FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2022-02
March 2022

Financial Instruments—Credit Losses (Topic 326)

Troubled Debt Restructurings and Vintage Disclosures

An Amendment of the *FASB Accounting Standards Codification®*

Financial Accounting Standards Board

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Summary

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

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

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

Issue 1: Troubled Debt Restructurings by Creditors

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

Issue 2: Vintage Disclosures—Gross Writeoffs

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

Who Is Affected by the Amendments in This Update?

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

What Are the Main Provisions?

Issue 1: Troubled Debt Restructurings by Creditors

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

Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity 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.

Issue 2: Vintage Disclosures—Gross Writeoffs

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

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

Issue 1: Troubled Debt Restructurings by Creditors

Current GAAP provides an exception to the general recognition and measurement guidance for loan restructurings and refinancings that an entity determines meets specific criteria to be considered a TDR. Modifications are TDRs, and thus are subject to different accounting guidance, if they are made to borrowers experiencing financial difficulty and if the creditor has granted a concession. If a modification is a TDR, an incremental expected loss, if any, is recorded in the allowance for credit losses upon modification. Certain concessions can be captured only through a discounted cash flow or reconcilable model, and, therefore, discounted cash flow models are required for measurement of some TDRs. Additionally, specific disclosures are required for TDRs.

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

Issue 2: Vintage Disclosures—Gross Writeoffs

For public business entities, the amendments in this Update require that an entity disclose current-period gross writeoffs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326-20. Gross writeoff information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit-quality indicator and class of financing receivable by year of origination.

When Will the Amendments Be Effective and What Are the Transition Requirements?

For entities that have adopted the amendments in Update 2016-13, the amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

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

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

Early adoption of the amendments in this Update is permitted if an entity has adopted the amendments in Update 2016-13, including adoption in an interim period. If an entity elects to early adopt the amendments in this Update in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes the interim period. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 3–31. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Issue 1: Troubled Debt Restructurings by Creditors

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

Amendments to Master Glossary

3. Supersede the Master Glossary term *Troubled Debt Restructuring* from Subtopics 310-10, 310-40, 326-10, and 326-20 as follows:

~~Troubled Debt Restructuring~~

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

Amendments to Subtopic 270-10

4. Amend paragraph 270-10-50-1(p)(5), with a link to transition paragraph 326-10-65-5, as follows:

Interim Reporting—Overall

Disclosure

> Disclosure of Summarized Interim Financial Data by Publicly Traded Companies

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

p. All of the following information about the credit quality of **financial assets** and the allowance for credit losses determined in accordance with the provisions of Subtopic 326-20 on financial instruments measured at amortized cost:
   5. Modifications of financing receivables (see paragraphs 310-10-50-42 ~~310-10-50-31~~ through 50-44 ~~50-34~~).

Amendments to Subtopic 310-10

5. Amend paragraphs 310-10-05-1, 310-10-40-1A, and 310-10-50-11, supersede paragraphs 310-10-50-31 through 50-34 and 310-10-55-12 and the related headings, and add paragraphs 310-10-50-36 through 50-48 and 310-10-55-12A, 310-10-55-12B, 310-10-55-12F, and 310-10-55-12I and their related headings, with a link to transition paragraph 326-10-65-5, and paragraphs 310-10-55-12C through 55-12E, 310-10-55-12G, 310-10-55-12H, 310-10-55-12J, and 310-10-55-12K, with no link to transition, as follows:

Receivables—Overall

Overview and Background

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

a. Overall
b. Nonrefundable Fees and Other Costs
c. Subparagraph superseded by Accounting Standards Update No. 2016-13 ~~13.~~

d. <u>Subparagraph superseded by Accounting Standards Update No. 2022-02.</u>~~Troubled Debt Restructurings by Creditors.~~

Derecognition

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

310-10-40-1A For guidance on the classification and measurement of certain government-guaranteed mortgage loans upon foreclosure by a creditor, see paragraphs <u>310-20-40-7</u> ~~310-40-40-7A~~ through <u>40-8</u> ~~40-7B~~.

Disclosure

> Foreclosed and Repossessed Assets

310-10-50-11 Paragraph 310-10-45-3 states that foreclosed and repossessed assets included in other assets on the statement of financial position shall have separate disclosures in the notes to financial statements. An entity shall also disclose the carrying amount of foreclosed residential real estate properties held at the reporting date as a result of obtaining physical possession in accordance with paragraphs <u>310-20-40-6</u> ~~310-40-40-6~~ and <u>310-20-55-18F</u> ~~310-40-55-10A~~.

~~**> Modifications**~~

310-10-50-31 <u>Paragraph superseded by Accounting Standards Update No. 2022-02.</u>~~Except as noted in the following paragraph, the guidance in paragraphs 310-10-50-33 through 50-34 applies only to a creditor's **troubled debt restructurings** of financing receivables. For purposes of this disclosure guidance, a creditor's modification of a lease receivable that meets the definition of a troubled debt restructuring is subject to this disclosure guidance.~~

310-10-50-32 <u>Paragraph superseded by Accounting Standards Update No. 2022-02.</u>~~This guidance does not apply to troubled debt restructurings of either of the following:~~

~~a. Financing receivables listed in paragraph 310-10-50-7B~~
~~b. Loans acquired with deteriorated credit quality (determined under Subtopic 310-30) that are accounted for within a pool.~~ **[Content amended and moved to paragraph 310-10-50-40]**

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

~~**Pending Content**~~

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

Paragraph superseded by Accounting Standards Update No. 2022-02.~~This guidance does not apply to troubled debt restructurings of either of the following:~~

- ~~a. Financing receivables listed below:~~
  - ~~1. Receivables measured at fair value with changes in fair value reported in earnings~~
  - ~~2. Receivables measured at lower of amortized cost basis or fair value~~
  - ~~3. Except for credit card receivables, trade accounts receivable that have both of the following characteristics:~~
    - ~~i. They have a contractual maturity of one year or less.~~
    - ~~ii. They arose from the sale of goods or services.~~
  - ~~4. Participant loans in defined contribution pension plans.~~
- ~~b. Subparagraph superseded by Accounting Standards Update No. 2016-13.~~ **[Content amended and moved to paragraph 310-10-50-40]**

310-10-50-33 Paragraph superseded by Accounting Standards Update No. 2022-02.~~For each period for which a statement of income is presented, an entity shall disclose the following about troubled debt restructurings of financing receivables that occurred during the period:~~

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

310-10-50-34 Paragraph superseded by Accounting Standards Update No. 2022-02.~~For each period for which a statement of income is presented, an entity shall disclose the following for financing receivables modified as troubled debt restructurings within the previous 12 months and for which there was a payment default (after the restructuring) during the period:~~

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

> Modifications

<u>310-10-50-36</u> As of the date of each balance sheet presented, a creditor shall disclose, either in the body of the financial statements or in the accompanying notes, the amount of commitments, if any, to lend additional funds to debtors ~~owing~~ <u>experiencing financial difficulty for which the creditor has modified the terms of the</u> receivables <u>in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension in the current reporting period</u>~~ whose terms have been modified in **troubled debt restructurings**~~. <u>For purposes of this disclosure, covenant waivers and modifications of contingent acceleration clauses would not be considered term extensions.</u> **[Content amended as shown and moved from paragraph 310-40-50-1]**

<u>> ></u> ~~></u>~~ Loans Restructured <u>into</u> ~~Into~~ Two (or More) Loan Agreements

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

Pending Content:

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

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

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

Pending Content:

Transition Date: *(P) December 16, 2022; (N) December 16, 2022* | **Transition Guidance:** 326-10-65-5

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

> > Modifications to Debtors Experiencing Financial Difficulty

310-10-50-38 The objective of the disclosures in paragraphs 310-10-50-42 through 50-44 is to provide financial statement users with information about the type and magnitude of certain modifications of receivables made to debtors experiencing financial difficulty, the financial effect of those modifications, and the degree of success of the modifications in mitigating potential credit losses. In addition to the disclosures in paragraphs 310-10-50-42 through 50-44, an entity shall consider providing information that helps financial statement users understand significant changes in the type or magnitude of modifications, including those modifications that, for example, were caused by a major credit event, even if the modifications otherwise would not require the disclosures in paragraphs 310-10-50-42 through 50-44.

310-10-50-39 The disclosures in paragraphs 310-10-50-42 through 50-44 shall be provided for modifications of receivables to borrowers experiencing financial difficulty in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension made within the scope of this Topic. For purposes of those disclosures, covenant waivers and modifications of contingent acceleration clauses would not be considered term extensions.

310-10-50-40 This guidance does not apply to troubled debt restructurings of either of the following:

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

Pending Content:

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

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

a. Financing receivables listed below:
   1. Receivables measured at fair value with changes in fair value reported in earnings

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

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

In addition, amend the following pending content for paragraph 310-10-50-40, with a link to transition paragraph 326-10-65-5:

Pending Content:

Transition Date: *(P) December 16, 2022; (N) December 16, 2022* I **Transition Guidance:** 326-10-65-5

~~This~~ The guidance in paragraphs 310-10-50-42 through 50-44 does not apply to ~~troubled debt restructurings of either of~~ the following financing receivables:

~~a. Financing receivables listed below:~~
- a ~~1~~. Receivables measured at fair value with changes in fair value reported in earnings
- b ~~2~~. Receivables measured at lower of amortized cost basis or fair value
- c ~~3~~. Except for credit card receivables, trade accounts receivable that have both of the following characteristics:
  - 1 ~~i~~. They have a contractual maturity of one year or less.
  - 2 ~~ii~~. They arose from the sale of goods or services.
- d 4. Participant loans in defined contribution pension plans. **[Content amended as shown and moved from paragraph 310-10-50-32]**

310-10-50-41 The disclosures required in paragraphs 310-10-50-42 through 50-44 are applicable regardless of whether a modification of a receivable to a debtor experiencing financial difficulty results in a new loan in accordance with paragraphs 310-20-35-9 through 35-11. As a practical expedient, an entity may exclude the accrued interest receivable balance that is included in the amortized cost basis of financing receivables for the purposes of the disclosure requirements in Subtopic 326-20. If an entity has applied that practical expedient, an entity may do the same for the disclosures in paragraphs 310-10-50-42 through 50-44 and shall disclose the total amount of accrued interest excluded from the disclosed amortized cost basis.

