

Memo No. **Issue Summary No. 1**

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Project	Issuance of New Debt to Repay Old Debt
Project Stage	Initial Deliberations

Memo Purpose

1. On July 22, 2024, KPMG (Lead EITF Member or we) submitted an [agenda request](#) to the Emerging Issues Task Force (EITF) relating to the application of Subtopic 470-50, Debt—Modifications and Extinguishments, and Topic 405, Liabilities, when the proceeds from a new debt issuance have been used to repay existing debt. The objective of the agenda request is to provide clarification on the application of GAAP in such scenarios to reduce diversity in practice. The agenda request's scope focuses on transactions involving contemporaneous exchanges of cash between the debtor and multiple lenders in connection with the issuance of new debt and satisfaction of an existing debt obligation and whether such transactions can be evaluated as two distinct transactions (that is, an extinguishment of existing debt and issuance of new debt) or should be evaluated under Subtopic 470-50 to determine whether the transactions are accounted for as extinguishments or modifications.
2. This Issue Summary provides EITF members with background on the current accounting guidance and the diversity in practice in applying that guidance to such transactions. At the October 28, 2024 EITF meeting, the EITF members will deliberate issues and will be asked to vote on whether they recommend that the FASB (Board) add a project to its technical agenda to address the issue using the EITF's suggested approach.
3. This Issue Summary includes the following sections:
 - (a) Background on debt modifications and extinguishments
 - (b) Application of Topic 405 compared to Subtopic 470-50
 - (c) Agenda Request on Issuance of New Debt to Repay Old Debt
 - (d) Suggested Approach

The alternative views presented in this Issue Summary are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles. Additionally, the proposed amendments to the Codification included within this Issue Summary are provided for context and discussion purposes only. Amendments to the Codification are made only after extensive due process and deliberations by the Financial Accounting Standards Board.

- (e) FASB Staff Analysis
- (f) Next Steps
- (g) Appendix A: Practitioner Guidance

Questions

Alternative Approaches

1. Should the 10 percent cash flow test in Subtopic 470-50 always be applied to a contemporaneous exchange in connection with the issuance of new debt and the satisfaction of an existing debt obligation when a creditor held the old debt instrument and participates in the new debt instrument?
 - a. Yes, always apply the 10 percent cash flow test in Subtopic 470-50 (**View A**).
 - b. No, apply extinguishment accounting when certain conditions are met (**View B**).
 - c. No, apply extinguishment accounting when the debt exchange involves only public debt (**View C**).
2. If the EITF selects View B, does the EITF agree with the conditions described in paragraph 45 of this Issue Summary?

Scope

3. Does the EITF agree that the recommended approach should apply to all entities?

Optional versus Requirement

4. Does the EITF agree that entities should be required to apply the recommended approach?

Transition and Early Adoption

5. Does the EITF agree that the recommended approach should be applied prospectively, and that early adoption should be permitted?

Background on Debt Modifications and Extinguishments

4. The current model to evaluate whether a modification or exchange of debt instruments is a substantial modification and potentially accounted for as an extinguishment was first established in connection with EITF Issue No. 96-19: "Debtor's Accounting for a Substantive Modification and Exchange of Debt

Instruments.” EITF 96-19 focused on the establishment of the model to be used to evaluate whether a modification or exchange was substantial (that is, the 10 percent cash flow test) and the application of extinguishment or modification accounting based upon the outcome. EITF 96-19 indicated that an exchange of debt instruments with substantially different terms is a debt extinguishment and should be accounted for in accordance with paragraph 16 of FASB Statement No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (Section 405-20-40, Liabilities—Extinguishments of Liabilities—Derecognition). Typically, application of the 10 percent cash flow test results in modification accounting and not extinguishment accounting.

5. The EITF 96-19 Issue Summary¹ indicated that:

... an exchange of notes ... does not meet the criterion of paragraph 16(b) of FAS 125 [now codified in paragraph 405-20-40-1]

The FASB staff believes that a debtor’s delivery of a new promise to pay does not result in a legal release of the *debtor’s obligation to the pay the creditor*. Although it may be argued that the debtor has [in fact] been legally released from the first promise, which occurred only because the debtor obligated itself with a new promise to the same creditor, the debtor never ceased to be obligated to pay the creditor. Therefore, an exchange of new debt for existing debt does not meet the criterion of paragraph 16(b) [of FAS 125].

