayments on financial assets within the scope of Subtopic 326-20 and on available-for-sale debt securities within the scope of Subtopic 326-30 to appropriately isolate credit risk in determining the allowance for credit losses. The amendments also clarify that an entity should not adjust the effective interest rate used to discount expected cash flows for subsequent changes in expected prepayments if the financial asset is restructured in a TDR.[17]

Consideration of Estimated Costs to Sell When Foreclosure Is Probable

C20. Stakeholders asked whether an entity is required to consider estimated costs to sell the collateral when using the fair value of collateral to estimate expected credit losses on a financial asset because foreclosure is probable in accordance with paragraph 326-20-354. Stakeholders noted that the collateral-dependent financial asset practical expedient in paragraph 326-20-35-5 requires that an entity consider estimated costs to sell if repayment or satisfaction of the asset depends on the sale

[17] This clarification in paragraph 326-20-30-4A was subsequently superseded by the amendments in Update 2022-02, which eliminated TDRs from GAAP applicable to creditors.

of the collateral. Stakeholders also noted that paragraphs 326-20-35-4 through 35-5 require that an entity adjust the fair value of collateral for the estimated costs to sell on a discounted basis if it intends to sell rather than operate the collateral. Stakeholders asked why an entity is required to estimate the costs to sell on a discounted basis if the fair value of collateral should be based on amounts as of the reporting date.

C21. The amendments in Update 2019-04 clarify the guidance in paragraph 326-20-35-4 by specifically requiring that an entity consider the estimated costs to sell if it intends to sell rather than operate the collateral when the entity determines that foreclosure on a financial asset is probable. Additionally, the amendments clarify the guidance that when an entity adjusts the fair value of collateral for the estimated costs to sell, the estimated costs to sell should be undiscounted if the entity intends to sell rather than operate the collateral.

Miscellaneous and Conforming Amendments

C22. Stakeholders questioned the cross reference to paragraph 326-20-35-2 in Example 2 in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors. The illustration describes an entity that determines that foreclosure is probable on a collateral-dependent loan. Therefore, stakeholders asked whether the cross-reference should instead link to paragraphs 326-20-35-4 through 35-5, which require that an entity use the fair value of collateral to determine expected credit losses when foreclosure is probable. Update 2019-04 clarifies the illustration by removing the incorrect cross-reference to paragraph 326-20-35-2 and replacing it with the correct cross-reference to paragraphs 326-20-35-4 through 35-5, which require that an entity use the fair value of collateral to determine expected credit losses when foreclosure is probable.

C23. Stakeholders noted that the guidance on equity method losses in paragraphs 323-10-35-24 and 323-10-35-26 was not amended in Update 2016-13. Specifically, the guidance describes the allocation of equity method losses when an investor has other investments, such as loans and debt securities, in the equity method investee. Stakeholders asked whether the guidance should refer an entity to Topic 326 for the subsequent measurement of those loans and debt securities. Update 2019-04 clarifies the equity method losses allocation guidance in paragraphs 323-10-35-24 and 323-10-35-26 by adding cross references to Subtopics 326-20 and 326-30 for the subsequent measurement of loans and available-for-sale debt securities, respectively.

C24. Stakeholders asked whether reinsurance recoverables measured on a net present value basis in accordance with Topic 944, Financial Services— Insurance, are within the scope of Subtopic 326-20. As written, the scope could be interpreted to exclude those recoverables because they are not measured at amortized cost basis. Update 2019-04 clarified the Board's intent to include all reinsurance recoverables within the scope of Topic 944 within the scope of Subtopic 326-20, regardless of the measurement basis of those recoverables.

C25. Stakeholders asked how an entity should disclose line-of-credit arrangements that convert to term loans within the vintage disclosure table. The amendments in Update 2019-04 require that an entity present the amortized cost basis of line-of-credit arrangements that are converted to term loans in a separate column as illustrated in Example 15 (paragraph 326-20-55-79).

C26. Stakeholders asked whether an entity should consider contractual extension or renewal options in determining the contractual term of a financial asset. Stakeholders stated that the guidance in paragraph 326-20-30-6 appears to preclude an entity from considering those contractual extension or renewal options. The amendments in Update 2019-04 clarify that an entity should consider extension or renewal options (excluding those that are accounted for as derivatives in accordance with Topic 815) that are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity.

C27. Stakeholders noted that paragraph 805-20-50-1 references Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality, which was superseded by the amendments in Update 2016-13. The amendment to Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest, in Update 2019-11 clarifies the guidance by removing the cross-reference to Subtopic 310-30 in paragraph 805-20-50-1 and replacing it with a cross-reference to the guidance on PCD assets in Subtopic 326-20.

Negative Allowances

C28. The guidance in paragraph 326-20-30-1 states that expected recoveries of amounts previously written off or expected to be written off should be included in the allowance for credit losses valuation account. Stakeholders questioned whether negative allowances were permitted on purchased financial assets with credit deterioration (PCD) assets. The phrase negative allowance is used to describe situations for which an entity determines that it will recover the amortized cost basis, or a portion of that basis, after a writeoff and that “basis recovery” is included in the allowance for credit losses through a negative allowance. Those situations often are a result of an entity applying regulatory charge-off policies that are generally based on delinquency status.