310-10-50-42 For each period for which a statement of income is presented, an entity shall disclose the following information related to modifications of receivables that are in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof) made to debtors experiencing financial difficulty during the reporting period:

a. By class of financing receivable, qualitative and quantitative information about:
   1. The types of modifications utilized by an entity, including the total period-end amortized cost basis of the modified receivables and the percentage of modifications of receivables made to debtors experiencing financial difficulty relative to the total period-end amortized cost basis of receivables in the class of financing receivable.
   2. The financial effect of the modification by type of modification, which shall provide information about the changes to the contractual terms as a result of the modification and shall include the incremental effect of principal forgiveness on the amortized cost basis of the modified receivables, as applicable, or the reduction in weighted-average interest rates (versus a range) for interest rate reductions.
   3. Receivable performance in the 12 months after a modification of a receivable made to a debtor experiencing financial difficulty.
b. By portfolio segment, qualitative information about how those modifications and the debtors' subsequent performance are factored into determining the allowance for credit losses.

310-10-50-43 Receivables may be modified in more than one manner. An entity that modifies the same receivable in more than one manner shall provide disclosures sufficient for users to understand the different types of combinations of modifications provided to borrowers. For example, a receivable may be modified to provide both principal forgiveness and an interest rate reduction. In that case, an entity shall disclose the period-end amortized cost basis of that receivable in a separate category that reflects that a combination of modification types has been granted. If another receivable was modified to provide both an interest rate reduction and a term extension, the period-end amortized cost basis of that receivable shall be presented in a different category. Multiple separate combination categories may be necessary if significant. The same receivable's period-end amortized cost basis shall not be presented in multiple categories.

310-10-50-44 For each period for which a statement of income is presented, an entity shall disclose the following information about financing receivables that had a payment default during the period and had been modified in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof) within the previous 12 months preceding the payment default when the debtor was experiencing financial difficulty at the time of the modification:

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

> > Determining Whether a Debtor Is Experiencing Financial Difficulties

310-10-50-45 In evaluating ~~whether a receivable is a troubled debt restructuring, a creditor must determine~~ whether the debtor is experiencing financial difficulties for the purpose of the disclosure requirements in paragraphs 310-10-50-42 through 50-44~~. In making this determination~~, a creditor shall consider the following indicators:

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

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

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

310-10-50-46 ~~A~~ In the case of a restructuring that results in only a delay in payment that is insignificant, an entity is not required to include the modification made to receivables for debtors experiencing financial difficulty in the disclosure requirements in paragraphs 310-10-50-36 and 310-10-50-42 through 50-44 ~~a concession~~. The following factors, when considered together, may indicate that a restructuring results in a delay in payment that is insignificant:

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

310-10-50-47 If the debt has been previously restructured, an entity shall consider the cumulative effect of ~~the~~ past restructurings made within the 12-month period before the current restructuring when determining whether a delay in payment resulting from the ~~most recent~~ current restructuring is insignificant. **[Content amended as shown and moved from paragraph 310-40-15-18]**

310-10-50-48 Examples ~~3,~~ 4,~~ and~~ 5, and 6 in paragraphs 310-10-55-12B through 55-12K ~~310-40-55-16 through 55-25~~ illustrate a creditor's evaluation about whether a delay in payment resulting from a restructuring is insignificant. **[Content amended as shown and moved from paragraph 310-40-15-19]**

Implementation Guidance and Illustrations

> Illustrations

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

310-10-55-12 Paragraph superseded by Accounting Standards Update No. 2022-02.~~The following table illustrates certain of the disclosures required by paragraphs 310-10-50-33 through 50-34.~~

~~**Modifications**~~
~~**As of December 31, 20X1, and 20X0**~~

	~~**20X1**~~			~~**20X0**~~		
	~~**Number of Contracts**~~	~~**Pre-Modification Outstanding Recorded Investment**~~	~~**Post-Modification Outstanding Recorded Investment**~~	~~**Number of Contracts**~~	~~**Pre-Modification Outstanding Recorded Investment**~~	~~**Post-Modification Outstanding Recorded Investment**~~
~~Troubled Debt Restructurings~~						
~~Residential—prime~~	~~XXX~~	~~$XX,XXX~~	~~$XX,XXX~~	~~XXX~~	~~$XX,XXX~~	~~$XX,XXX~~
~~Residential—subprime~~	~~XXX~~	~~XX,XXX~~	~~XX,XXX~~	~~XXX~~	~~XX,XXX~~	~~XX,XXX~~
~~Consumer—other~~	~~XXX~~	~~XX,XXX~~	~~XX,XXX~~	~~XXX~~	~~XX,XXX~~	~~XX,XXX~~
~~Finance leases~~	~~XXX~~	~~XX,XXX~~	~~XX,XXX~~	~~XXX~~	~~XX,XXX~~	~~XX,XXX~~

-	~~**Number of Contracts**~~	~~**Recorded Investment**~~	~~**Number of Contracts**~~	~~**Recorded Investment**~~
~~Troubled Debt Restructurings~~				
~~Troubled debt restructurings:~~				
~~Residential—prime~~	~~XXX~~	~~$XX,XXX~~	~~XXX~~	~~$XX,XXX~~
~~Residential—subprime~~	~~XXX~~	~~XX,XXX~~	~~XXX~~	~~XX,XXX~~
~~Consumer—other~~	~~XXX~~	~~XX,XXX~~	~~XXX~~	~~XX,XXX~~
~~Finance leases~~	~~XXX~~	~~XX,XXX~~	~~XXX~~	~~XX,XXX~~

> > Example 3: Disclosures for Debtors Experiencing Financial Difficulty

310-10-55-12A The following Example illustrates the disclosures required by paragraphs 310-10-50-42 through 50-44. For ease of illustration, comparative periods are excluded.

[For ease of readability, the following Example is not underlined.]

Entity B

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

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

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

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

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

	Interest Rate Reduction	
	Amortized Cost Basis at 12/31/20X1	% of Total Class of Financing Receivable
Loan Type		
Real Estate—Commercial	$ 40,000	2.0%
Real Estate—Residential	-	0.0
Consumer	10,000	0.2
Total	**$ 50,000**	

	Term Extension	
	Amortized Cost Basis at 12/31/20X1	% of Total Class of Financing Receivable
Loan Type		
Real Estate—Commercial	$ -	0.0%
Real Estate—Residential	-	0.0
Consumer	22,000	0.4
Total	**$ 22,000**	

	Principal Forgiveness	
	Amortized Cost Basis at 12/31/20X1	% of Total Class of Financing Receivable
Loan Type		
Real Estate—Commercial	$ 20,000	1.0%
Real Estate—Residential	-	0.0
Consumer	-	0.0
Total	**$ 20,000**	

	Combination—Term Extension and Principal Forgiveness	
	Amortized Cost Basis at 12/31/20X1	% of Total Class of Financing Receivable
Loan Type		
Real Estate—Commercial	$ -	0.0%
Real Estate—Residential	5,000	0.8
Consumer	-	0.0
Total	**$ 5,000**	

	Combination—Term Extension and Interest Rate Reduction	
	Amortized Cost Basis at 12/31/20X1	% of Total Class of Financing Receivable
Loan Type		
Real Estate—Commercial	$ -	0.0%
Real Estate—Residential	5,000	0.8
Consumer	-	0.0
Total	**$ 5,000**	

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

Interest Rate Reduction

Loan Type	Financial Effect
Real Estate—Commercial	Reduced weighted-average contractual interest rate from 6% to 3%.
Real Estate—Residential	Reduced weighted-average contractual interest rate from 8% to 5%.
Consumer	Reduced weighted-average contractual interest rate from 4% to 1.5%.

Term Extension

Loan Type	Financial Effect
Real Estate—Residential	Added a weighted-average 2.4 years to the life of loans, which reduced monthly payment amounts for the borrowers.
Consumer	Provided six-month payment deferrals to borrowers through our standard deferral program. The six monthly payments were added to the end of the original loan terms of these borrowers.

Principal Forgiveness

Loan Type	Financial Effect
Real Estate—Commercial	Reduced the amortized cost basis of the loans by $20 million.
Real Estate—Residential	Reduced the amortized cost basis of the loans by $5 million.

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

The following table provides the amortized cost basis of financing receivables that had a payment default during the period and were modified in the 12 months before default to borrowers experiencing financial difficulty (numbers in thousands):

	Amortized Cost Basis of Modified Financing Receivables That Subsequently Defaulted				
	Interest Rate Reduction	Term Extension	Principal Forgiveness	Combination-Term Extension and Principal Forgiveness	Combination-Term Extension and Interest Rate Reduction
Loan Type					
Real Estate—Commercial	$ 1,500	$ -	$ -	$ -	$ -
Real Estate—Residential	-	-	-	-	-
Consumer	500	1,000	-	-	-
Total	**$ 2,000**	**$ 1,000**	**$ -**	**$ -**	**$ -**

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

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

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

310-10-55-12B A restructuring that results in only a delay in payment that is insignificant is not required to be disclosed on the basis of the requirements in paragraphs 310-10-50-36 and 310-10-50-42 through 50-44 ~~a concession~~. This Example illustrates the guidance in paragraphs 310-10-50-46 ~~310-40-15-17~~ through 50-47 ~~15-18~~ for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties. **[Content amended as shown and moved from paragraph 310-40-55-16]**

<u>310-10-55-12C</u> A creditor originates a seven-year loan to a debtor. The debt:

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

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

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

> > Example <u>5</u> ~~4~~: Residential Mortgage Debt—Temporary Payment Deferral

<u>310-10-55-12F</u> A restructuring that results in only a delay in payment that is insignificant is not <u>required to be disclosed based on the requirements in paragraphs 310-10-50-36 and 310-10-50-42 through 50-44</u> ~~a concession~~. This Example illustrates the guidance in paragraphs <u>310-10-50-46</u> ~~310-40-15-17~~ through <u>50-47</u> ~~15-18~~ for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties. **[Content amended as shown and moved from paragraph 310-40-55-20]**

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

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

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

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

310-10-55-12I A restructuring that results in only a delay in payment that is insignificant is not required to be disclosed on the basis of the requirements in paragraphs 310-10-50-42 through 50-44 ~~a concession~~. This Example illustrates the guidance in paragraphs 310-10-50-46 ~~310-40-15-17~~ through 50-47 ~~15-18~~ for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties. **[Content amended as shown and moved from paragraph 310-40-55-23]**

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

<u>310-10-55-12K</u> The restructuring results in a delay in payment that is insignificant. Although the debtor is unable to make the contractual payment at the time it is due, thereby resulting in the three-month deferral, the creditor still expects to collect all amounts due, including interest at the contractual rate. Furthermore, the delay in timing of payment represents only one payment cycle under the terms of the line, which is insignificant relative to the frequency of payments due, the debt's original contractual maturity, and the debt's original expected duration. **[Content moved from paragraph 310-40-55-25]**