6. However, Appendix 2 of the EITF 96-19 Issue Summary,² indicated that:

Based on the guidance in FAS 125, it is clear that transactions resulting in an exchange of old debt for cash is an extinguishment. The debtor should derecognize the liability. That is the case even if debt with the same or different terms is subsequently reissued to the same or different creditors.

7. The above referenced excerpt from Appendix 2 of EITF 96-19 could be interpreted as indicating that the repayment of existing debt with cash and simultaneous issuance of new debt would be an extinguishment. However, paragraph 470-50-40-9 indicates that contemporaneous exchanges of cash between the same debtor and creditor in connection with the issuance of new debt and repayment of existing debt would only be accounted for as a debt extinguishment if the debt instruments have substantially different terms. Such varying interpretations of when the application of Subtopic 470-50 is required contribute to diversity in practice as to whether such transactions can be evaluated as two distinct transactions without applying the provisions of Subtopic 470-50.

What Is Extinguishment Accounting and When Does It Apply?

8. As noted in the agenda request, Topic 405 addresses extinguishments of liabilities such that a debtor derecognizes a liability if either of the following conditions in paragraph 405-20-40-1 are met:

(a) The debtor pays the creditor and is relieved of its obligation for the liability. Paying the creditor includes the following:

¹ Issue Summary No. 1, Supplement No. 1, dated September 9, 1996, paragraph 1.

² Issue summary No. 1, Supplement No. 7, dated July 9, 1998, Appendix 2, paragraph 1.

1. Delivery of cash
 2. Delivery of other financial assets
 3. Delivery of goods or services
 4. Reacquisition by the debtor of its outstanding debt securities whether the securities are cancelled or held as so-called treasury bonds.
- (b) The debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor. For purposes of applying this Subtopic, a sale and related assumption effectively accomplish a legal release if nonrecourse debt (such as certain mortgage loans) is assumed by a third party in conjunction with the sale of an asset that serves as sole collateral for that debt.
9. In accordance with paragraph 405-20-40-1, a liability is considered extinguished when a debtor pays the creditor and is relieved of its obligation for the liability or when the debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor. When a debt instrument has been extinguished, the debtor recognizes a gain or loss on extinguishment reflecting the difference between the consideration transferred to the creditor and the carrying amount of the debt instrument at the time of extinguishment.
 10. Furthermore, Subtopic 470-50 addresses modifications and exchanges of non-troubled debt, which indicates that exchanges of debt instruments with substantially different terms are accounted for as debt extinguishments in accordance with paragraph 405-20-40-1. An exchange of debt instruments results in substantially different terms if the present value of the cash flows under the new debt is at least 10 percent different from the present value of the cash flows over the remaining term of the existing debt instrument (“the 10 percent cash flow test”).
 11. For purposes of applying the guidance in Subtopic 470-50, when multiple creditors participate in a debt instrument, such as in a debt syndication, the substantially different test is performed on a creditor-by-creditor basis as described in paragraph 470-50-55-2. For public debt issuances, each individual security held by an investor is considered an individual debt instrument for purposes of applying the guidance in Subtopic 470-50 as described in paragraph 470-50-55-3.
 12. An example of the accounting required for the substantial modification of a debt instrument from KPMG’s Debt and Equity Financing Guide follows:

Example 4.5.10 Applying extinguishment accounting in a substantial modification

Debtor has \$1,000,000 in bank debt and subsequently modifies the debt to extend the term with an increase in the interest rate, incurring a \$10,000 modification fee. The carrying value of the old debt is \$991,000 as of the modification date and the modified debt has a fair value of \$1,035,000. The analysis of the modification indicates the terms are substantially different and the Debtor recognizes the following accounting entry:

Debt (net of discount/issuance costs)	991,000 [debit]
Debt Extinguishment Loss	54,000 [debit]
Debt (new debt)	1,035,000 [credit]
Cash (mod fee)	10,000 [credit]

13. When extinguishment accounting is applied in a substantial modification, the new debt is initially recorded at fair value and a gain or loss on the debt instrument is recognized as the difference between the fair value of the new debt and the net carrying amount of the old debt, which includes any unamortized discounts/premiums and/or issuance costs. Any fees between the creditor and the debtor are considered to be associated with the old debt and are included in determining the debt extinguishment gain or loss.

