



ACCOUNTING STANDARDS UPDATE

No. 2025-08
November 2025

Financial Instruments—Credit Losses (Topic 326)

Purchased Loans

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Financial Accounting Standards Board
801 Main Avenue • Norwalk, CT • 06851

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Summary

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

The Board has monitored and assisted stakeholders with the implementation of Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, since its issuance.

As part of the post-implementation review (PIR) process, stakeholders highlighted concerns about the accounting for acquired financial assets. Under current generally accepted accounting principles (GAAP), financial assets acquired through (1) a business combination, (2) an asset acquisition, and (3) the consolidation of a variable interest entity that is not a business are initially recorded at fair value, and an allowance for expected credit losses (ACL or allowance) is separately recognized in accordance with Topic 326.

If a financial asset acquired has a “more-than-insignificant” deterioration of credit quality since its origination, it is accounted for as a purchased financial asset with credit deterioration (PCD or PCD assets) using a “gross-up approach.” The gross-up approach requires recognition of an ACL for the estimate of credit losses at the acquisition date. The ACL is recorded with an offsetting gross-up adjustment to the purchase price of the acquired financial asset. If a financial asset acquired does not have “more-than-insignificant” deterioration of credit quality since its origination (non-PCD or non-PCD assets), the ACL is recognized with a corresponding charge to credit loss expense.

Investors, lenders, creditors, and other allocators of capital (collectively, “investors”) and preparers noted that having two acquisition accounting approaches (PCD and non-PCD) creates unnecessary complexity and reduces comparability. In addition, investors observed that the non-PCD approach does not reflect the economics of acquired financial assets that are recorded at fair value because recognizing an ACL through credit loss expense results in double counting of expected credit losses already considered in the fair value measurement. Furthermore, the identification of PCD assets and non-PCD assets is subjective, difficult to understand, and not applied consistently from

entity to entity. The majority of stakeholders (including practitioners) supported guidance that would better reflect the economics of the acquired assets by accounting for most acquired financial assets under the gross-up approach.

The Board is issuing this Update to improve the decision usefulness of the financial reporting for acquired financial assets. The amendments in this Update require that purchased seasoned loans be accounted for using the gross-up approach, which will enhance comparability and consistency in the accounting for acquired financial assets.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities subject to the guidance in Topic 326, including public business entities, private companies, and not-for-profit entities.

What Are the Main Provisions and How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP)?

The amendments in this Update expand the population of acquired financial assets subject to the gross-up approach in Topic 326. In accordance with the amendments in this Update, loans (excluding credit cards) acquired without credit deterioration and deemed “seasoned” (defined below) are *purchased seasoned loans* and accounted for using the gross-up approach at acquisition. Specifically, after an entity determines that a loan is a non-PCD asset based on its assessment of credit deterioration experienced since origination, the entity should apply the guidance described in the amendments to determine whether the loan is seasoned and, therefore, should be accounted for using the gross-up approach.

All non-PCD loans (excluding credit cards) that are acquired in a business combination are deemed seasoned. Other non-PCD loans (excluding credit cards) are seasoned if they were purchased at least 90 days after origination and the acquirer was not involved in the origination of the loans.

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

The amendments in this Update are effective for all entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.

The amendments in this Update should be applied prospectively to loans that are acquired on or after the initial application date. Early adoption is permitted in an interim or annual reporting period in which financial statements have not yet been issued or made available for issuance. If an entity adopts the amendments in an interim reporting period, it should apply the amendments as of the beginning of that interim reporting period or the beginning of the annual reporting period that includes that interim reporting period.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–14. 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~~.

Amendments to Master Glossary

2. Add the new Master Glossary term *Purchased Seasoned Loans*, with a link to transition paragraph 326-10-65-7, as follows:

Purchased Seasoned Loans

Paragraphs 326-20-30-16 through 30-18 define the term *purchased seasoned loans*.

Amendments to Subtopic 310-10

3. Amend paragraph 310-10-35-53B, with a link to transition paragraph 326-10-65-7, as follows:

Receivables—Overall

Subsequent Measurement

> Subsequent Measurement of Specific Types of Receivables

• > Interest Income

310-10-35-53B When recognizing interest income on **purchased financial assets with credit deterioration** and **purchased seasoned loans** within the scope of Topic 326, an entity shall not recognize as interest income the discount embedded in the purchase price that is attributable to the acquirer's

assessment of expected credit losses at the date of acquisition. The entity shall accrete or amortize as interest income the non-credit-related discount or premium of a purchased financial asset with credit deterioration and a purchased seasoned loan in accordance with existing applicable guidance in Section 310-20-35 or 325-40-35.

310-10-35-53C Recognition of income on purchased financial assets with credit deterioration is dependent on having a reasonable expectation about the amount expected to be collected. Subsequent to purchase, this Subtopic does not prohibit placing financial assets on nonaccrual status, including use of the cost recovery method or cash basis method of income recognition, when appropriate. For example, if the timing of either a sale of the financial asset into the secondary market or a sale of collateral in essentially the same condition as received upon foreclosure is indeterminate, the creditor likely does not have the information necessary to reasonably estimate cash flows expected and shall cease recognizing income on the financial asset. However, the ability to place a financial asset on nonaccrual shall not be used to circumvent recognition of a credit loss. If the financial asset is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate. Such rewards of ownership would include use of the collateral in operations of the entity or improving the collateral for resale. Consistent with paragraph 310-20-35-18, interest income shall not be recognized to the extent that the net investment in the financial asset would increase to an amount greater than the payoff amount.