Amendments to Subtopic 310-20

6. Amend paragraphs 310-20-35-2 and 310-20-35-9 through 35-10, supersede paragraph 310-20-35-12, and add paragraphs 310-20-35-12A through 35-12C and their related headings, 310-20-40-3, 310-20-40-5 through 40-7, and 310-20-40-9 and their related headings, 310-20-55-18A and its related heading, and 310-20-55-51, 310-20-55-52, and 310-20-55-54 through 55-56 and their related headings, with a link to transition paragraph 326-10-65-5, and paragraph 310-20-35-12D and its related heading, paragraphs 310-20-40-2, 310-20-40-4, 310-20-40-8, 310-20-40-10 through 40-12 and their related headings, and paragraphs 310-20-55-18B through 18F and 310-20-55-53 and their related headings, with no additional link to transition, as follows:

Receivables—Nonrefundable Fees and Other Costs

Initial Measurement

> Loan Origination Fees and Costs

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

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

Subsequent Measurement

> Loan Origination Fees and Costs

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

> Loan Refinancing or Restructuring

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

310-20-35-10 If the refinancing or restructuring does not meet the condition set forth in ~~the preceding~~ paragraph <u>310-20-35-9</u> or if only minor modifications are made to the original loan contract, the unamortized net fees or costs from the original loan and any prepayment penalties shall be carried forward as a part of the net investment in the new loan. In this case, the investment in the new loan shall consist of the remaining **net investment in the original loan**, any additional ~~amounts loaned~~ <u>funds advanced to the borrower</u>, any fees received, and direct loan origination costs associated with the refinancing or restructuring.

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

310-20-35-12 Paragraph superseded by Accounting Standards Update No. 2022-02.~~Fees received in connection with a modification of terms of a troubled debt restructuring as defined in Subtopic 310-40 shall be applied as a reduction of the **recorded investment** in the loan. All related costs, including direct loan origination costs, shall be charged to expense as incurred.~~

> > ~~>~~ Substitution or Addition of Debtors

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

> > ~~>~~ Partial Satisfaction of a Receivable

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

310-20-35-12C A troubled debt restructuring may involve receipt of assets (including an equity interest in the debtor) in partial satisfaction of a receivable and a modification of terms of the remaining receivable. Even if the stated terms of the remaining receivable, for example, the stated interest rate and the maturity date or dates, are not changed in connection with the receipt of assets (including an equity interest in the debtor), the restructuring shall be accounted for as prescribed by this paragraph. A creditor shall account for a troubled debt restructuring involving a partial satisfaction and modification of terms as prescribed in this Topic except that, first, the assets received shall be accounted for as prescribed in paragraphs 310-40-40-2 through 40-4 and the **recorded investment in the receivable** shall be reduced by the fair value less cost to sell of the assets received. If cash is received in a partial satisfaction of a receivable, the recorded investment in the receivable shall be reduced by the amount of cash received. **[Content moved from paragraph 310-40-35-7]**

Pending Content:

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

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

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

Pending Content:

Transition Date: *(P) December 16, 2022; (N) December 16, 2022* | **Transition Guidance:** 326-10-65-5

A ~~troubled debt~~ <u>loan refinancing or</u> restructuring may involve receipt of assets (including an equity interest in the debtor) in partial satisfaction of a receivable and a modification of terms of the remaining receivable. Even if the stated terms of the remaining receivable, for example, the stated interest rate and the maturity date or dates, are not changed in connection with the receipt of assets (including an equity interest in the debtor), the restructuring shall be accounted for as prescribed by this paragraph. A creditor shall account for a ~~troubled debt~~ loan refinancing or restructuring involving a partial satisfaction and modification of terms as prescribed in paragraphs 310-20-35-9 through 35-11 ~~this Topic~~ except that, first, the assets received shall be accounted for as prescribed in paragraphs 310-20-40-2 through 40-4 ~~310-40-40-2 through 40-4~~ and the **amortized cost basis** shall be reduced by the fair value less cost to sell of the assets received. If cash is received in a partial satisfaction of a receivable, the amortized cost basis shall be reduced by the amount of cash received. **[Content amended as shown and moved from paragraph 310-40-35-7]**

> > ~~>~~ Impairment

310-20-35-12D The Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 do not allow the lender to look-back to lending impairments measured and recognized under this Topic or Topic 450 for purposes of measuring the cumulative loss previously recognized in determining the gain to be recognized on the increase in fair value less cost to sell of a foreclosed property under paragraph 360-10-35-40. **[Content moved from paragraph 310-40-35-11]**

Pending Content:

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

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

Derecognition

> Commitment Fees

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

> Receipt of Assets in Full Satisfaction of a Receivable

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

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

<u>**310-20-40-3**</u> A creditor that receives long-lived assets that will be sold from a debtor in full satisfaction of a receivable shall account for those assets at their fair value less cost to sell, as that term is used in paragraph 360-10-35-43. The excess of the **recorded investment in the receivable** satisfied over the fair value of assets received (less cost to sell, if required above) is a loss that shall be recognized. For purposes of this paragraph, losses, to the extent they are not offset against allowances for uncollectible amounts or other valuation accounts, shall be included in measuring net income for the period. Recorded investment in the receivable is used in paragraphs 310-40-25-1 through 25-2; 310-40-35-7; 310-40-40-2 through 40-8; and 310-40-50-1 instead of **carrying amount** of the receivable because the latter is net of an allowance for estimated uncollectible amounts or other valuation account, if any, while the former is not. **[Content moved from paragraph 310-40-40-3]**

Pending Content:

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

A creditor that receives long-lived assets that will be sold from a debtor in full satisfaction of a receivable shall account for those assets at their fair value less cost to sell, as that term is used in paragraph 360-10-35-43. The excess of the **amortized cost basis** satisfied over the fair value of assets received (less cost to sell, if required above) is a loss that shall be recognized. For purposes of this paragraph, losses, to the extent they are not offset against allowances for uncollectible amounts or other valuation accounts, shall be included in measuring net income for the period. The amortized cost basis is used in paragraphs 310-40-25-1 through 25-2; 310-40-35-7; 310-40-40-2 through 40-8; and 310-40-50-1 instead of **carrying amount** of the receivable because the latter is net of an allowance for estimated uncollectible amounts or other valuation account, if any, while the former is not. **[Content moved from paragraph 310-40-40-3]**

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

Pending Content:

Transition Date: *(P) December 16, 2022; (N) December 16, 2022* I **Transition Guidance:** 326-10-65-5

A creditor that receives long-lived assets that will be sold from a debtor in full satisfaction of a receivable shall account for those assets at their fair value less cost to sell, as that term is used in paragraph 360-10-35-43. The excess of the **amortized cost basis** satisfied over the fair value of assets received (less cost to sell, if required above) is a loss that shall be recognized. For purposes of this paragraph, losses, to the extent they are not offset against allowances for uncollectible amounts or other valuation accounts, shall be included in measuring net income for the period. The amortized cost basis is used in paragraphs 310-20-35-12A ~~310-40-25-1 through 25-2~~; 310-20-35-12C ~~310-40-35-7~~; 310-20-40-2 through 40-9 ~~310-40-40-2 through 40-8~~; and 310-10-50-36 ~~310-40-50-1~~ instead of **carrying amount** of the receivable because the latter is net of an allowance for estimated uncollectible amounts or other valuation account, if any, while the former is not. **[Content amended as shown and moved from paragraph 310-40-40-3]**

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

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

> Foreclosure

310-20-40-6 A ~~troubled debt~~ restructuring that is in substance a repossession or foreclosure by the creditor, that is, the creditor receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place, or in which the creditor otherwise obtains one or more of the debtor's assets in place of all or part of the receivable, shall be accounted for according to the provisions of paragraphs 310-20-35-12C ~~310-40-35-7~~, 310-20-40-2 through 40-4 ~~310-40-40-2 through 40-4~~, and, if appropriate, 310-20-40-9 ~~310-40-40-8~~. See paragraphs 310-20-40-7 through 40-8 ~~310-40-40-7A through 40-7B~~ for the classification and measurement of certain government-guaranteed mortgage loans. For guidance on when a creditor shall be considered to have received physical possession (resulting from an in substance repossession or foreclosure) of residential real estate property collateralizing a consumer mortgage loan, see paragraph 310-20-55-18F ~~310-40-55-10A~~. **[Content amended as shown and moved from paragraph 310-40-40-6]**

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

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

a. The loan has a government guarantee that is not separable from the loan before foreclosure.
b. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim. A creditor would be considered to have the ability to recover under the guarantee at the time of foreclosure if the creditor determines that it has maintained compliance with the conditions and procedures required by the guarantee program.
c. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. **[Content amended as shown and moved from paragraph 310-40-40-7A]**

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

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

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

> Cost Basis of Debt Security Received in a Restructuring

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

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

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

__**310-20-40-12**__ A valuation allowance for a loan collateralized by a long-lived asset shall not be carried over as a separate element of the cost basis for purposes of accounting for the long-lived asset under Topic 360 after foreclosure. **[Content moved from paragraph 310-40-40-10]**

Implementation Guidance and Illustrations

> Implementation Guidance

> > Use of Zero Coupon Bonds in a ~~Troubled Debt~~ __Loan Refinancing or__ Restructuring

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

__**310-20-55-18B**__ The excess of the **recorded investment in the receivable** satisfied over the fair value less cost to sell (as that term is used in paragraph 360-10-35-43) of assets received is a loss to be recognized. **[Content moved from paragraph 310-40-55-7]**

Pending Content:

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

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

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

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

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

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

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

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

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

> Illustrations

> > Example <u>12</u> ~~2~~: Fair Value Less Cost to Sell Less Than the Seller's Net Receivable

<u>310-20-55-51</u> This Example illustrates the guidance in Subtopic 310-40. The Example has the following assumptions:

a. At December 31, 2002, a lender's net real estate loan receivable was $90,000. The net receivable was comprised of (a) $100,000 principal balance and (b) $10,000 allowance for doubtful accounts due to the deterioration of the borrower's credit worthiness; the allowance was based on the underlying value of the real estate since the loan is collateral dependent.
b. Between December 31, 2002 and March 31, 2003, the borrower did not make principal payments. The lender determined that foreclosure was **probable** on March 31, 2003; the real estate's estimated fair value was $75,000. The estimated costs to sell were $4,000.
c. On May 1, 2003, the lender foreclosed on the real estate; the real estate's estimated fair value and costs to sell remained unchanged from March 31, 2003. The real estate was classified as held for sale under Topic 360, subsequent to foreclosure.
d. At September 30, 2003, the fair value of the property was $65,000. The estimated costs to sell were $3,000.
e. At March 31, 2004, the fair value of the property was $80,000. The estimated costs to sell were $5,000. **[Content moved from paragraph 310-40-55-13]**