What Is Modification Accounting and When Does It Apply?

14. If, after applying the substantially different test (that is, the 10percent cash flow test), it is determined that the original and new debt instruments are not substantially different, modification accounting is applied. A new effective interest rate is determined based upon the carrying amount of the original debt and the revised cash flows of the modified debt.
15. Modification-related fees paid to or received from creditors are deferred by recording them as a decrease or increase in the original debt's net carrying amount. They are subsequently recognized in interest expense using the new effective interest rate. Any unaccreted fees or issuance costs on the original debt are accreted as an adjustment of interest expense over the remaining term of the modified debt instrument using the new effective interest rate. Transaction costs paid to third parties relating to the modification are expensed as incurred.
16. An example of the accounting required for a modification (that is not substantial) of a debt instrument from KPMG's Debt and Equity Financing Guide follows:

Example 4.6.10 Applying modification accounting when a modification is not substantial

Debtor has \$1,000,000 in bank debt and subsequently modifies the debt to extend the term with an increase in the interest rate, incurring a \$10,000 modification fee to the creditor and \$13,000 in third party costs. The carrying value of the old debt is \$991,000 as of the modification date. The analysis of the modification indicates the terms are not substantially different and the Debtor recognizes the following accounting entry:

Debt (for modification fee)	10,000 [debit]
Expense (third party costs)	13,000 [debit]
Cash	23,000 [credit]

The carrying value of the original debt is adjusted for the fees paid to the creditor and such fees (along with any unamortized discounts or issuance costs of the original debt) will be amortized into interest expense over the remaining term of the modified instrument utilizing the new effective interest rate.

Application of Topic 405 Compared to Subtopic 470-50

17. Existing guidance is not clear as to whether certain transactions involving contemporaneous exchanges of cash between the debtor and multiple debt holders (lenders or creditors) in connection with the issuance of new debt and satisfaction of an existing obligation are always required to apply the provisions of Subtopic 470-50 to apply extinguishment accounting (that is, whether the repayment and corresponding issuance of new debt should be evaluated collectively as an exchange or should be evaluated separately as two distinct transactions).
18. Paragraph 470-50-40-8 is viewed by some as acknowledging that if a company determines that the existing debt instrument is extinguished in accordance with paragraph 405-20-40-1, then extinguishment accounting for the existing debt should be applied, but if the existing debt instrument is not considered extinguished in accordance with paragraph 405-20-40-1, the company is required to analyze the exchange of the existing debt instrument and the issuance of the new debt instrument under the provisions of Subtopic 470-50.

470-50-40-8 Transactions involving the modification or exchange of debt instruments shall only result in gain or loss recognition by the debtor if the conditions for extinguishment of debt described in paragraph 405-20-40-1 are satisfied or if the guidance in this Subtopic requires that accounting.

19. However, paragraph 470-50-40-9 is viewed by some to imply that transactions involving contemporaneous exchanges of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and satisfaction of an existing debt obligation are always considered “exchanges” and are accounted for as extinguishments “only” if the debt instruments have substantially different terms.

470-50-40-9 Transactions involving contemporaneous exchanges of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and satisfaction of an existing debt obligation by the debtor would only be accounted for as debt extinguishments if the debt instruments have substantially different terms, as defined in this Subtopic.

20. The Subtopic 470-50 analysis (that is, the 10percent cash flow test) would be performed on a lender-by-lender basis for those lenders who were a lender of the existing debt instrument and are a lender in the new debt instrument. However, if an existing lender did not participate in the new debt instrument (and the exiting lender was paid), extinguishment accounting would be applied to that lender. In addition, if a new lender who did not hold the existing debt instrument participated in the new debt instrument, the instrument issued to that new lender would be accounted for as the new issuance of debt.