C29. The amendments in Accounting Standards Update No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* clarify that the allowance for credit losses for PCD assets should include in the allowance for credit losses expected recoveries of amounts previously written off and expected to be written off by the entity and should not exceed the aggregate of amounts of the amortized cost basis previously written off and expected to be written off by an entity. The amendments also clarified that when a method other than a discounted cash flow method is used to estimate expected credit losses, expected recoveries should not include any amounts that result in an acceleration of the noncredit discount. An entity may include increases in expected cash flows after acquisition.

C30. Update 2019-11 included additional amendments to address questions related to the transition provisions for troubled debt restructurings, disclosures for accrued interest receivable, and application of the practical expedient that permits an entity to measure expected losses using the fair value of collateral securing the creditor's financial asset.

Financial Assets Secured by Collateral Maintenance Provisions

C31. The guidance in paragraph 326-20-35-6 for financial assets secured by collateral maintenance provisions provides a practical expedient to measure the estimate of expected credit losses by comparing the amortized cost basis of a financial asset and the fair value of collateral securing the financial asset as of the reporting date. Stakeholders questioned whether an entity is required to evaluate whether a borrower has the ability to continually replenish collateral securing the financial asset to apply the practical expedient. Additionally, stakeholders questioned how an entity should determine its estimate of expected credit losses if the fair value of the collateral securing the financial asset is less than its amortized cost basis.

C32. The amendments in Update 2019-11 clarify that an entity should assess whether it reasonably expects the borrower will be able to continually replenish collateral securing the financial asset to apply the practical expedient. The amendments clarify that an entity applying the practical expedient should estimate expected credit losses for any difference between the amount of the amortized cost basis that is greater than the fair value of the collateral securing the financial asset (that is, the unsecured portion of the amortized cost basis). An entity may determine that the expectation of nonpayment for the amount of the amortized cost basis equal to the fair value of the collateral securing the financial asset is zero.

Troubled Debt Restructurings (TDRs)

C33. An entity is required to measure and record the expected credit losses on an asset that is within the scope of CECL upon origination or acquisition, and, as a result, credit losses from loans modified as TDRs have been incorporated into the allowance for credit losses. Investors and preparers observed that the additional designation of a loan modification as a TDR is not decision-useful information under CECL and the related accounting is unnecessarily complex.

C34. The amendments in Accounting Standards Update No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, eliminate the accounting guidance for TDRs by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs in Subtopic 310-40, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan.

Vintage Disclosures—Gross Write-offs

C35. Stakeholders noted that there is an inconsistency in the requirement for a public business entity to disclose gross write-offs and gross recoveries by class of financing receivable and major security type in the vintage disclosures referenced in paragraph 326-20-50-6 and Example 15 in paragraph 326-20-55-79. Investors and other financial statement users observed that disclosing gross write-offs by year of origination provides important information that allows them to better understand changes in the credit quality of an entity's loan portfolio and underwriting performance.

C36. For public business entities, the amendments in Update 2022-02 require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20.

Trade Receivables & Contract Assets

C37. Stakeholders noted that identifying, analyzing, and documenting macroeconomic data (such as unemployment rates and property values, among others) as part of developing reasonable and supportable forecasts when estimating expected credit losses for these balances under Subtopic 326-20, can be costly and complex and generally does not have a material effect on the estimate of expected credit losses for short-term assets.

C38. To address this feedback, the amendments in Accounting Standards Update No. 2025-05, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*, provide (a) all entities with a practical expedient and (b) entities other than public business entities with an accounting policy election when estimating expected credit losses for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, Revenue from Contracts with Customers, as follows:

C39. Practical expedient. In developing reasonable and supportable forecasts as part of estimating expected credit losses, all entities may elect a practical expedient that assumes that current conditions as of the balance sheet date do not change for the remaining life of the asset.

C40. Accounting policy election. An entity other than a public business entity that elects the practical expedient is permitted to make an accounting policy election to consider collection activity after the balance sheet date when estimating expected credit losses.

Acquisition of Financial Assets

C41. Stakeholders noted that having two acquisition accounting approaches (PCD and non-PCD) creates unnecessary complexity and reduces comparability. In addition, investors observed that the non-PCD approach does not reflect the economics of acquired financial assets that are recorded at fair value because recognizing an allowance for credit losses through credit loss expense results in double counting of expected credit losses already considered in the fair value measurement. Furthermore, the identification of PCD assets and non-PCD assets is subjective, difficult to understand, and not applied consistently from entity to entity. The majority of stakeholders (including practitioners) supported guidance that would better reflect the economics of the acquired assets by accounting for most acquired financial assets under the gross-up approach.

C42. The amendments in Accounting Standards Update No. 2025-08, *Financial Instruments—Credit Losses (Topic 326): Purchased Loans,* improve the decision usefulness of the financial reporting for acquired financial assets. The amendments require that purchased seasoned loans be accounted for using the gross-up approach, which will enhance comparability and consistency in the accounting for acquired financial assets