Pending Content:

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

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

a. At December 31, 20X2, a lender's net real estate loan receivable was $90,000. The net receivable was comprised of (a) $100,000 principal balance and (b) $10,000 allowance for credit losses due to the deterioration of the borrower's credit worthiness; the allowance was based on the underlying value of the real estate since the loan is collateral dependent.
b. Between December 31, 20X2 and March 31, 20X3, the borrower did not make principal payments. On March 31, 20X3, the real estate's estimated fair value was $75,000. The estimated costs to sell were $4,000.
c. On May 1, 20X3, the lender foreclosed on the real estate; the real estate's estimated fair value and costs to sell remained unchanged from March

31, 20X3. The real estate was classified as held for sale under Topic 360, subsequent to foreclosure.

d. At September 30, 20X3, the fair value of the property was $65,000. The estimated costs to sell were $3,000.

e. At March 31, 20X4, the fair value of the property was $80,000. The estimated costs to sell were $5,000. **[Content moved from paragraph 310-40-55-13]**

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

Pending Content:

Transition Date: *(P) December 16, 2022; (N) December 16, 2022* | **Transition Guidance:** 326-10-65-5

This Example illustrates the guidance in Subtopic <u>310-20</u> ~~310-40~~. The Example has the following assumptions:

a. At December 31, 20X2, a lender's net real estate loan receivable was $90,000. The net receivable was comprised of (a) $100,000 principal balance and (b) $10,000 allowance for credit losses due to the deterioration of the borrower's credit worthiness; the allowance was based on the underlying value of the real estate since the loan is collateral dependent.

b. Between December 31, 20X2 and March 31, 20X3, the borrower did not make principal payments. On March 31, 20X3, the real estate's estimated fair value was $75,000. The estimated costs to sell were $4,000.

c. On May 1, 20X3, the lender foreclosed on the real estate; the real estate's estimated fair value and costs to sell remained unchanged from March 31, 20X3. The real estate was classified as held for sale under Topic 360, subsequent to foreclosure.

d. At September 30, 20X3, the fair value of the property was $65,000. The estimated costs to sell were $3,000.

e. At March 31, 20X4, the fair value of the property was $80,000. The estimated costs to sell were $5,000. **[Content amended as shown and moved from paragraph 310-40-55-13]**

<u>310-20-55-52</u> Paragraphs 310-10-35-16 through 35-17 states that a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The lender determined that foreclosure is probable at March 31, 2003, and should measure the impairment based on the fair value of the collateral less estimated costs to sell since the selling costs reduce the cash flows available to satisfy the loan as prescribed under paragraphs 310-10-35-22, 310-10-35-24, and 310-10-35-32. Accordingly, the lender should recognize a loan loss of $19,000 measured as the difference between the carrying value ($90,000) and the fair value less cost to sell ($71,000). Upon foreclosure on May 1, 2003, the application of paragraph 310-40-40-5 results in the measurement of a new cost basis (also $71,000) for long-lived assets received in full satisfaction of a receivable. [**Content moved from paragraph 310-40-55-14]**

Pending Content:

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

On March 31, 20X3, the lender estimates expected credit losses using the fair value of the collateral in accordance with paragraph 326-20-35-2. Accordingly, the lender should record an allowance for credit losses in the cumulative amount of $29,000 ($19,000 incremental amount plus $10,000 recorded previously) measured as the difference between the amortized cost basis ($100,000) and the fair value less cost to sell ($71,000). Upon foreclosure on May 1, 20X3, the application of paragraph 310-40-40-5 results in the measurement of a new cost basis (also $71,000) for long-lived assets received in full satisfaction of a receivable. [**Content moved from paragraph 310-40-55-14]**

Pending Content:

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

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

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

Pending Content:

Transition Date: *(P) December 16, 2022; (N) December 16, 2022* I **Transition Guidance:** 326-10-65-5

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

310-20-55-53 The fair value less cost to sell decrease to $62,000 as of September 30, 2003, requires the lender to recognize an impairment of $9,000 ($71,000 - $62,000) under Topic 360. While the long-lived asset's fair value less cost to sell increased $13,000 ($75,000 - $62,000) as of March 31, 2004, the lender's gain recognition is limited to the cumulative losses recognized and measured under that Topic, or $9,000. The $19,000 of loan impairment losses are excluded from the measurement of cumulative losses under that Topic. **[Content moved from paragraph 310-40-55-15]**

Pending Content:

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

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

> > Example 13: Application of Loan Modification Guidance

310-20-55-54 This Example illustrates the guidance in paragraph 310-20-35-9 to determine whether the terms of a modified loan are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan with the lender. This Example has the following assumptions.

310-20-55-55 On January 1, 20X1, Entity J originates a 10-year $100,000 consumer loan to an individual with a FICO score of 710. The loan's stated interest rate is 7 percent. On June 30, 20X3, Entity J modifies the loan to reduce the effective interest rate to 3 percent. At the time of the modification, the borrower's credit score is 650. Between the loan's origination date and modification date, interest rates have decreased and the at-market interest rate for a borrower with a credit score of 650 is 5 percent at the date of the modification.

310-20-55-56 On the date of the modification, Entity J compares the effective interest rate on the modified loan with the effective interest rate that it has negotiated for new loans with similar characteristics originated to borrowers with a credit score that approximates 650. Entity J concludes that the effective interest rate on the modified loan (3 percent) is lower than the effective interest rate on a similar new loan (5 percent), and, therefore, Entity J does not have to assess whether the modification is more than minor in accordance with paragraph 310-20-35-11. Instead, the modification would be accounted for as a continuation of the existing loan.

Amendments to Subtopic 310-40

7. Supersede Sections 310-40-05, 310-40-10, 310-40-15, 310-40-25, 310-40-30, 310-40-35, 310-40-40, 310-40-50, and 310-40-55 of Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, with a link to transition paragraph 326-10-65-5.

Amendments to Subtopic 320-10

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

Investments—Debt Securities—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

> > Scope Application to Certain Instruments and Transactions

> > > Certain Debt Instruments

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

a. Loans restructured as securities. For example, any loan that was restructured ~~in a troubled debt restructuring~~ involving a modification of terms would be subject to the provisions of this Topic if the debt instrument meets the definition of a **security**. See paragraph <u>310-20-40-10</u> ~~310-40-40-8A~~ for additional information.

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

c. Certificates of deposit (CDs) or guaranteed investment contracts. For example, certain negotiable jumbo CDs and guaranteed investment contracts might meet the definition of security, which was modeled after the definition provided in the Uniform Commercial Code.

d. Redeemable convertible preferred stock. For example, convertible preferred stock that has mandatory redemption provisions or is redeemable at the option of the investor is considered a debt security and this Topic would apply.

Amendments to Subtopic 326-10

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

Financial Instruments—Credit Losses—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Updates No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,* No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief,* No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,* ~~and~~ No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*<u>, and No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*</u>

326-10-65-1 The following represents the transition and effective date information related to Accounting Standards Updates No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses,* No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments,* No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief,* No. 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,* ~~and~~ No. 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, and No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures:*

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

> Transition Related to Accounting Standards Update No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*

326-10-65-5 The following represents the transition and effective date information related to Accounting Standards Update No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures:*

- a. An entity that has not yet adopted the pending content that links to paragraph 326-10-65-1 shall apply the pending content that links to this paragraph when the entity first applies the pending content that links to paragraph 326-10-65-1.
- b. An entity that has adopted the pending content that links to paragraph 326-10-65-1 shall apply the pending content that links to this paragraph for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.
  - 1. Early adoption, including adoption in any interim period as of the beginning of the fiscal year that includes that interim period, is permitted provided that an entity has adopted the pending content that links to paragraph 326-10-65-1 in financial statements of fiscal years or interim periods that have not been issued or made available for issuance. An entity may elect to early adopt the pending content that links to this paragraph individually for the pending content that links to this paragraph on vintage disclosures and troubled debt restructurings by creditors. For example, an entity may early adopt the pending content that links to this paragraph on vintage disclosures, and an entity may separately elect not to early adopt the

pending content that links to this paragraph on troubled debt restructurings by creditors.

c. An entity shall apply the pending content that links to this paragraph prospectively from the beginning of the fiscal year of adoption, except as discussed in (c)(2).
    1. Disclosures required by the pending content in paragraphs 310-10-50-38 through 50-44 and 326-20-50-6 shall be provided for modifications and gross writeoffs made starting in the period of adoption. Information about modifications in periods before adoption need not be provided. That is, in disclosures that require information about modifications made in the previous 12 months, modifications made before the date of the adoption of the pending content that links to this paragraph do not need to be included.
    2. For the elimination of recognition and measurement guidance on troubled debt restructurings by creditors in Subtopic 310-40, an entity may elect to apply a modified retrospective transition by means of a cumulative-effect adjustment to the opening retained earnings as of the beginning of the fiscal year of adoption for any change in the allowance for credit losses that had been recorded for loans modified or reasonably expected to be modified in a troubled debt restructuring before the adoption of the pending content that links to this paragraph. If an entity elects a prospective approach, the guidance shall be applied to modifications occurring after the date of adoption of the pending content that links to this paragraph.

Amendments to Subtopic 326-20

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

Financial Instruments—Credit Losses—Measured at Amortized Cost

Initial Measurement

> Developing an Estimate of Expected Credit Losses

326-20-30-4 If an entity estimates expected credit losses using methods that project future principal and interest cash flows (that is, a discounted cash flow method), the entity shall discount expected cash flows at the financial asset's **effective interest rate**. When a discounted cash flow method is applied, the allowance for credit losses shall reflect the difference between the amortized cost basis and the present value of the expected cash flows. <u>If a financial asset is modified and is considered to be a continuation of the original asset, an entity shall use the post-modification contractual interest rate to derive the effective interest rate when using a discounted cash flow method</u>. See paragraph 815-25-35-10 for guidance on the treatment of a basis adjustment related to an existing portfolio layer method hedge.If the financial asset's contractual interest rate varies based on subsequent changes in an independent factor, such as an index or rate, for example, the prime rate, the London Interbank Offered Rate (LIBOR), or the U.S. Treasury bill weekly average, that financial asset's effective interest rate (used to discount expected cash flows as described in this paragraph) shall be calculated based on the factor as it changes over the life of the financial asset. An entity is not required to project changes in the factor for purposes of estimating expected future cash flows. If the entity projects changes in the factor for the purposes of estimating expected future cash flows, it shall use the same projections in determining the effective interest rate used to discount those cash flows. In addition, if the entity projects changes in the factor for the purposes of estimating expected future cash flows, it shall adjust the effective interest rate used to discount expected cash flows to consider the timing (and changes in the timing) of expected cash flows resulting from expected prepayments in accordance with paragraph 326-20-30-4A. Subtopic 310-20 on receivables—nonrefundable fees and other costs provides guidance on the calculation of interest income for variable rate instruments.