Amendments to Subtopic 326-10

4. Add paragraph 326-10-65-7 and its related heading, as follows:

Financial Instruments—Credit Losses—Overall

Transition and Open Effective Date Information

**> Transition Related to Accounting Standards Update No. 2025-08,
Financial Instruments—Credit Losses (Topic 326): Purchased Loans**

326-10-65-7 The following represents the transition and effective date information related to Accounting Standards Update No. 2025-08, *Financial Instruments—Credit Losses (Topic 326): Purchased Loans*:

Effective date and early adoption

- a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.
- b. Early adoption of the pending content that links to this paragraph is permitted in an interim or annual reporting period in which financial statements have not yet been issued or made available for issuance. If an entity adopts the pending content that links to this paragraph in an interim reporting period, it shall apply the pending content as of the beginning of that interim reporting period or the beginning of the annual reporting period that includes that interim reporting period.

Transition method

- c. An entity shall apply the pending content that links to this paragraph prospectively to loans that are acquired on or after the date of initial application of the pending content.

Amendments to Subtopic 326-20

5. Amend paragraphs 326-20-30-13 and 326-20-30-14 through 30-15 and their related heading, 326-20-35-1, 326-20-35-10 and its related heading, and 326-20-50-13 and add paragraphs 326-20-30-16 through 30-19 and their related heading and 326-20-35-1A through 35-1B, with a link to transition paragraph 326-10-65-7, as follows:

Financial Instruments—Credit Losses—Measured at Amortized Cost

Initial Measurement

> Purchased Financial Assets with Credit Deterioration and Purchased Seasoned Loans

326-20-30-13 An entity shall record the allowance for credit losses for **purchased financial assets with credit deterioration and purchased seasoned loans** in accordance with paragraphs 326-20-30-2 through 30-10, 326-20-30-12, and ~~326-20-30-13A~~, 326-20-30-14. Additionally, expected recoveries of amounts previously written off and expected to be written off shall be included in determining the allowance for credit losses in accordance with paragraph 326-20-30-1 for purchased seasoned loans and paragraph 326-20-30-13A for purchased financial assets with credit deterioration. An entity shall add the allowance for credit losses at the date of acquisition to the purchase price to determine the initial **amortized cost basis** for purchased financial assets with credit deterioration and purchased seasoned loans. Any noncredit discount or premium resulting from acquiring a pool of purchased financial assets with credit deterioration or purchased seasoned loans shall be allocated to each individual asset. At the acquisition date, the initial allowance for credit losses determined on a collective basis shall be allocated to individual assets to appropriately allocate any noncredit discount or premium.

326-20-30-13A The allowance for credit losses for purchased financial assets with credit deterioration shall include expected recoveries of amounts previously written off and expected to be written off by the entity and shall not exceed the aggregate of amounts previously written off and expected to be written off by the entity.

- a. If the entity estimates expected credit losses using a method other than a discounted cash flow method in accordance with paragraph 326-20-30-4, expected recoveries shall not include any amounts that result in an acceleration of the noncredit discount.
- b. The entity may include increases in expected cash flows after acquisition.

(See Examples 18 and 19 in paragraphs 326-20-55-86 through 55-90.)

326-20-30-14 If an entity estimates expected credit losses using a discounted cash flow method for purchased financial assets with credit deterioration and purchased seasoned loans, the entity shall discount expected credit losses at the rate that equates the present value of the purchaser's estimate of the asset's future cash flows with the purchase price of the asset. If an entity estimates expected credit losses using a method other than a discounted cash flow method, the entity shall estimate expected credit losses on the basis of the unpaid principal balance (face value) of the financial asset(s), unless the entity elects the accounting policy election in paragraph 326-20-35-1A for purchased seasoned loans. See paragraphs 326-20-55-66 through 55-78 for implementation guidance and examples.

326-20-30-15 An entity shall account for purchased financial assets that do not have a more-than-insignificant deterioration in credit quality since origination or are not purchased seasoned loans in a manner consistent with originated financial assets in accordance with paragraphs 326-20-30-1 through 30-10 and 326-20-30-12. ~~An entity shall not apply the guidance in paragraphs 326-20-30-13 through 30-14 for purchased financial assets that do not have a more-than-insignificant deterioration in credit quality since origination.~~

• **> Purchased Seasoned Loans**

326-20-30-16 A purchased seasoned loan is a {add glossary link to 2nd definition}loan{add glossary link to 2nd definition} that meets either of the following criteria and is not a purchased financial asset with credit deterioration or a financial asset listed in paragraph 326-20-30-19:

- a. The loan is obtained through a business combination accounted for using the acquisition method in accordance with Subtopic 805-20.
- b. The loan is (i) obtained through a transfer that is not a business combination accounted for using the acquisition method in accordance with Subtopic 805-20 or (ii) initially recognized through the consolidation of a variable interest entity in accordance with paragraph 810-10-30-3. In addition, the loan must meet both of the following criteria:
 1. The loan is obtained more than 90 days after its origination date.
 2. The transferee was not involved with the origination of the loan. See paragraph 326-20-30-17 for guidance on how to assess whether the transferee was involved with the origination of the loan.

326-20-30-17 The transferee is more likely to be involved with the origination of a loan when the transfer of that loan is effected through the terms of an existing contractual relationship, financing arrangement, purchase commitment, or other agreement with the entity that originated and transferred the loan. The transferee is involved with the origination of a loan when either of the following occurs:

- a. Within 90 days after the loan origination date, the transferee has direct or indirect exposure to the economic risks and rewards of ownership.
- b. The transferee has substantive influence on the offering, arranging, underwriting, or other nonadministrative lending activity performed by the originator (the transferor) related to the initial extension of credit to a debtor.

326-20-30-18 When the transferee acquires a group of loans under paragraph 326-20-30-16(b), it shall evaluate the guidance in paragraph 326-20-30-17 on an individual loan basis.

326-20-30-19 Purchased seasoned loans do not include the following:

- a. Credit cards
- b. **Debt securities**
- c. Trade receivables arising from transactions accounted for under Topic 606 on revenue from contracts with customers.