Interpretive Views on Application of Topic 405 versus Subtopic 470-50

21. As mentioned in the agenda request, when an existing lender also participates in the new debt that is issued, there is diversity in practice in evaluating whether paragraph 405-20-40-1 applies. Often, some but not all of the existing lenders may also participate in the new debt issuance. In practice, this may occur because there may be a limited number of lenders who have the internal ability to lend to an individual company in the amounts being offered by the company or the company issuing the debt may be in an industry/sector that has a limited number of lenders who have internal approval to lend to that industry. Such instances can occur regardless of whether the existing debt and the new debt is syndicated debt, public debt, private placement (144A) debt, or simply debt to a group of specific lenders. In addition, such instances can occur regardless of whether the debtor is a public company or a private company. Sometimes, it is very difficult for the borrower to determine the identity of some or all of the creditors. For example, the borrower may not have access to the ultimate lender information (because the debt is held by a custodian) or there might be a significant number of lenders involved in the existing debt and new debt issuances. The following views exist about these arrangements in practice:

- (a) Some believe that a borrower could not apply paragraph 405-20-40-1 in these circumstances and instead the 10 percent cash flow test must be performed **(View A)**
 - (b) Some believe that the outcome under paragraph 405-20-40-1 should be applied (extinguishment accounting) without performing the 10 percent cash flow test if certain conditions exist that suggest that the repayment and new issuance are separate transactions and should not be considered an exchange **(View B)**
 - (c) Some believe that the outcome under paragraph 405-20-40-1 should be applied (extinguishment accounting) without performing the 10 percent cash flow test if the existing debt and the new debt are both public issuances of debt, which suggests that the repayment and new issuance are separate transactions and should not be considered an exchange **(View C)**.
22. **View A: The 10 percent cash flow test must always be performed; Subtopic 470-50 is always applied.** When a lender held the old debt instrument and participates in the new debt instrument, View A proponents believe that the provisions of Subtopic 470-50 always apply. Specifically, paragraph 470-50-40-6 indicates that an exchange of debt instruments results in an extinguishment under paragraph

405-20-40-1 if the terms of the new instrument are substantially different from those of the old instrument and paragraph 470-50-40-9 indicates that transactions involving contemporaneous exchanges of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and satisfaction of an existing debt obligation are accounted for as extinguishments “only” if the debt instruments have substantially different terms. As a result, the provisions of Subtopic 470-50 are applicable, and the borrower should perform the appropriate test (the 10 percent cash flow test) for any such lender.

23. Opponents of View A note that paragraph 470-50-40-8 indicates that if the requirements of paragraph 405-20-40-1 are met, extinguishment accounting is applied to the existing debt. There is no qualification in paragraph 470-50-40-8 that excludes situations in which some lenders were part of the existing debt and the new debt. Said another way, if an entity determines that the provisions of paragraph 405-20-40-1 are met, extinguishment accounting is required to be applied by the literature.
24. **View B: If certain conditions are met, the 10 percent cash flow test is not performed and the transaction is accounted for as an extinguishment.** When a lender held the old debt instrument and participates in the new debt instrument, View B proponents believe that before applying the 10 percent cash flow test the borrower must determine whether an exchange occurred based on the relevant economic facts and circumstances of the transactions. In general, View B proponents believe that if the borrower repays the existing debt and is economically indifferent to the identity of the new lenders, regardless of whether they participated in the existing debt, then an exchange has not occurred, and extinguishment accounting should be applied to the existing debt instrument. Similarly, any lenders who participated in the old and new debt are economically indifferent regarding the use of the proceeds from the issuance of the new debt to repay the existing debt, such that the lenders’ involvement in the new debt is not predicated on the extinguishment of the existing debt. View B proponents believe that such economic indifference of the existing lenders and the borrower’s economic indifference to the identity of the new lenders is present if certain conditions exist.
25. View B proponents note that the wording in paragraph 405-20-40-1 indicates that if the debtor pays the creditor via delivery of cash and is relieved of its obligation for the liability, the existing debt is considered extinguished. View B proponents believe that these requirements should be evaluated in relation to the distinguishing characteristics of the totality of the transaction. More specifically, View B proponents believe that if all of the following conditions are met, an exchange has not occurred and extinguishment accounting under Topic 405 should be applied:
 - a. The existing debt was repaid in accordance with its original terms or was repurchased for its fair value (for example, through a tender offer or in a secondary market transaction)
 - b. The marketing process the debtor used to issue the new debt indicates the placement of new debt and not a continuation of the old debt
 - c. The debtor did not offer to exchange or modify the old debt instrument with the existing lenders

- d. If the debtor used an agent to place the new debt, the contractual terms with the agent are consistent with the placement of new debt.