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

326-20-30-6 An entity shall estimate expected credit losses over the contractual term of the financial asset(s) when using the methods in accordance with paragraph 326-20-30-5. An entity shall consider prepayments as a separate input in the method or prepayments may be embedded in the credit loss information in accordance with paragraph 326-20-30-5. An entity shall consider estimated prepayments in the future principal and interest cash flows when utilizing a method in accordance with paragraph 326-20-30-4. An entity shall not extend the contractual term for expected extensions, renewals, and modifications unless ~~either of~~ the following applies:

a. <u>Subparagraph superseded by Accounting Standards Update No. 2022-02</u>.~~The entity has a reasonable expectation at the reporting date that it will execute a troubled debt restructuring with the borrower.~~
b. The extension or renewal options (excluding those that are accounted for as derivatives in accordance with Topic 815) are included in the original

or modified contract at the reporting date and are not unconditionally cancellable by the entity.

Amendments to Subtopic 360-10

11. Amend paragraph 360-10-35-41, with a link to transition paragraph 326-10-65-5, as follows:

Property, Plant, and Equipment—Overall

Subsequent Measurement

Impairment or Disposal of Long-Lived Assets

> Long-Lived Assets Classified as Held for Sale

> > Measurement of Expected Disposal Loss or Gain

360-10-35-41 See paragraphs 310-20-35-12D ~~310-40-35-11~~ and 310-20-40-12 ~~310-40-40-10~~ for guidance related to determination of cost basis for foreclosed assets under Subtopic 310-20 ~~310-40~~ and the measurement of cumulative losses previously recognized under ~~the preceding~~ paragraph 360-10-35-40.

Amendments to Subtopic 470-60

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

Debt—Troubled Debt Restructurings by Debtors

Overview and Background

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

Scope and Scope Exceptions

~~> Other Considerations~~

470-60-15-3 Paragraph superseded by Accounting Standards Update No. 2022-02.~~This Subtopic establishes standards of financial accounting and reporting by the debtor for a troubled debt restructuring. Subtopic 310-40 addresses a creditor's financial accounting and reporting for a troubled debt restructuring. Together, the two Subtopics establish tests for applicability that are not symmetrical between the debtor and the creditor if the debtor's **carrying amount** and the creditor's **amortized cost basis** differ. A debtor may have a troubled debt restructuring under this Subtopic even though the related creditor does not have a troubled debt restructuring under the same tests in Subtopic 310-40. The debtor and creditor shall individually apply the tests to the specific facts and circumstances to determine whether a troubled debt restructuring has occurred. The guidance in paragraphs 470-60-15-5 through 15-13 establishes whether a troubled debt restructuring has occurred from the debtor's perspective.~~

Implementation Guidance and Illustrations

> Implementation Guidance

~~**> > Classification of Debt Restructurings by Debtors and Creditors**~~

470-60-55-15 Paragraph superseded by Accounting Standards Update No. 2022-02.~~Paragraph 470-60-15-3 explains that a debtor may have a troubled debt restructuring under this Subtopic even though the related creditor does not have a **troubled debt restructuring** under the same tests in this Subtopic. Paragraph 470-60-15-3 refers to the tests the debtor and creditor must individually apply to the specific facts and circumstances to determine whether a troubled debt restructuring has occurred. For implementation guidance, see paragraph 310-40-55-4.~~

Amendments to Subtopic 842-50

13. Amend paragraph 842-50-50-2, with a link to transition paragraph 326-10-65-5, as follows:

Leases—Leveraged Lease Arrangements

Disclosure

842-50-50-2 For guidance on disclosures about financing receivables, which include receivables relating to a lessor's rights to payments from leveraged leases, see the guidance in Subtopic 326-20 on financial instruments measured at amortized cost~~ and paragraph 310-10-50-31~~.

Amendments to Subtopic 942-310

14. Amend paragraph 942-310-30-1, with a link to transition paragraph 326-10-65-5, as follows:

Financial Services—Depository and Lending—Receivables

Initial Measurement

> Debt-Equity Swap Programs

942-310-30-1 A **debt-equity swap** shall be measured at **fair value** at the date the transaction is agreed to by both parties. Debt-equity swaps have characteristics similar to both the acquisition of assets contemplated by Topics 805 and 845 and the receipt of assets in satisfaction of a loan contemplated by Subtopic 310-20 ~~310-40~~.

Amendments to Subtopic 958-320

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

Not-for-Profit Entities—Investments—Debt Securities

~~Relationships~~

~~> Investments—Debt Securities~~

958-320-60-1 Paragraph superseded by Accounting Standards Update No. 2022-02.~~For debt securities restructured in a troubled debt restructuring, see paragraph 320-10-55-2(a).~~

Amendments to Subtopic 978-310

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

Real Estate—Time-Sharing Activities—Receivables

Subsequent Measurement

> Collectibility of Receivable

978-310-35-4 ~~A note receivable modification,~~ ~~**deferment**~~~~, or~~ ~~**downgrade**~~ ~~represents a troubled debt restructuring involving a change to the terms of a note receivable typically to accommodate a situation in which the debtor (time-share buyer) is unable to meet the original contractual payment obligations. Therefore, the~~ A creditor (time-share seller) shall account for a note receivable ~~modification, deferment,~~ modification or **deferment** ~~downgrade~~ in accordance with Topic 310. A creditor shall account for a **downgrade** that results in an expected credit loss in accordance with Topic 326 on credit losses. Any reductions in the recorded investment in a note receivable resulting from the application of that Topic shall be charged against the allowance for uncollectibles. Incremental, direct costs associated with uncollectibility, such as costs of collection programs, shall be charged to expense as incurred.

Issue 2: Vintage Disclosures—Gross Writeoffs

Amendments to Subtopic 326-20

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

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

Financial Instruments—Credit Losses—Measured at Amortized Cost

Disclosure

> Credit Quality Information

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

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

326-20-50-5 To meet the objectives in paragraph 326-20-50-4, an entity shall provide quantitative and qualitative information by **class of financing receivable**

and major security type about the credit quality of financial assets within the scope of this Subtopic (excluding off-balance-sheet credit exposures and repurchase agreements and securities lending agreements within the scope of Topic 860), including all of the following:

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

326-20-50-6 When disclosing credit quality indicators of **financing receivables** and net investment in leases (except for **reinsurance recoverables** and funded or unfunded amounts of **line-of-credit arrangements**, such as credit cards), ~~an entity~~ a **public business entity** shall present the **amortized cost basis** within each credit quality indicator by year of origination (that is, vintage year). For purchased financing receivables and net investment in leases, an entity shall use the initial date of issuance to determine the year of origination, not the date of acquisition. For origination years before the fifth annual period, ~~an entity~~ a public business entity may present the amortized cost basis of financing receivables and net investments in leases in the aggregate. For interim-period disclosures, the current year-to-date originations in the current reporting period are considered to be the current-period originations. A public business entity shall present the gross writeoffs recorded in the current period, on a current year-to-date basis, for financing receivables and net investments in leases by origination year. For origination years before the fifth annual period, a public business entity may present the gross writeoffs in the current period for financing receivables and net investments in leases in the aggregate. The requirement to present the amortized cost basis within each credit quality indicator by year of origination is not required for an entity that is not a **{remove glossary link}public business entity{remove glossary link}**.

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

326-20-50-7 Except as provided in paragraph 326-20-50-6A, ~~an~~ a public business entity shall use the guidance in paragraphs 310-20-35-9 through 35-11 ~~35-12~~ when determining whether a modification, extension, or renewal of a financing receivable should be presented as a current-period origination. ~~An~~ A public business entity shall use the guidance in paragraphs 842-10-25-8 through 25-

9 when determining whether a lease modification should be presented as a current-period origination.

326-20-50-8 If an entity discloses internal risk ratings, then the entity shall provide qualitative information on how those internal risk ratings relate to the likelihood of loss.

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

Implementation Guidance and Illustrations

> Illustrations

> > Example 15: Disclosing Credit Quality Indicators of Financing Receivables by Amortized Cost Basis

326-20-55-79 The following Example illustrates the presentation of credit quality disclosures for a financial institution with a narrow range of loan products offered to local customers—both consumer and commercial. Depending on the size and complexity of an entity's portfolio of financing receivables, the entity may present disclosures that are more or less detailed than the following Example. An entity may choose other methods of determining the class of financing receivable and may determine different credit quality indicators that reflect how credit risk is monitored. Some entities may have more than one credit quality indicator for certain classes of financing receivables.