Subsequent Measurement

> Reporting Changes in Expected Credit Losses

326-20-35-1 At each reporting date, an entity shall record an allowance for credit losses on **financial assets** (including for **purchased financial assets with credit deterioration and purchased seasoned loans**) within the scope of this Subtopic. An entity shall compare its current estimate of expected credit losses with the estimate of expected credit losses previously recorded. An entity shall report in net income (as a credit loss expense or a reversal of credit loss expense) the amount necessary to adjust the allowance for credit losses for management's current estimate of expected credit losses on financial asset(s). Except for purchased seasoned loans that are subject to the guidance in paragraph 326-20-35-1B, the ~~The~~ method applied to initially measure expected credit losses for the assets included in paragraph 326-20-30-14

generally would be applied consistently over time and shall faithfully estimate expected credit losses for financial asset(s).

326-20-35-1A If an entity estimates expected credit losses on purchased seasoned loans using a method other than a discounted cash flow method described in paragraph 326-20-30-4, the entity may elect to measure an allowance for credit losses on purchased seasoned loans using the **amortized cost basis** and apply the guidance in paragraph 326-20-30-2 as of each balance sheet date after the acquisition date. An entity shall elect this option on an acquisition-by-acquisition basis in the period that the acquisition occurs and apply it to all purchased seasoned loans recognized in that acquisition. The effect of electing this option shall be recorded in net income as a credit loss expense.

326-20-35-1B If an entity elects the option in paragraph 326-20-35-1A, the initial amortized cost basis measured in accordance with paragraph 326-20-30-13 and effective interest rate measured in accordance with paragraph 310-10-35-53B as of the acquisition date shall not be remeasured in connection with electing this option. In addition, expected credit losses shall be measured consistently for the remaining life of the purchased seasoned loans.

> Interest Income on Purchased Financial Assets with Credit Deterioration and Purchased Seasoned Loans

326-20-35-10 This Subtopic does not address how a creditor shall recognize interest income. See paragraphs 310-10-35-53A through ~~35-53C~~ 35-53B for guidance on recognition of interest income on **purchased financial assets with credit deterioration and purchased seasoned loans**. See paragraph 310-10-35-53C for additional guidance on recognition of interest income on purchased financial assets with credit deterioration. See paragraph 326-20-45-3 for presentation guidance.

Disclosure

Allowance for Credit Losses

- **> Rollforward of the Allowance for Credit Losses**

326-20-50-13 Furthermore, to enable a financial statement user to understand the activity in the allowance for credit losses for each period, an entity shall separately provide by **portfolio segment** and major security type the quantitative disclosures of the activity in the allowance for credit losses for **financial assets** within the scope of this Subtopic, including all of the following:

- a. The beginning balance in the allowance for credit losses
- b. Current-period provision for expected credit losses
- c. The initial allowance for credit losses recognized on financial assets accounted for as **purchased financial assets with credit deterioration** (including beneficial interests that meet the criteria in paragraph 325-40-30-1A), if applicable
- cc. The initial allowance for credit losses recognized on financial assets accounted for as **purchased seasoned loans**
- d. Writeoffs charged against the allowance
- e. Recoveries collected
- f. The ending balance in the allowance for credit losses.

See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

Amendments to Subtopic 805-20

6. Amend paragraphs 805-20-30-4A through 30-4B, 805-20-30-12, and 805-20-30-26 and its related heading, with a link to transition paragraph 326-10-65-7, as follows:

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

Initial Measurement

> Measuring the Fair Values of Particular Identifiable Assets and a Noncontrolling Interest in an Acquiree

• > Assets with Uncertain Cash Flows (Valuation Allowances)

805-20-30-4A For acquired financial assets that are not **purchased financial assets with credit deterioration** or **purchased seasoned loans**, the acquirer shall record the ~~purchased~~ acquired financial assets at the acquisition-date fair

value. Additionally, for these financial assets within the scope of Topic 326, an allowance shall be recorded with a corresponding charge to credit loss expense as of the reporting date.

805-20-30-4B For assets accounted for as purchased financial assets with credit deterioration (which includes beneficial interests that meet the criteria in paragraph 325-40-30-1A) and purchased seasoned loans, an acquirer shall recognize an allowance in accordance with Topic 326 with a corresponding increase to the amortized cost basis of the financial asset(s) as of the acquisition date.

> Exceptions to the Measurement Principle

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

- a. Income taxes
- b. Employee benefits
- c. Indemnification assets
- d. Reacquired rights
- e. Share-based payment awards
- f. Assets held for sale
- g. Certain assets and liabilities arising from contingencies
- h. Leases
- i. **Purchased financial assets with credit deterioration and purchased seasoned loans**
- j. Contract assets and contract liabilities.

• > Purchased Financial Assets with Credit Deterioration and Purchased Seasoned Loans

805-20-30-26 An acquirer shall recognize **purchased financial assets with credit deterioration** (including beneficial interests meeting the conditions in paragraph 325-40-30-1A) and purchased seasoned loans in accordance with Section 326-20-30 for financial instruments measured at amortized cost or Section 326-30-30 for available-for-sale debt securities. Paragraphs 326-20-55-57 through 55-78 illustrate how the guidance is applied for purchased financial assets with credit deterioration measured at amortized cost. Paragraphs 326-30-55-5 through 55-7 illustrate how the guidance is applied to available-for-sale debt securities. An acquirer shall not accrete into interest

income the credit losses embedded in the purchase price for purchased financial assets with credit deterioration and purchased seasoned loans.