View B opponents observe that neither Subtopic 405-20 nor Subtopic 470-50 permit (or require) an assessment such as that described above to be made for a contemporaneous transaction involving the issuance and repayment of debt instruments.

26. **View C: If the existing debt and new debt are both public debt issuances (as defined in the Master Glossary³), the 10 percent cash flow test is *not* performed and the transaction is accounted for as an extinguishment; otherwise, Subtopic 470-50 is always applied.** Like View A proponents, View C proponents, with one exception, believe that when a lender held the old debt instrument and participates in the new debt instrument, the provisions of Subtopic 470-50 apply. As a result, the borrower should perform the appropriate test (the 10 percent cash flow test) for any such lender. As a limited exception, View C proponents believe that if the existing debt and the new debt are both public issuances of debt, then all the lenders involved in the replacement issuance should be considered “new” lenders given the nature of public debt issuances—that is, the borrower may not know who the existing individual debt holders are (due to the widely-held nature of public debt), and public debt issuances generally are not negotiated between the borrower and existing lenders. As a result, View C proponents believe that extinguishment accounting should be applied to such transactions.
27. Opponents of View C observe that paragraph 470-50-55-3 specifically contemplates that modifications or exchanges may occur for public debt issuances through an intermediary and requires that when applying Subtopic 470-50, the actions of an intermediary acting as an agent are treated as actions of the debtor. The existence of the intermediary does not affect the analysis relative to the *holders* of the individual securities—that is, it does not provide an exception when it is difficult to identify individual security holders.
28. The example below illustrates the differences between the views when applied to the same fact pattern.

A company has existing debt with a principal amount of \$250,000,000 held by 13 different syndicate lenders. Prior to maturity, the company repays the existing debt with proceeds from the issuance of new debt with a principal amount of \$260,000,000 issued to 20 lenders. Eight of the existing lenders also participate in the new debt issuance. The Company entered into these transactions and as the interest rate environment has improved, the Company believes that it can obtain lower long-term financing. The conditions surrounding this transaction are as follows:

- a. The debt was repaid in accordance with its contractual terms (the debt was prepayable).

³ The Master Glossary states that a *public debt issuance* “occurs when a debtor issues a number of identical debt instruments to an underwriter that sells the debt instruments (in the form of securities) to various investors.”

- b. Management marketed the new debt to various investor/lenders (including new investors/lenders) through the Company's normal marketing process.
 - c. The Company did not attempt to negotiate a modification of the existing debt with lenders.
 - d. The Company used an agent to place the new debt and the contractual terms with the agent were consistent with the placement of new debt.
29. Assume that the application of Subtopic 470-50 would result in a conclusion that the terms of the new debt instrument are not substantially different from the terms of the existing debt instrument and that modification accounting for the debt held by the eight lenders who participated in both the existing and new debt would therefore be required if Subtopic 470-50 were applied. Under each view, since five lenders of the existing debt were paid in full and did not participate in the new debt, extinguishment accounting would apply to the repayment to those five lenders. In addition, since 12 new lenders participated in the new debt who did not have the existing debt, the issuance of debt to those 12 new lenders would be accounted for as a new debt arrangement.
30. **Under View A:** For the eight lenders who held the existing debt instrument and participated in the new debt instrument, the existing debt is accounted for as a debt modification because View A proponents believe that Subtopic 470-50 is always applied. However, extinguishment accounting applies to the five lenders who did not participate in the new debt, and the issuance of debt to the 12 new lenders is accounted for as a new debt arrangement. The day 2 accounting result is that the new debt would have different effective interest rates for the 8 lenders who held the existing debt versus the 12 lenders who did not hold the existing debt.
31. **Under View B:** For the eight lenders who held the existing debt instrument and participated in the new debt instrument, the existing debt is extinguished under Topic 405 because the debt was repaid under the contractual terms and the repayment of the existing debt and the issuance of the new debt are considered two distinct transactions. Additionally, extinguishment accounting applies to the five lenders who did not participate in the new debt. The issuance of the new debt instrument, as a whole, is accounted for as a new debt arrangement. The day two accounting result is that the new debt instrument would have the same effective interest rate for all lenders.
32. **Under View C:** For the eight lenders who held the existing debt instrument and participated in the new debt instrument the existing debt is accounted for as a debt modification because View C proponents believe that Subtopic 470-50 is always applied when neither the existing debt instrument nor the new debt instrument are public debt. However, extinguishment accounting applies to the 5 lenders who did not participate in the new debt, and the issuance of debt to the 12 new lenders is accounted for as a new debt arrangement. The day 2 accounting result is that the new debt would have different effective interest rates for the 8 lenders who held the existing debt versus the 12 lenders who did not hold the existing debt. Because neither the old issuance nor the new issuance is public debt, the outcome under