As of December 31, 20X5	**Term Loans Amortized Cost Basis by Origination Year** 20X5	20X4	20X3	20X2	20X1	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
Residential mortgage:									
Risk rating:									
1–2 internal grade	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3–4 internal grade	-	-	-	-	-	-	-	-	-
5 internal grade	-	-	-	-	-	-	-	-	-
6 internal grade	-	-	-	-	-	-	-	-	-
7 internal grade	-	-	-	-	-	-	-	-	-
Total residential mortgage loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Residential mortgage loans:									
Current-period gross writeoffs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
~~Current-period recoveries~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~
~~**Current-period net writeoffs**~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
Consumer:									
Risk rating:									
1–2 internal grade	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3–4 internal grade	-	-	-	-	-	-	-	-	-
5 internal grade	-	-	-	-	-	-	-	-	-
6 internal grade	-	-	-	-	-	-	-	-	-
7 internal grade	-	-	-	-	-	-	-	-	-
Total consumer	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer loans:									
Current-period gross writeoffs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
~~Current-period recoveries~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~
~~**Current-period net writeoffs**~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
Commercial business:									
Risk rating:									
1–2 internal grade	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3–4 internal grade	-	-	-	-	-	-	-	-	-
5 internal grade	-	-	-	-	-	-	-	-	-
6 internal grade	-	-	-	-	-	-	-	-	-
7 internal grade	-	-	-	-	-	-	-	-	-
Total commercial business	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial business loans:									
Current-period gross writeoffs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
~~Current-period recoveries~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~
~~**Current-period net writeoffs**~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~
Commercial mortgage:									
Risk rating:									
1–2 internal grade	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3–4 internal grade	-	-	-	-	-	-	-	-	-
5 internal grade	-	-	-	-	-	-	-	-	-
6 internal grade	-	-	-	-	-	-	-	-	-
7 internal grade	-	-	-	-	-	-	-	-	-
Total commercial mortgage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial mortgage loans:									
Current-period gross writeoffs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
~~Current-period recoveries~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~	~~-~~
~~**Current-period net writeoffs**~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~	~~$ -~~

Amendments to Status Sections

19. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

270-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
270-10-50-1	Amended	2022-02	03/31/2022

20. Amend paragraph 310-10-00-1, by adding the following items to the table, as follows:

310-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Troubled Debt Restructuring	Superseded	2022-02	03/31/2022
310-10-05-1	Amended	2022-02	03/31/2022
310-10-40-1A	Amended	2022-02	03/31/2022
310-10-50-11	Amended	2022-02	03/31/2022
310-10-50-31 through 50-34	Superseded	2022-02	03/31/2022
310-10-50-36 through 50-48	Added	2022-02	03/31/2022
310-10-55-12	Superseded	2022-02	03/31/2022
310-10-55-12A through 55-12K	Added	2022-02	03/31/2022

21. Amend paragraph 310-20-00-1, by adding the following items to the table, as follows:

310-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Recorded Investment	Superseded	2022-02	03/31/2022
310-20-35-2	Amended	2022-02	03/31/2022

Paragraph	Action	Accounting Standards Update	Date
310-20-35-9	Amended	2022-02	03/31/2022
310-20-35-10	Amended	2022-02	03/31/2022
310-20-35-12	Superseded	2022-02	03/31/2022
310-20-35-12A through 35-12D	Added	2022-02	03/31/2022
310-20-40-2 through 40-12	Added	2022-02	03/31/2022
310-20-55-18A through 55-18F	Added	2022-02	03/31/2022
310-20-55-51 through 55-56	Added	2022-02	03/31/2022

22. Amend paragraph 310-40-00-1, by adding the following items to the table, as follows:

310-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Amortized Cost Basis	Superseded	2022-02	03/31/2022
Carrying Amount	Superseded	2022-02	03/31/2022
Contract	Superseded	2022-02	03/31/2022
Effective Interest Rate	Superseded	2022-02	03/31/2022
Fair Value (2nd def.)	Superseded	2022-02	03/31/2022
Financial Asset	Superseded	2022-02	03/31/2022
Financing Receivable	Superseded	2022-02	03/31/2022
Lease	Superseded	2022-02	03/31/2022
Lease Modification	Superseded	2022-02	03/31/2022
Market Participants	Superseded	2022-02	03/31/2022
Not-for-Profit Entity	Superseded	2022-02	03/31/2022
Orderly Transaction	Superseded	2022-02	03/31/2022

Paragraph	Action	Accounting Standards Update	Date
Probable (2nd def.)	Superseded	2022-02	03/31/2022
Public Business Entity	Superseded	2022-02	03/31/2022
Purchased Financial Assets with Credit Deterioration	Superseded	2022-02	03/31/2022
Recorded Investment	Superseded	2022-02	03/31/2022
Recorded Investment in the Receivable	Superseded	2022-02	03/31/2022
Related Parties	Superseded	2022-02	03/31/2022
Security (2nd def.)	Superseded	2022-02	03/31/2022
Time of Restructuring	Superseded	2022-02	03/31/2022
Troubled Debt Restructuring	Superseded	2022-02	03/31/2022
310-40-05-1	Superseded	2022-02	03/31/2022
310-40-10-1	Superseded	2022-02	03/31/2022
310-40-10-2	Superseded	2022-02	03/31/2022
310-40-15-1 through 15-20	Superseded	2022-02	03/31/2022
310-40-25-1	Superseded	2022-02	03/31/2022
310-40-25-2	Superseded	2022-02	03/31/2022
310-40-30-1	Superseded	2022-02	03/31/2022
310-40-35-1 through 35-12	Superseded	2022-02	03/31/2022
310-40-40-1 through 40-10	Superseded	2022-02	03/31/2022
310-40-50-1 through 50-7	Superseded	2022-02	03/31/2022
310-40-55-1 through 55-25	Superseded	2022-02	03/31/2022

23. Amend paragraph 320-10-00-1, by adding the following item to the table, as follows:

320-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
320-10-55-2	Amended	2022-02	03/31/2022

24. Amend paragraph 326-10-00-1, by adding the following items to the table, as follows:

326-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Troubled Debt Restructuring	Superseded	2022-02	03/31/2022
326-10-65-1	Amended	2022-02	03/31/2022
326-10-65-5	Added	2022-02	03/31/2022

25. Amend paragraph 326-20-00-1, by adding the following items to the table, as follows:

326-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Troubled Debt Restructuring	Superseded	2022-02	03/31/2022
326-20-30-4	Amended	2022-02	03/31/2022
326-20-30-4A	Amended	2022-02	03/31/2022
326-20-30-6	Amended	2022-02	03/31/2022
326-20-50-6 through 50-7	Amended	2022-02	03/31/2022
326-20-55-79	Amended	2022-02	03/31/2022

26. Amend paragraph 360-10-00-1, by adding the following item to the table, as follows:

360-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
360-10-35-41	Amended	2022-02	03/31/2022

27. Amend paragraph 470-60-00-1, by adding the following items to the table, as follows:

470-60-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
470-60-05-1	Amended	2022-02	03/31/2022
470-60-15-3	Superseded	2022-02	03/31/2022
470-60-55-15	Superseded	2022-02	03/31/2022

28. Amend paragraph 842-50-00-1, by adding the following item to the table, as follows:

842-50-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
842-50-50-2	Amended	2022-02	03/31/2022

29. Amend paragraph 942-310-00-1, by adding the following item to the table, as follows:

942-310-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
942-310-30-1	Amended	2022-02	03/31/2022

30. Amend paragraph 958-320-00-1, by adding the following item to the table, as follows:

958-320-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
958-320-60-1	Superseded	2022-02	03/31/2022

31. Amend paragraph 978-310-00-1, by adding the following item to the table, as follows:

978-310-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
978-310-35-4	Amended	2022-02	03/31/2022

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

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

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

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

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

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

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

Background Information

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

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

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

BC9. On November 23, 2021, the Board issued proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The Board received 32 comment letters on the proposed Update. Overall, comment letter respondents supported the proposed elimination of TDR recognition and measurement for creditors that have adopted Update 2016-13. This feedback was consistent with feedback received from financial statement users during PIR outreach. Respondents acknowledged that TDR recognition and measurement no longer provides financial statement users with meaningful information because the lifetime estimate of expected credit losses required by the amendments in Update 2016-13 already captures the effect of most losses realized in TDRs. Respondents provided mixed feedback about applying the loan modification guidance in paragraphs 310-20-35-9 through 35-11 to all modifications, including those modifications that would have been TDRs. In addition, respondents provided mixed feedback about the proposed disclosure enhancements in the proposed Update, including the scope of the modifications subject to the proposed disclosures and other areas that would benefit from additional clarification. Respondents generally supported the proposed Update's requirements to require current-period gross writeoff but not gross recovery information in the vintage disclosures.

Basis for Conclusions

Issue 1: Troubled Debt Restructurings by Creditors

Update 2016-13

BC10. Update 2016-13 replaced the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires that an entity consider a broader range of reasonable and supportable information to inform credit loss estimates. In developing the amendments in that Update, the Board received feedback from some stakeholders that TDR recognition, measurement, and disclosure may not provide decision-useful information in a lifetime expected credit loss model. However, the Board decided to retain the designation and related disclosure requirements for TDRs by creditors. The guidance on accounting for TDRs by creditors provided in Subtopic 310-40 remained largely unchanged by Update 2016-13 except that the measurement guidance was changed to no longer reference loan impairment.

BC11. Following the issuance of Update 2016-13, at the June 2017 Credit Losses TRG meeting, stakeholders discussed the timing of recording the effects of a TDR on the allowance for credit losses and the measurement method for determining those losses. Paragraph 326-20-30-6 requires that the contractual term of an asset not be extended for extensions, renewals, and modifications unless a reasonable expectation exists at the reporting date that a TDR will be executed with the borrower. Stakeholders questioned whether the effect of reasonably expected TDRs should be considered at the portfolio level before assets are specifically identified as being troubled or if the extended measurement period should be considered only upon specific identification of a reasonably expected TDR. The Board decided that the extension measurement period should be considered only upon individual and specific identification of a reasonably expected TDR.

BC12. In addition, at the June 2017 Credit Losses TRG meeting, stakeholders also discussed that while loss history may include the effect of certain TDRs, the effects of certain concessions granted in a TDR (for example, interest rate reductions and term extensions) may not be reflected in that loss history because of nonaccrual policies. Stakeholders acknowledged that because the amendments in Update 2016-13 allow various methods to determine the allowance for credit losses, the effect of certain concessions may not be captured if a method other than a discounted cash flow analysis was used. The Board decided at its September 6, 2017 meeting that an entity must utilize a discounted cash flow method or reconcilable method if the TDR involves a concession that can be captured in determining the allowance for credit losses using only that method.

Recent Feedback

BC13. Through the PIR process, including at a public roundtable, the Board received feedback from financial statement preparers and users that TDR designation and disclosure may no longer be meaningful after the adoption of Update 2016-13 because lifetime credit losses have already been captured under the current expected credit losses model and overlap with certain disclosure requirements in Topic 326.

BC14. Financial statement preparers cited a high cost and complexity associated with determining whether a modification represents a TDR and further measuring the effect of the TDR on an allowance for credit losses. Specifically, preparers indicated that the effect of certain of their TDRs could be captured only through a discounted cash flow model, which can be labor intensive and result in having to utilize a different allowance method for loans that had been modified as a TDR as compared with other similar loans in their portfolios. Preparers also acknowledged that after a loan has been modified as a TDR, the TDR designation remains with it throughout the remaining life of the loan because of the measurement requirements. Additionally, those preparers noted that the effect of using a discounted cash flow model for those loans does not result in a significant adjustment to the allowance for credit losses following the expected lifetime loss estimate required by the amendments in Update 2016-13, suggesting that the cost does not justify the benefits.