Amendments to Subtopic 810-10

7. Add paragraph 810-10-30-3A, with a link to transition paragraph 326-10-65-7, as follows:

Consolidation—Overall

Initial Measurement

Variable Interest Entities

> Valuation of Assets, Liabilities, and Noncontrolling Interests in a Newly Consolidated VIE

• > All Primary Beneficiaries

810-10-30-3 When a reporting entity becomes the primary beneficiary of a VIE that is not a business, no goodwill shall be recognized. The primary beneficiary initially shall measure and recognize the assets (except for goodwill) and liabilities of the VIE in accordance with Sections 805-20-25 and 805-20-30. However, the primary beneficiary initially shall measure assets and liabilities that it has transferred to that VIE at, after, or shortly before the date that the reporting entity became the primary beneficiary at the same amounts at which the assets and liabilities would have been measured if they had not been transferred. No gain or loss shall be recognized because of such transfers.

810-10-30-3A A reporting entity that recognizes loans within the scope of Subtopic 326-20 on financial instruments measured at amortized cost through the consolidation of a VIE that is not a business in accordance with paragraph 810-10-30-3 shall apply the guidance in paragraph 326-20-30-16.

Amendments to Subtopic 860-20

8. Amend paragraphs 860-20-25-13 and 860-20-30-2, with a link to transition paragraph 326-10-65-7, as follows:

Transfers and Servicing—Sales of Financial Assets

Recognition

> Regaining Control of Financial Assets Sold

860-20-25-13 For financial assets rerecognized in accordance with paragraph 860-20-25-10, an entity shall initially recognize a financial asset at fair value. An entity shall then apply relevant guidance, including this Topic, Topic 310 on receivables, Topic 320 on investments—debt securities, Topic 321 on investments—equity securities, Topic 323 on investments—equity method and joint ventures, and Topic 325 on investments—other. In addition, an entity shall measure an allowance for credit losses in accordance with Topic 326, if applicable.

- a. For those financial assets that are not **purchased financial assets with credit deterioration or purchased seasoned loans** within the scope of Topic 326, an entity shall recognize an allowance for credit losses with a corresponding charge to credit loss expense as of the reporting date.
- b. For those financial assets that are purchased financial assets with credit deterioration (which includes beneficial interest that meets the criteria in paragraph 325-40-30-1A) and purchased seasoned loans within the scope of Topic 326, an entity shall recognize an allowance for credit losses in accordance with Topic 326 with a corresponding increase to the amortized cost basis of the financial asset(s) as of the recognition date.

Initial Measurement

860-20-30-2 The **transferee** shall initially measure, at fair value, any asset or liability recognized under paragraph 860-20-25-3, unless it is a **purchased financial asset with credit deterioration** or is **deterioration**, a beneficial interest that meets the criteria in paragraph 325-40-30-1A, or a **purchased seasoned loan**, in which case the transferee shall apply the guidance in Topic 326 on measurement of credit losses to determine the initial amortized cost basis.

Amendments to Status Sections

9. 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 change made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Purchased Seasoned Loans	Added	2025-08	11/12/2025
310-10-35-53B	Amended	2025-08	11/12/2025

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

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

Paragraph	Action	Accounting Standards Update	Date
326-10-65-7	Added	2025-08	11/12/2025

11. 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 change made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Purchased Seasoned Loans	Added	2025-08	11/12/2025
326-20-30-13	Amended	2025-08	11/12/2025
326-20-30-14	Amended	2025-08	11/12/2025

Paragraph	Action	Accounting Standards Update	Date
326-20-30-15	Amended	2025-08	11/12/2025
326-20-30-16 through 30-19	Added	2025-08	11/12/2025
326-20-35-1	Amended	2025-08	11/12/2025
326-20-35-1A	Added	2025-08	11/12/2025
326-20-35-1B	Added	2025-08	11/12/2025
326-20-35-10	Amended	2025-08	11/12/2025
326-20-50-13	Amended	2025-08	11/12/2025

12. Amend paragraph 805-20-00-1, by adding the following items to the table, as follows:

805-20-00-1 The following table identifies the change made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Purchased Seasoned Loans	Added	2025-08	11/12/2025
805-20-30-4A	Amended	2025-08	11/12/2025
805-20-30-4B	Amended	2025-08	11/12/2025
805-20-30-12	Amended	2025-08	11/12/2025
805-20-30-26	Amended	2025-08	11/12/2025

13. Amend paragraph 810-10-00-1, by adding the following item to the table, as follows:

810-10-00-1 The following table identifies the change made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
810-10-30-3A	Added	2025-08	11/12/2025

14. Amend paragraph 860-20-00-1, by adding the following items to the table, as follows:

860-20-00-1 The following table identifies the change made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Purchased Seasoned Loans	Added	2025-08	11/12/2025
860-20-25-13	Amended	2025-08	11/12/2025
860-20-30-2	Amended	2025-08	11/12/2025

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*
Hillary H. Salo, *Vice Chair*
Christine A. Botosan
Frederick L. Cannon
Susan M. Cospers
Marsha L. Hunt
Dr. Joyce T. Joseph

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.

Background Information

Update 2016-13

BC2. On June 16, 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduced an expected credit loss methodology for the impairment of financial assets measured at amortized cost.

BC3. Update 2016-13 requires that an acquired financial asset with a more-than-insignificant deterioration of credit quality since its origination be accounted for as a purchased financial asset with credit deterioration (PCD or PCD assets) using the gross-up approach. The gross-up approach requires recognition of an allowance for expected credit losses (ACL or allowance) for uncollectible amounts at the acquisition date. The ACL is recorded with an offsetting gross-up adjustment to the purchase price of the acquired financial asset. The premise behind the gross-up approach is that the initial recording of an acquired financial asset already includes an expectation of credit losses. Changes in expected cash flows after acquisition are recognized as an adjustment to the ACL through credit loss expense. The Board restricted the use of the gross-up approach to purchased financial assets with credit deterioration (PCD) and used *more-than-insignificant deterioration of credit since origination* as the threshold to qualify as PCD. Update 2016-13 also requires acquired financial assets accounted for as non-PCD to be initially recognized with a Day-1 expense recorded for the allowance for expected credit losses. The Board considered extending the gross-up approach to all

purchased financial assets. However, the Board thought that non-PCD financial assets would likely be an insignificant portion of the total financial assets acquired.