this view is the same as under View A. Alternatively, if both the old issuance and new issuance were public debt, the outcome of this view would align with View B.

Illustration of differences between applying extinguishment accounting versus applying modification accounting

33. As mentioned in the agenda request, the different interpretations have resulted in diversity in application of the literature to comparable debt exchange transactions in which there are multiple creditors leading to different accounting outcomes. For example, application of Subtopic 470-50 may result in a conclusion that the debt is not substantially modified (based on the 10 percent cash flow test) leading to debt modification accounting, whereas if facts and circumstances indicate that the debt is not being “exchanged” and the existing debt is extinguished, debt extinguishment accounting leads to gain/loss recognition.
34. When multiple lenders in a loan syndication or public debt issuance are involved in a modification or exchange, Subtopic 470-50 requires the analysis of whether there is a modification or extinguishment to be performed on a lender-by-lender basis. Therefore, when applying Subtopic 470-50, the 10 percent cash flow test is performed for each lender, which could result in differing accounting outcomes among the group of lenders.
35. The simplified examples below illustrate the potential differences in applying extinguishment accounting as compared to applying the provisions of Subtopic 470-50.

Example 1—This example assumes that a non-convertible debt instrument with three existing lenders was repaid with the proceeds from the issuance of a new debt instrument. There are five creditors to the new debt instrument, which include the three existing creditors and two new creditors. The new debt reflects additional principal, a higher interest rate and a longer term than the existing debt. The new debt was marketed to various lending institutions under the debtor’s normal marketing process, and the Company did not attempt to negotiate a modification of the existing debt with lenders. The existing debt was prepayable at par under the contractual terms of the debt agreement. The new debt instrument is not prepayable. When either debt instrument is callable or puttable (for example, prepayable), separate cash flow analyses must be performed assuming nonexercise and exercise of the call or put. The cash flow assumptions that generate the smaller change are used as the basis for determining whether the 10 percent threshold is met (in this scenario the smaller change in cash flows reflects the old debt as immediately repaid and the new debt repaid at maturity, therefore that analysis is illustrated below).

The terms of the debt arrangements, which are as follows, are the same for both existing and new creditors⁴:

Original debt:		New debt:	
Principal	\$1,000,000	Principal	\$1,500,000
Unamortized issuance costs	\$20,000	New issuance costs (paid to creditor)	\$50,000 ⁵
Carrying Value	\$980,000	Third party fees (prorata allocated portion)	\$25,000 ⁶
Stated interest rate	6%	Stated interest rate	8%
Term remaining	3 years	Term remaining	8 years
Effective interest rate	6.76%	Effective interest rate	8.59%
		Discounted cash flows (using EIR of old debt)	\$1,162,225 ⁷

In this example, if the debtor is able to apply extinguishment accounting (without performing the 10 percent cash flow test), the debtor would conclude that the existing debt is extinguished because it was repaid under the contractual terms of the debt arrangement and when considering the economic factors, the issuance of new debt was a separate and distinct transaction from the repayment of the existing debt. Furthermore, when applying the Subtopic 470-50 model, the debtor would compare the present value of the remaining cash flows of the existing debt of \$1,000,000 (assuming immediate prepayment of principal) to the present value of cash flows of the new debt of \$1,162,225 and conclude that the 2 instruments are substantially different (the discounted cash flows of the new debt are greater than the discounted cash flows of the existing debt by more than 10 percent). In this scenario, applying extinguishment accounting pursuant to the provisions of Subtopic

⁴ While the economics of this example may be slightly unrealistic, the mechanics of the 10 percent cash flow test are designed such that only extreme movements or changes in the cash flows will trigger a 10 percent difference.