BC15. In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law by the president. Shortly thereafter, prudential regulators issued the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised). The CARES Act provided preparers with relief whereby the TDR evaluation was not required for certain modifications made to borrowers because of the COVID-19 pandemic. This TDR relief was extended through December 31, 2021, by the Consolidated Appropriations Act, 2021. The Interagency Statement provided guidance on when financial institutions may presume that borrowers are not experiencing financial difficulty such that no further TDR analysis would be required.

BC16. In the absence of specific guidance, many preparers provided expanded disclosures about loan modification activity to provide financial statement users with an understanding of the effect of the modifications. Users were generally complimentary of the disclosures that entities voluntarily provided about loan modifications and forbearances made during the COVID-19 pandemic and indicated that the disclosures were useful in understanding how many borrowers needed some form of financial relief and the potential effect on the collectibility of the outstanding loan balances. Additionally, some users noted that designating a loan as a TDR generally does not affect their analyses of an entity's financial performance.

BC17. Both preparers and users provided feedback that if TDR identification was not required during an adverse economic environment, such as the one caused by the COVID-19 pandemic, the identification may not be necessary and may not provide decision-useful information.

TDR Recognition and Measurement

BC18. To address stakeholders' concerns, the Board decided to eliminate TDR recognition and measurement guidance after an entity has adopted Update 2016-13. Rather than recognizing a subset of modifications as TDRs, an entity is required to apply the guidance for accounting for loan refinancings and restructurings as provided in Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs. Upon modifying a loan, an entity is required to apply that guidance to determine whether the modification should be accounted for as a new loan or a continuation of an existing loan that affects that loan's discount rate and the accounting for unamortized net fees and costs.

BC19. The Board decided to eliminate separate TDR recognition and measurement guidance because stakeholders' feedback indicated that (a) there is a high cost and complexity in determining whether a modification represents a

TDR, (b) the measurement for some concessions requires using a discounted cash flow model, which can be costly and complex, and (c) the incremental effect of a TDR on the allowance for credit losses is insignificant in most cases. In deciding to eliminate separate TDR recognition and measurement guidance, the Board acknowledged that a discounted cash flow model is no longer required to be used to measure the allowance for credit losses and that for entities that choose to estimate expected credit losses using a discounted cash flow model, because the effective interest rate must be derived from the post-modification contractual interest rate, the incremental effect of the modification will no longer be recognized immediately upon modification. The Board observed that there was a lack of explicit guidance on how to determine the effective interest rate for a modified asset that is treated as a continuation (rather than a new loan) when an entity estimates expected credit losses using a discounted cash flow model. Although this was not specifically addressed previously, the Board understands that such an approach is consistent with predominant practice and in the Board's view most closely aligns with the treatment of the modified loan as a continuation rather than as a new loan.

BC20. Furthermore, the Board received feedback from stakeholders that guidance for loan refinancings and restructurings in Subtopic 310-20 would not be as complex as applying TDR recognition and measurement guidance and, coupled with enhanced disclosures, would continue to provide investors with decision-useful information. That guidance (which currently is not applicable to modifications determined to be TDRs) indicates that a modified loan would be accounted for as a new loan if the terms of the new loan are at least as favorable to the lender as the terms for comparable loans to similar customers with similar collection risk who are not refinancing their loans. That condition would be met if the new loan's effective yield is at least equal to the effective yield for those loans and the modifications of the original debt instrument are more than minor (that is, if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument).

BC21. By eliminating the TDR recognition and measurement guidance and requiring that an entity apply the loan refinancings and restructurings guidance in Subtopic 310-20 to all loan modifications (including those provided to borrowers that are experiencing financial difficulty), the Board acknowledges that it may be rare but that some loan modifications may be treated as new loans (for example, if a creditor provides a significant principal forgiveness and the terms of the modified loan are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risk who are not refinancing or restructuring a loan with the lender). This view is different from the Board's previous view that an economic concession granted by a creditor to a borrower experiencing financial difficulty in a TDR reflects the creditor's efforts to maximize its recovery of the original contractual cash flows in a financial asset and should be considered a continuation of the existing loan.

BC22. The Board also considered that although applying the existing loan refinancings and restructurings guidance may result in certain loan modifications that would have been TDRs being treated as new loans, in most cases, loan modifications will be treated as continuations of the existing loans. For example, interest rate reductions that provide a contractual interest rate that is less than the market rate for a similar loan would result in the refinanced loan being accounted for as a continuation of the existing loan, which would result in a prospective yield adjustment, and not as a new loan, which would result in a loss recognized upon modification. Some Board members explored whether the first criterion in the new loan evaluation in paragraphs 310-20-35-9 through 35-11 is appropriate for modifications of receivables made to borrowers experiencing financial difficulty. That is, those Board members considered whether a model that focused only on whether the modifications of the original debt instrument are more than minor would result in similar outcomes or whether more modifications would result in a refinanced loan being accounted for as a new loan. However, because the "more than minor" cash flow test in paragraph 470-50-40-12(c) assumes prepayment at the date of the modification and because the Board understands that most receivables within the scope of the amendments in this Update allow for prepayment, the Board concluded that even under this alternative model, interest rate reductions would result in refinanced loans being treated as a continuation of the original loan, not a new loan, and, therefore, a loss upon modification would not be recognized.

BC23. Therefore, the Board decided that an entity should apply the guidance on loan refinancings and restructurings in Subtopic 310-20 to all loan modifications (including those provided to borrowers that are experiencing financial difficulty) and expects that most modifications that would have been TDRs should result in the refinanced loan being treated as a continuation of the existing loan. On the basis of comment letter feedback, the Board added an example to illustrate the application of this guidance to paragraphs 310-20-55-54 through 55-56. In addition, some comment letter respondents provided feedback that if most modifications to borrowers experiencing financial difficulty were treated as continuations of the existing loan, it may be unnecessary for an entity to apply the current loan modification guidance to modifications to borrowers experiencing financial difficulty. That is, they commented that if the outcome of the analysis in paragraphs 310-20-35-9 through 35-11 generally would result in a continuation of the existing loan, the Board should establish a model that treats all modifications to borrowers experiencing financial difficulty as loan continuations. Those respondents indicated that under that approach, it may be unnecessary to build out system changes and processes to be able to apply that modification guidance to modifications made to borrowers experiencing financial difficulty. However, rather than create a new or separate model for troubled loans (or loans with borrowers experiencing financial difficulty), the Board concluded that all modifications should be subjected to a single model and that no recognition or measurement differences should be retained for modifications of receivables made to borrowers experiencing financial difficulty.

BC24. Furthermore, the Board decided not to retain any recognition and measurement differences for modifications of receivables made to borrowers experiencing financial difficulty, both within Topic 310 and within Topic 326. In accordance with paragraph 326-20-30-6, before adopting the amendments in this Update, an entity was permitted to consider expected extensions, renewals, and modifications only for reasonably expected TDRs in determining the contractual term of the financial asset. The Board decided to remove this guidance because it understands that the effect of those extensions, renewals, and modifications is not material for most entities. However, it is not the Board's intent to require that an entity reverse the effect of any extensions, renewals, and modifications on receivables with borrowers experiencing financial difficulty in considering historical loss data used in estimating the allowance for credit losses.

Disclosures

BC25. Financial statement users indicated that designating certain modifications as TDRs generally does not affect their current analyses of an entity's loan portfolio. Instead, users' feedback suggested that voluntary information provided by certain financial statement preparers during 2020 and additional information about loan modification programs would benefit their analyses of an entity's loan portfolio. Specifically, users indicated that disclosing the magnitude of loans modified to borrowers experiencing financial difficulty would benefit their analyses. Users also indicated that additional information such as disclosure of loan performance after modification for those borrowers would be incrementally beneficial because generally entities provide limited information about the effect and success of those loan modification programs.

BC26. On the basis of feedback received from stakeholders that after an entity has adopted the amendments in Update 2016-13, TDR disclosures generally do not provide financial statement users with decision-useful information and that more extensive disclosures about modifications made by entities because of the COVID-19 pandemic provided more useful information, the Board decided to modify and enhance certain disclosures that were previously required for modifications designated as TDRs.

BC27. The Board decided to require more detailed disclosure about modifications of receivables made to borrowers experiencing financial difficulty in the proposed Update because stakeholders stated that those borrowers have a different risk profile than other borrowers with more routine modifications (for example, refinancings) and, therefore, they wanted specific information about those types of modifications. Additionally, stakeholders noted that information about refinancings that occurred in the normal course of business may not be as decision useful in reviewing credit-quality trends. The Board decided to require additional disclosure about modifications of receivables made to borrowers experiencing financial difficulty because determining whether a borrower is experiencing financial difficulty was part of determining whether a modification was a TDR under legacy GAAP, which was well understood and would not cause additional complexity. Comment letter respondents indicated that the scope of the proposed disclosure requirements was broad and would result in more types of modifications requiring additional disclosure than would have been designated as TDRs and subject to additional disclosures under current GAAP. Respondents stated that requiring the proposed disclosures for all types of modifications made to borrowers experiencing financial difficulty may not provide financial statement users with meaningful information because some of those modifications are more minor in nature and are not the type of modifications that are of most interest to users. For example, a modification of a receivable made to a borrower experiencing financial difficulty, such as a change in collateral requirements, would not be considered a TDR under current GAAP, but would require additional disclosures under the amendments in the proposed Update. In addition, requiring the proposed disclosures more broadly would require extensive system and process changes to capture the additional modifications.

BC28. In light of the feedback received on the proposed Update, the Board decided to limit the disclosures to modifications of receivables within the scope of Topic 310 and to those that result in principal forgiveness, interest rate reductions, other-than-insignificant payment delays, or term extensions. The Board determined that those types of modifications are more significant in nature and that enhanced disclosures will provide users with additional decision-useful information. The Board indicated that other modifications, such as covenant waivers, collateral substitutions, or the addition of a guarantor, will not be captured in the disclosure enhancements. However, the Board acknowledges that the modifications captured in the disclosure requirements in the amendments in this Update may be different from those previously captured in TDR disclosures because an entity no longer would have to determine whether a debtor is granting a concession, which is a current requirement to determine whether a modification represents a TDR.