Post-Implementation Review

BC4. The Board has monitored and assisted stakeholders with the implementation of Topic 326 through the ongoing post-implementation review (PIR) process. PIR activities include the formation of the Credit Losses Transition Resource Group (TRG); conducting outreach with a broad range of stakeholders on costs, benefits, and operability; developing educational materials and staff guidance; conducting educational workshops; and performing an archival review of financial reports.

BC5. In connection with the PIR activities, the Board heard feedback from stakeholders on a variety of implementation issues, including the accounting for acquired financial assets. Stakeholders observed that the accounting for non-PCD assets does not appropriately reflect the economics of those assets. Investors and preparers also described the process for distinguishing PCD assets from non-PCD assets as difficult to understand and noted that it was inconsistently applied. As a result, the decision usefulness of financial information produced at acquisition and in future periods is diminished.

BC6. Stakeholders also indicated that elements of non-PCD accounting are unintuitive and uneconomic. Investors and preparers noted that recognizing a credit loss expense upon the acquisition of non-PCD assets and not recognizing a credit loss expense for a PCD asset that has experienced a more-than-insignificant deterioration in credit quality since origination does not make sense. Additionally, they explained that recording a credit loss expense upon acquisition (commonly referred to as the Day-1 expense) is inconsistent with the actual economics because the ACL “double counts” the expected credit losses that are already contemplated in measuring fair value. As a result, the balance sheet amount, net of the allowance, is less than the amount expected to be collected. Furthermore, this “double count” artificially inflates the yield on the acquired loans in subsequent periods, often without disclosure.

Benefits and Costs

BC7. 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.

BC8. Overall, the Board decided that the expected benefits of the amendments in this Update justify the expected costs. Expanded application of the gross-up approach will improve the decision usefulness of financial information provided to investors and is expected to reduce costs and complexity. The amendments in this Update result in more consistent acquisition accounting for financial assets with less emphasis being placed on the acquirer's judgmental determination of the extent of credit deterioration experienced by a financial asset since origination, which is not well understood by investors. The gross-up approach results in more meaningful financial reporting because the accounting reflects that the fair value of a financial asset includes an expectation of credit losses. In addition, because fewer assets are accounted for as non-PCD, the "double-count" issue that is described by investors as uneconomic and difficult to analyze will be minimized. As a result, less supplementary information (for example, non-GAAP metrics or explanatory narrative in public filings) will need to be provided to help investors understand the effect of expected credit losses being reflected in both the fair value and Day-1 allowance in the acquisition period and in future periods.

BC9. The Board does not anticipate that entities will incur significant ongoing costs as a result of the amendments in this Update. The Board believes that the amendments do not introduce recognition or measurement principles that will require significant changes to existing systems or processes but acknowledges that additional costs could be incurred upon adoption. The amendments introduce an evaluation of whether acquired loans are seasoned.

The Board does not expect significant incremental costs to be associated with the application of that guidance because it can be evaluated using readily available information. Investors may incur certain nonrecurring costs to adjust their analyses because the amendments will better reflect the economics of the transaction but will incur less costs to understand and analyze financial performance trends.

Basis for Conclusions

BC10. The amendments in this Update expand the population of acquired financial assets that are subject to the gross-up approach in Topic 326. In accordance with the amendments in this Update, loans (excluding credit cards) acquired without significant credit deterioration since origination and deemed “seasoned” are *purchased seasoned loans* and are accounted for using the gross-up approach at acquisition. Specifically, after an entity determines that a loan is a non-PCD asset on the basis of its assessment of credit deterioration experienced since origination, the entity should apply the seasoning guidance described in the amendments to determine whether the loan should be accounted for using the gross-up approach.

Proposed Update

BC11. The proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326): Purchased Financial Assets*, was issued in June 2023. The amendments in the proposed Update sought to improve consistency in the accounting for acquired financial assets by removing credit quality as the criterion for determining the accounting model to apply upon acquisition. As described above, feedback provided during the PIR process by investors and preparers emphasized that the existing credit quality threshold (PCD and non-PCD) creates unnecessary complexity and reduces comparability. In addition, they noted that the non-PCD model accounts for the effects of credit in both initially recording the loan and the Day-1 allowance. In addition, the Board observed several comparable transactions completed after the adoption of Update 2016-13 and noted that the percentage of the acquired loan portfolio designated as non-PCD ranged from 50 to 85 percent, which is inconsistent with the Board’s expectation that more financial assets would be considered PCD upon acquisition. Investors noted that the inconsistency in acquisition accounting limited their ability to analyze financial performance reported for the current period and develop expectations for future periods.

BC12. As a result, instead of using credit quality as the indicator to differentiate the accounting among acquired financial assets, under the proposed Update, all financial assets (with certain limited exceptions) that were deemed seasoned would have been accounted for using the gross-up approach. This proposed accounting was consistent with the Board's intent to account for more acquired financial assets under the gross-up approach. However, the Board recognized that the gross-up approach if applied to originated financial assets would conflict with the recognition of a Day-1 loss under the expected credit loss model. Therefore, the Board established seasoning guidance to identify acquired financial assets that are economically similar to originated assets and, as such, are not subject to the gross-up approach.

BC13. The seasoning guidance specified that (a) financial assets acquired in a business combination accounted for using the acquisition method (in accordance with Subtopic 805-20) would be deemed seasoned and (b) financial assets obtained in a transfer not accounted for using the acquisition method (that is, purchased individually or as a portfolio or through the initial consolidation of a variable interest entity that is not a business) would be accounted for on the basis of the acquirer's evaluation of the proposed seasoning guidance. Under the proposed amendments, if a portfolio of financial assets was acquired, the entire portfolio would have been accounted for using the gross-up approach if the acquirer concluded that substantially all of the financial assets met the seasoning guidance.