⁵ When applying extinguishment accounting after applying the provisions of Subtopic 470-50, fees paid to creditors relating to the new debt are expensed.

⁶ Fees paid to third parties are capitalized as part of the carrying value of the new debt and accreted into interest expense over the term of the new debt using the new effective interest rate.

⁷ The present value of the future cash flows of the new debt includes a net cash inflow on Day 1 for the increase in principal (less creditor fees incurred), interest and principal payments over the term of the debt, discounted at the effective interest rate of the original debt of 6.76 percent.

470-50 would not result in a different accounting outcome compared to directly applying the provisions of Topic 405, as extinguishment accounting would be applied in both cases. The distinction in directly applying the provisions of Topic 405 in this example is that the debtor can broadly apply extinguishment accounting to this transaction, as compared to running a cash flow analysis on a lender-by-lender basis. In practice, the process of performing the 10 percent cash flow test is time consuming, requires many different types of calculations, and typically results in modification accounting and not extinguishment accounting.

36. This second example below assumes that a non-convertible debt instrument with three existing lenders was repaid with the proceeds from the issuance of a new debt instrument.

Example 2—There are five creditors to the new debt instrument, which includes the three existing creditors and two new creditors. The new debt reflects additional principal and a longer term than the existing debt. The new debt was marketed to various lending institutions under the debtor’s normal marketing process, and the Company did not attempt to negotiate a modification of the existing debt with lenders. The existing debt was prepayable at par under the contractual terms of the debt agreement. The new debt is not prepayable. When either debt instrument is callable or puttable (for example, prepayable), separate cash flow analyses must be performed assuming nonexercise and exercise of the call or put. The cash flow assumptions that generate the smaller change are used as the basis for determining whether the 10 percent threshold is met (in this scenario the smaller change in cash flows reflects the old debt as immediately repaid and the new debt repaid at maturity, therefore that analysis is illustrated below).

The terms of the debt arrangements, which are as follows, are the same for both existing and new creditors:

Original debt:		New debt:	
Principal	\$1,000,000	Principal	\$1,500,000
Unamortized issuance costs	\$ 20,000	New issuance costs (paid to creditor)	\$ 50,000
Carrying Value	\$ 980,000	Third party fees (prorata allocated portion)	\$25,000
Stated interest rate	6%	Stated interest rate	6%

Term remaining	3 years	Term remaining	5 years
Effective interest rate	6.76%	Effective interest rate	6.81%
		Discounted cash flows (using EIR of old debt)	\$1,003,032 ⁸

In this example, if the debtor is able to apply extinguishment accounting (without performing the 10 percent test), the debtor would conclude that the existing debt is extinguished because it was repaid under the contractual terms of the debt arrangement and when considering the economic factors, the issuance of new debt was a separate and distinct transaction from the repayment of the existing debt. However, when applying the Subtopic 470-50 model, the debtor would compare the present value of the remaining cash flows of the existing debt of \$1,000,000 (assuming immediate repayment of principal) to the discounted cash flows of the new debt of \$1,003,032 and conclude that the 2 instruments are not substantially different (the discounted cash flows of the new debt do not differ from the discounted cash flows of the existing debt by more than 10 percent). In this scenario, applying extinguishment accounting under Topic 405 versus applying the provisions of Subtopic 470-50 would result in a different accounting outcome because extinguishment accounting would not result both cases.

If the existing debt was repaid at the principal amount of \$1,000,000, and the Company was able to apply extinguishment accounting without performing the 10 percent test, the debtor would derecognize the existing debt and record an extinguishment loss of \$20,000 (the difference between the principal amount paid and carrying value of the debt) and the newly issued debt instrument would be initially recorded at fair value (which typically is reflective of the proceeds received, less the issuance costs/fees). Alternatively, when applying the provisions of Subtopic 470-50, the debtor would adjust the carrying value of the existing debt for the incremental borrowing of \$500,000 (less the issuance costs of \$50,000) and accrete the unamortized issuance costs of the old and new debt at the revised effective interest rate of the new debt over the remaining term of 5 years.⁹ Transaction costs paid to third parties are expensed as incurred under the modification accounting model of Subtopic 470-50, as opposed to capitalizing and accreting them as

⁸ The present value of the future cash flows of the new debt includes a net cash inflow on day 1 for the increase in principal (less creditor fees incurred), interest and principal payments over the term of the debt, discounted at the effective interest rate of the original debt of 6.76%.