BC29. Financial statement users provided feedback that information about modifications that are minor in nature may not provide decision-useful information. As a result, the Board decided to carry forward in the amendments in the proposed Update its insignificant delay in payment guidance such that a modification that represents an insignificant delay in payment is not required to be disclosed. The insignificant delay in payment guidance in current GAAP requires a cumulative lookback at all previous payment delays to consider whether previous delays, when considered with the most recent delay, would be considered insignificant. Comment letter respondents observed that the cumulative lookback period could be operably burdensome because for assets with a long maturity, it would require that an entity track minor delays over an extended period of time. During that time, a lender could have modified a loan more than once for reasons that are unrelated to each other. For example, in Year 4 of a loan, the lender may have modified the loan by providing a minor delay in payment because of a job loss, while in Year 12 it may have modified the loan, again by providing a minor delay in payment because of economic circumstances unrelated to the previous job loss. With a cumulative lookback, the lender may have determined that disclosure would be necessary in Year 12 because the combination of the modifications in Years 4 and 12 are more than insignificant. Therefore, a cumulative lookback may not provide decision-useful information because some modifications that are spaced out over an extended period of time may be unrelated and would be considered minor when evaluated individually. In response to the comments on the proposed Update, the Board decided to limit the consideration of previous modifications to modifications made in the previous 12-month period.

BC30. The Board decided to require disclosure of quantitative and qualitative information about (a) the types of modifications provided, disaggregated by modification type, (b) the expected financial effect of those modifications, and (c) the performance of the loans after modification. Those disclosures responded to feedback from users about the most decision-useful information that was disclosed by entities during 2020 about COVID-19-related modifications. Furthermore, the Board received feedback from preparers that providing that information would be feasible because that information is readily available.

BC31. For receivables modified in more than one manner, the Board decided that an entity should include a separate column (or columns) for combinations of modifications and that the same receivable balance should not be included more than once in the disclosures required by paragraph 310-10-50-42. If a receivable was modified to a borrower experiencing financial difficulty in a combination of any of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension, the Board decided that a separate column (or columns) should reflect the combination of modifications provided. The Board acknowledges that there may be some receivables that are modified multiple times in different ways, but only some of those modifications will require disclosure (for example, a loan modified through a covenant waiver together with an interest rate reduction). In that case, it would be appropriate for an entity to disclose that information in the category relating to the specific modification type required to be disclosed (for example, as an interest rate reduction). It would not be appropriate for an entity to determine which modification type is predominant and, on the basis of that, exclude the receivable from the required disclosure.

Issue 2: Vintage Disclosures—Gross Writeoffs

Update 2016-13

BC32. For public business entities, the guidance in paragraph 326-20-50-6 required that for each class of financing receivable and net investment in leases, the amortized cost basis within each credit-quality indicator by year of origination be disclosed. The guidance in that paragraph does not specify that gross writeoff or gross recovery information should be provided by class of financing receivable or net investment in leases and by year of origination. However, Example 15 in Update 2016-13 provides an illustration of a vintage disclosure that includes current-period gross writeoff and gross recovery information by year of origination. Stakeholders questioned whether gross writeoff and gross recovery information by origination year was required to be included in the vintage disclosure.

BC33. The importance of writeoff and recovery information within the vintage disclosure tables was discussed at the November 2018 Credit Losses TRG meeting. At that meeting, one user stated that without gross writeoffs and gross recoveries information, the vintage disclosure table would provide less-useful information because users would not have the information that they would need to construct accurate trends of the amortized cost basis and credit-quality ratios for each portfolio segment, which was a disclosure originally supported by financial statement users. Conversely, one TRG member who is a preparer stated that the vintage disclosure requirement—gross writeoff and gross recovery information—could be operably burdensome because the information on gross writeoffs and gross recoveries by origination year may not be readily available in an entity's financial reporting systems. Another TRG member who also is a preparer noted that his entity did not plan on disclosing gross writeoff and gross recovery information within the vintage disclosure table. That TRG member noted that if the Board intended on clarifying the guidance to require gross writeoffs and gross recoveries within the vintage disclosure table, an entity would have to gather the information on a manual basis until it could develop a more automated and systematic process to obtain that information.

BC34. In response to the feedback received at the November 2018 Credit Losses TRG meeting, the Board discussed the issue at its April 3, 2019 Board meeting. At that meeting, the Board determined that gross writeoff and gross recovery information by year of origination was not required in the vintage disclosure because paragraph 326-20-50-6, which outlines the requirements for the vintage disclosure, does not require it. However, the Board added a project to its technical agenda to consider whether gross writeoff and gross recovery information should be required by year of origination within the vintage disclosure. At its July 14, 2021 Board meeting, the Board decided to retain the project on its technical agenda and begin deliberations rather than considering the issue more holistically with other disclosure feedback received during the PIR process.

Recent Feedback

BC35. After its July 14, 2021 Board meeting, the Board performed additional outreach to understand the costs and benefits of providing gross writeoff and gross recovery information by year of origination. Users reiterated that information on gross writeoffs was particularly useful and clearly articulated how they would utilize that information. That is, users stated that they would use gross writeoff information to inform their analyses more fully about an entity's underwriting performance and trends in the credit quality of an entity's portfolio. However, users did not express as strongly their support for requiring gross recovery information by year of origination. That is because often recoveries occur many years after a loan is written off and, therefore, may be included in the column of the vintage disclosure for originations that occurred more than five years before the reporting period. Preparers acknowledged that system changes would be necessary to produce either gross writeoff or gross recovery information and there may be cost and complexity associated with providing that information. However, providing gross recovery information would be significantly more challenging than providing gross writeoff information because recovery is often achieved through the sale of portfolios of loans, in which case it is difficult to determine to which loan the actual recovery relates. Also, recoveries are received more unpredictably, often several years after writeoff, and in smaller amounts, which makes them more difficult to track.

BC36. To address stakeholders' concerns raised during outreach, the Board decided that an entity should disclose gross writeoff information within the vintage disclosure table because the information is most valuable to users and the cost of providing this information would not outweigh the benefits. However, on the basis of users' feedback that recovery information was less decision useful and because preparers identified significant additional complexities in producing the data, the Board concluded that the benefits of this information did not justify the costs. Therefore, the amendments in this Update do not require that an entity disclose gross recoveries. However, an entity may determine that recovery information provides financial statement users with the most complete vintage information and, therefore, may voluntarily disclose this information.

BC37. In addition, the Board considered whether gross writeoff information also should be provided on a cumulative basis. Many preparers stated that it would be difficult to provide gross writeoff information on a cumulative basis, especially for originations more than five years before the reporting date. Some users stated that they would prefer cumulative information, but most users stated that they could "build" cumulative writeoff amounts over time and, therefore, although they may prefer cumulative information, current-period information is decision useful. Therefore, the Board decided to require current-period activity only for gross writeoffs. The Board affirmed its decisions in the proposed Update related to this matter.

Effective Date and Transition

BC38. The Board decided that the amendments in this Update should apply only to entities that have adopted Update 2016-13. Topic 326 requires an entity that has adopted that Update to determine lifetime expected credit losses, which would capture the effect of most concessions granted in modifications that were previously accounted for as TDRs. Therefore, the allowance for loan losses already would incorporate the expected effect of those modifications in the allowance for credit losses.

BC39. Given the importance of this information for users of financial statements and the expiration of the CARES Act surrounding TDR accounting, if an entity has already adopted Update 2016-13, the Board decided that the amendments in this Update should be effective as soon as possible. A few stakeholders provided feedback that the earliest date they would be able to provide the additional disclosures required by the amendments in this Update would be for fiscal periods beginning after December 15, 2022. On the basis of comments received on the proposed Update, the Board decided that for entities that have adopted Update 2016-13, the effective date should be for fiscal periods beginning after December 15, 2022, and that the guidance may be early adopted.

BC40. For entities that have not yet adopted Update 2016-13, the Board decided that the amendments in this Update should be effective in the same interim and annual period as adoption of Update 2016-13 occurs.

BC41. The Board believes that to reduce cost and operability complexity, the transition method for the amendments on TDRs and those on vintage disclosures should be consistent. Therefore, the Board decided to require prospective application.

BC42. For TDRs, the Board understands that the most significant complexity associated with measurement of a modification designated as a TDR is initially creating a discounted cash flow model. Once the model has been set up, there is little additional complexity for some entities, and the separate tracking of these loans is not burdensome. Therefore, the Board concluded that it may be more efficient for certain entities to continue to apply the TDR guidance to the existing pool of TDR designated loans until those loans are settled (especially for entities with loans with short contractual lives that are TDRs) or subsequently modified. Additionally, the Board noted that because the CARES Act guidance and Interagency Statement were in effect for most of 2020 and 2021, for public business entities that adopted Update 2016-13 in 2020, comparative financial statements presented would not contain many new TDRs. However, the Board received feedback on the project that for certain entities, the loans previously modified in TDRs have long contractual lives. Therefore, if those entities were required to apply the guidance prospectively, it may be operably complex because they will have to separately track the loans using a discounted cash flow for many years. Those stakeholders shared that it would be operably complex and costly to do so. As a result, the Board decided to provide an option for entities to use a modified retrospective transition approach for recognition and measurement, resulting in a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption of the amendments in this Update as it relates to the elimination of recognition and measurement of TDRs. That is, an entity should record an adjustment to retained earnings that reflects the change in the allowance for credit losses that is included in the allowance because the loans had been modified in a TDR before the adoption of the amendments.

BC43. For loan modifications and vintage disclosures, the Board understands that it is easier for preparers to build disclosures over time. The Board also understands that some preparers may not have previously tracked gross writeoffs by year of origination and will need to build system capabilities to start providing that information. Therefore, providing this information before the date of adoption of the amendments in this Update could be challenging for those entities and could slow the ability of preparers to provide in a more timely manner those disclosures that investors indicated are needed. The Board expects that for comparative periods presented before the adoption of the amendments, current TDR disclosures will continue to be provided. The enhanced disclosures in the amendments will be provided in lieu of those disclosures beginning in the period of adoption.

Benefits and Costs

BC44. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC45. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update to eliminate TDR recognition and measurement guidance for creditors and enhance disclosure requirements. Rather, the Board believes that the amendments provide preparers and investors with cost savings because they will not have to determine and understand whether a modification represents a TDR, which resulted in unique measurement and disclosure requirements. The Board believes that the benefit of providing users, investors, and other allocators of capital with more decision-useful information through enhanced disclosures about loan modifications justifies the costs of providing the enhanced disclosures. The amendments do not create new accounting requirements other than additional disclosures for which information should be readily available.

BC46. Furthermore, the Board has received feedback from financial statement users, investors, and other allocators of capital that gross writeoff information by year of origination is critical to their analyses. Therefore, the benefit of providing this information is significant. Although preparers and investors may incur additional costs in providing and understanding this information, the Board concluded that the benefits of providing this information justify the costs.

Amendments to the GAAP Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). Those improvements, which will be incorporated into the proposed 2023 GAAP Taxonomy, are available through GAAP Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.