BC14. The purpose of the seasoning guidance in the proposed Update was to identify transferred financial assets that are economically similar to financial assets originated by the acquirer on the basis of the substance of the transaction, that is, financial assets that are effectively originated by a third party on behalf of the acquirer. (This concept is not relevant to a business combination, which is why assets acquired in a business combination were deemed seasoned.) The Board decided that a financial asset should be accounted for as if originated by the acquirer when the acquirer was involved in the origination of a financial asset before gaining control of the financial asset. Therefore, the amendments in the proposed Update would have required that an acquirer assess its involvement in the origination of acquired financial assets. The proposed amendments indicated that the transferee should determine its involvement by considering all available information that is relevant to the nature of its relationship with the legal originator of the loan,

including involvement by entities in the same consolidated group as the transferee. Involvement is considered more likely when there are existing contractual relationships between the transferee and legal originator of the loan, including, for example, a loss-sharing or make-whole arrangement in which the acquirer has an obligation to the originator as a result of a loss of principal incurred by the originator before the transfer of the loan to the acquirer or upon termination of the purchase transaction. Involvement with the origination of a loan is generally not considered relevant in the context of a subsequent reacquisition of a loan.

Comment Letter Feedback

BC15. The Board received 35 comment letters on the proposed Update during the comment period ending on August 28, 2023. Most of the comment letter respondents supported the Board's intent to provide a consistent accounting model for purchased financial assets. However, comment letter feedback was mixed in terms of how to achieve that consistency. Preparer and investor feedback continued to support the PCD accounting model over the non-PCD model, but some comment letter respondents identified specific concerns about the proposed guidance, including unintuitive financial reporting results from applying certain recognition and measurement provisions of the gross-up approach to certain types of financial assets within the proposed scope.

BC16. Comment letter feedback strongly encouraged the Board to reconsider the proposed amendments that would have imposed a significant operational burden on preparers by requiring credit cards (which are open-ended, active lines of credit) to apply the gross-up approach upon acquisition. Comment letter respondents, primarily preparers, noted that PCD accounting is rarely applied to credit cards in practice, unless the repayment terms have been modified. Credit cards are unsecured and typically charge off shortly after delinquency. Preparers explained that the gross-up approach is operable for modified credit cards classified as PCD because they have effectively been converted to closed-end term loans. However, those preparers emphasized that current GAAP does not have sufficient recognition and measurement guidance for the gross-up approach to be operable if unmodified and performing credit cards were classified as PCD. Specifically, Topic 326 does not specify whether the unit of account for recognition and measurement of expected credit losses from credit cards is limited to the funded balance acquired on the acquisition date or

includes both the funded balance acquired and the unfunded commitment assumed on the acquisition date. Preparers noted that if the Board were to pursue amendments to specify the unit of account, either approach would involve significant operational complexity due to the nature of credit card activity.

BC17. Several comment letter respondents recommended excluding held-to-maturity debt securities from the scope of the gross-up approach. Those respondents noted that debt securities are not originated in the same way as loan receivables and, therefore, the seasoning guidance would be unintuitive and difficult to apply to these assets.

BC18. Some comment letter respondents expressed concern about the proposed amendments that would have excluded acquired available-for-sale debt securities from being required to use the gross-up approach. The current guidance in Topic 326 limits the extent of credit losses recognized such that available-for-sale debt securities are not carried on the balance sheet below fair value. Under the proposed Update, available-for-sale debt securities would not have been accounted for using the gross-up approach because the initial adjustment to the purchase price would result in a carrying amount on the balance sheet that is different from fair value. Those respondents noted that if severely credit-distressed, available-for-sale debt securities purchased at a deep discount were accounted for similar to originated financial assets (that is, not using the gross-up approach), entities would recognize the entire purchase discount as interest income, including amounts not expected to be collected.

BC19. Many comment letter respondents, including preparers and practitioners, provided feedback on the application of the gross-up approach to assets that have specific measurement exceptions in Topic 805, Business Combinations, specifically, contract assets and lease receivables that are recognized and measured in accordance with Topic 606, Revenue from Contracts with Customers, and Topic 842, Leases, respectively, when acquired in a business combination accounted for using the acquisition method. Comment letter feedback supported the current recognition and measurement for those assets, and respondents suggested that the Board reconsider the proposed amendments that would have required that entities use the gross-up approach upon acquisition.

BC20. Some comment letter respondents also suggested that the Board reconsider the proposed amendments that would have required short-dated

receivables to apply the gross-up approach. Those respondents noted that there may be a limited benefit to applying the gross-up approach to short-dated assets like trade accounts receivable and, therefore, the benefits may not justify the costs of doing so.

BC21. In addition to scope-related feedback, several comment letter respondents recommended that the Board consider amendments to certain recognition and measurement provisions under the gross-up approach to accommodate the expanded scope of assets to which it would be applied. The gross-up approach was originally developed for financial assets with more-than-insignificant deterioration of credit since origination. Therefore, those respondents noted that certain guidance in the proposed Update could be unintuitive or difficult to implement for financial assets that have not experienced more-than-insignificant deterioration of credit since origination, including:

- a. ACL calculation basis (unpaid principal or amortized cost basis)
- b. Nonaccrual guidance (accrual that depends on expectation of collection)
- c. Recoveries (negative allowances).

BC22. Comment letter respondents generally supported the Board's intent for introducing seasoning guidance and the Board's decision to classify all loans acquired in a business combination as seasoned. Some respondents highlighted certain challenges with applying the seasoning guidance to credit cards and held-to-maturity debt securities and provided suggestions for improvements. Other respondents requested that the Board provide illustrative examples or clarify how the seasoning guidance should be applied to specific facts and circumstances.

BC23. Several comment letter respondents opposed the application of the seasoning guidance at the portfolio level. They suggested that the assessment would be more operable and consistently applied to acquisitions other than business combinations if the seasoning guidance was evaluated at the individual asset level. Because *substantially all* is generally considered a high hurdle in practice, those comment letter respondents noted that the proposed amendments would limit use of the gross-up approach because an entire portfolio could be prevented from using the gross-up approach if the acquired portfolio contained a relatively small number of assets that did not meet the seasoning guidance.

Redeliberations

BC24. The Board considered various alternatives to address the operability issues raised in comment letter feedback, many of which would have required significant changes to current GAAP beyond those proposed. The Board observed that to retain the broad scope of the guidance as proposed, it would need to address many of the operability issues. The Board was concerned that this would introduce new complexity, which was inconsistent with its objective to reduce complexity for acquired financial assets. Therefore, the Board explored alternative approaches to address those concerns and effectuate the proposed financial reporting that stakeholders supported while preserving current GAAP to the extent possible.

BC25. The Board decided to narrow the population of assets subject to the seasoning guidance and require that an entity apply the gross-up approach to seasoned acquired loans. Loans are often a significant asset class in acquisition transactions for financial institutions, and the Board observed that the percentage of acquired loans classified as non-PCD ranged from 50 to 85 percent, which is a wide variation and inconsistent with the Board's intent when it issued Update 2016-13. Therefore, in redeliberations, the Board decided that non-PCD loans (excluding credit cards) should be evaluated under the seasoning guidance and that purchased seasoned loans should be accounted for under the gross-up approach. The Board believes that this focused approach responds to stakeholder feedback about the unintuitive accounting for acquired loans, while not introducing new complexity that would have resulted from entities having to evaluate the seasoning guidance for other financial assets within the scope of Topic 326 that do not materially contribute to stakeholders' concerns about complexity and uneconomic financial reporting of acquisition transactions. Therefore, in redeliberations, the Board decided to make narrow amendments and not change current GAAP applicable to financial assets upon acquisition, except for loans.

BC26. Accordingly, the amendments in this Update require that at acquisition the acquirer of financial assets perform the following:

- a. First, assess the change in credit quality since the asset's origination. If the acquirer determines that the financial asset has experienced more-than-insignificant deterioration of credit quality since origination, the

asset is required to be accounted for under the existing PCD model (which is current GAAP).

- b. Second, loans (excluding credit cards and the certain financial assets described in paragraph 326-20-30-19) that are not classified as PCD are evaluated under the seasoning guidance. The objective of the seasoning guidance is to identify in-substance originations and account for those as originations upon acquisition. Loans that meet the definition of *purchased seasoned loans* (PSL) must be accounted for using the gross-up approach at acquisition. Loans acquired in a business combination accounted for using the acquisition method are deemed seasoned. Loans acquired outside a business combination accounted for using the acquisition method (that is, a financial asset acquisition or the consolidation of a variable interest entity that is not a business) must be evaluated by the acquirer in accordance with the seasoning guidance in the amendments in this Update.
- c. Any remaining assets (that is, non-PCD assets and non-PSL assets) are required to be accounted for at acquisition as if originated (which is current GAAP). That is, those assets are initially recognized and measured at their purchase price, or fair value, and any ACL is subsequently recognized through the income statement.

BC27. The Board observes that assets accounted for under the gross-up approach as described in paragraph BC26(b) also would have been accounted for under the gross-up approach in the proposed Update. Comment letter respondents generally supported those assets being accounted for under the gross-up approach and did not identify significant unintended consequences. Entities should apply the seasoning guidance to *loans*, except for the financial assets in paragraph 326-20-30-19 that would otherwise qualify as a loan.

BC28. Consistent with the comment letter feedback detailed in paragraph BC16, the Board decided that the loans subject to the amendments in this Update should not include credit cards. The Board did not require credit cards, specifically, to apply the amendments in this Update because of the unique nature and volume of credit card transactions. Open-ended lines of credit (that are not credit cards) are loans and are required to apply the amendments in this Update.

BC29. In addition to changes in the scope of financial assets that will be evaluated under the seasoning guidance, based on stakeholder feedback, the

Board decided to tailor the gross-up approach for purchased seasoned loans to reflect the non-credit-deteriorated nature of these assets, as follows:

- a. The Board clarified that purchased seasoned loans are subject to the same accrual policies that the acquirer has in effect for its originated financial assets and are not subject to the guidance that permits interest income accrual on PCD assets when the acquirer has a reasonable expectation for amounts expected to be collected.
- b. The Board clarified that the guidance limiting expected recoveries to the allocated noncredit discount of PCD assets (that is, the “recovery cap”) does not apply to purchased seasoned loans.
- c. The Board clarified that the initial amortized cost basis and effective interest rate are measured under the gross-up approach consistently for PCD assets and purchased seasoned loans.

BC30. The amendments in this Update provide an acquirer with an option to subsequently measure the ACL for purchased seasoned loans using the initial amortized cost basis of the loans when credit losses are estimated using a method other than a discounted cash flow. Under current GAAP, when a method other than discounted cash flow is used to estimate credit losses, the ACL is calculated differently for assets accounted for under the gross-up approach (the allowance is determined using the unpaid principal balance) than for assets that are not accounted for using the gross-up approach (the allowance is determined using the amortized cost basis). Generally, this means that a separate set of inputs and assumptions must be developed to calculate expected credit losses on assets accounted for using the gross-up approach in periods following the acquisition. Because the amendments require that more assets be accounted for under the gross-up approach, the Board wanted to ensure that the expanded application of the gross-up approach is operable and that entities would not be required to incur additional cost to track or monitor those assets. Providing entities with the option to subsequently measure the ACL for purchased seasoned loans using the amortized cost basis is intended to allow entities to combine assets accounted for under the gross-up approach with other assets, if appropriate, in future periods.

BC31. The election to subsequently measure the ACL for purchased seasoned loans using the initial amortized cost basis is an irrevocable election that the acquirer must make on an acquisition-by-acquisition basis in the first interim or annual reporting period following the acquisition. For example, the

election for a business combination completed on September 1, 20X0 for a calendar-year end company must be made as of September 30, 20X0, and reflected in the September 30, 20X0 financial statements. This election does not affect the initial recognition and measurement recorded using the gross-up approach on the acquisition date. If the acquirer elects this option, it may include purchased seasoned loans in any pool of assets on which expected credit losses are measured, to the extent similar risk characteristics exist between the acquirer's existing assets and the purchased seasoned loans. The Board recognizes that a one-time "true-up" in the ACL will be recognized in the period in which the election is made to reflect the change from measuring expected credit losses on the unpaid principal balance in accordance with paragraph 326-20-30-13 to measuring expected credit losses using the initial amortized cost basis. The Board acknowledges that this true-up does not reflect a change in expectations about credit losses. However, the Board expects that the amount of the true-up will be qualitatively and quantitatively insignificant, nonrecurring, and justified by the long-term benefit of collectively estimating expected credit losses.

BC32. During its redeliberations, the Board affirmed its decision to define seasoning using principles-based qualitative criteria that consider the acquirer's involvement with the origination of an asset before acquisition coupled with a bright-line period of 90 days. In addition, the Board decided that entities should evaluate the seasoning guidance on an individual asset basis and should not evaluate seasoning at a portfolio-level based on the characteristics of substantially all of the individual assets comprising the portfolio for the reasons provided by comment letter respondents (see paragraph BC23).

BC33. Consistent with its intent for the guidance throughout Topic 326, the Board did not prescribe a specific method or approach that must be used when evaluating the qualitative seasoning guidance. The amendments in this Update allow an entity to exercise judgment when evaluating the qualitative seasoning guidance.

BC34. The Board understands that any bright-line, time-based threshold is unavoidably arbitrary. The bright line, for purposes of determining seasoning, precludes the gross-up approach from being used to account for transfers of loans that were originated less than 90 days before being acquired. For assets that were originated more than 90 days before being acquired, the

amendments in this Update require that an acquirer perform an evaluation of its involvement in the origination of the financial asset.

Interest Income

BC35. The amendments in this Update do not change the subsequent measurement of interest income for financial assets accounted for using the gross-up approach. Under the amendments, and applying the interest method under current GAAP, PCD loans and purchased seasoned loans must accrete as interest income the noncredit purchase discount or premium embedded in the purchase price of the financial asset. However, one Board member continues to believe that interest income and the provision for credit loss expense are not comparable under the PCD and non-PCD models for loans that are not seasoned (the non-PCD model is the same accounting that is applied to assets that are originated, so it also could be referred to as the current expected credit losses [CECL] model). That Board member notes that the accounting model applied does not alter the cumulative amount of income on a loan, which is equal to the difference between the cumulative cash collected and cash paid to acquire the loan. Where and when that income is reflected in the income statement differ, however, under the two models. Under the PCD model, the expected credit loss as of the date of acquisition is deferred and amortized over time as a reduction of interest revenue. Under the non-PCD/CECL model, that loss is expensed on Day 1 in the provision for credit loss expense. Consequently, interest income and the provision for credit loss expense differ depending on which accounting model is applied. Nonetheless, that Board member supports issuing this Update because it responds to investors' concern about Day-1 income statement recognition of the expected credit loss as of the acquisition date.

Disclosure

BC36. The Board did not receive feedback through the PIR process that additional disclosures would be necessary if the gross-up approach was applied to an expanded population of financial assets. The Board expects that the amendments in this Update will change the composition of financial assets included in existing disclosures and will not diminish the decision usefulness of those disclosures for investors. Therefore, the Board decided not to require new disclosure requirements in these amendments. Comment letter respondents to the proposed Update supported this decision.

Private Company Considerations

BC37. The Board considered the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, and decided not to include alternative guidance for private companies. The Board concluded that the amendments in this Update are equally relevant to the decision usefulness of private company financial information upon adoption of Update 2016-13, and the Board has not received feedback to indicate that alternative guidance is necessary for private companies. Comment letter respondents to the proposed Update supported that decision.

Effective Date and Transition

BC38. The amendments in this Update are effective for all entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods. Comment letter respondents provided feedback on the time frame required to adopt the proposed amendments, with most entities stating that it would take between two to three years to prepare to implement the amendments in a final Update. However, the Board expects that the level of effort to implement the amendments will be substantially less than what it would have been to apply the proposed amendments because the scope of the final Update is more limited and the changes to existing practice are less significant.

BC39. The amendments in this Update are required to be applied prospectively. Comment letter respondents indicated a number of costs and complexities associated with the modified retrospective transition approach described in the proposed amendments, including the lack of availability of certain data, the requirement to refile certain regulatory reports, and the need to educate investors on the revised transaction amounts. In addition, investors indicated that the recast financial statements would not provide decision-useful information because capital allocation and investment decisions have already been made for those periods. Furthermore, investors stated that they would incur additional costs to update their models to capture recast transaction amounts. After considering this feedback, the Board decided to require that the amendments be applied prospectively.

BC40. The Board also decided to permit early adoption of the amendments. Early adoption is permitted in either an interim or annual reporting period in which financial statements have not yet been issued or made available for issuance. If an entity early adopts in an interim reporting period, the entity may apply the amendments as of the beginning of that interim reporting period or the beginning of the annual reporting period that includes the interim reporting period.

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 2026 GAAP Taxonomy, are available through [GAAP Taxonomy Improvements](#) provided at www.fasb.org, and finalized as part of the annual release process.