⁹ Note that this is a simplified example and the resulting subsequent accounting would be different if third party fees were involved and if one or more of the existing debt holders did not participate in the new debt.

part of the net carrying amount of the new debt when accounted for as a new issuance of debt.

When considering the accounting effect of applying extinguishment accounting without performing the 10 percent test in this scenario as compared to applying the provisions of Subtopic 470-50, the application of extinguishment accounting under Topic 405 (without the 10 percent test) results in the immediate recognition of the unamortized issuance costs of the existing debt through the extinguishment loss, as compared to continuing to defer and accrete the unamortized issuance costs over five years through interest expense. Additionally, there is a difference in the recognition of transaction costs paid to third parties as noted above.

Agenda Request on Issuance of New Debt to Repay Existing Debt

Summary of Issue in Agenda Request

37. On July 22, 2024, an agenda request was submitted by KPMG LLP requesting that the EITF consider adding a project to its agenda to amend the existing guidance in Topic 470 to clarify the applicability of Subtopic 470-50 for certain transactions involving the issuance of new debt when the proceeds are used to satisfy an existing debt obligation.
38. The agenda request addresses the following issue and describes certain related views of how the existing guidance may be interpreted today:
 - (a) Can extinguishment accounting be applied without applying the provisions of Subtopic 470-50 to certain transactions involving a contemporaneous exchange in connection with the issuance of new debt and the satisfaction of an existing debt obligation when a lender held the old debt instrument and participates in the new debt instrument?
 - (i) **View A: No**, a borrower must always apply the provisions of Subtopic 470-50.
 - (ii) **View B: Yes**, extinguishment accounting may be applied if certain conditions in the totality of the new debt issuance exist that demonstrate that the repayment and new issuance are separate transactions and should not be considered an exchange.
 - (iii) **View C: It depends**. Extinguishment accounting may only be applied if the existing debt and the new debt are both public issuances of debt suggesting that the repayment and new issuance are separate transactions and should not be considered an exchange.

Summary of Firm Guidance Addressing Issues in the Agenda Request

39. Other firms have also published guidance on the issue in the agenda request. Those published views are consistent with the views described above, such that each view is reflected in a published view of a firm. See Appendix A for the practitioners' published guidance.

Suggested Approach

40. We believe View B provides representationally faithful financial reporting, that is, in substance, new debt instruments are issued, which should be recognized at fair value with any gain or loss on derecognition of the old debt instruments generally recognized in earnings, and it represents a pragmatic solution. Accordingly, we suggest that the FASB add clarification to the literature as follows (additions underlined):

470-50-40-9 Transactions involving contemporaneous exchanges of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and satisfaction of an existing debt obligation by the debtor would only be accounted for as debt extinguishments if the debt instruments have substantially different terms, as defined in this Subtopic, or if all of the following conditions are met:

- a. The existing debt has been repaid in accordance with its original contractual terms or repurchased at fair value
- b. The issuance of the new debt and redemption/repayment of the existing debt were not negotiated collectively
- c. The new debt was issued at market terms following the issuer's normal marketing process for new debt issuances
- d. If the debtor used an agent, the contractual terms of any agreements with that agent are consistent with the issuance of a new debt instrument.

41. We also recommend that the FASB clarify paragraph 405-20-05-1 as follows (deletions struck through and additions underlined):

405-20-05-1 This Subtopic addresses extinguishments of liabilities. This Subtopic does not address debt conversions or troubled debt restructurings. The accounting guidance for those areas is addressed in Subtopics 470-20 and 470-60. Guidance on whether an exchange of debt instruments with the same creditor constitutes an extinguishment under this Subtopic is addressed in paragraph 470-50-40-9.

42. On the basis of the above proposed revisions to the Codification, when existing debt is repaid through the issuance of new debt and some of the same creditors are involved in both debt instruments, an issuer would always first evaluate whether the conditions in paragraph 470-50-40-9 are met. If such conditions are met, the issuer would apply extinguishment accounting. If the debt is not considered extinguished under this paragraph, then the guidance in Subtopic 470-50 would apply in evaluating whether the modification or exchange represents a substantial modification.
43. Both Subtopic 405-20 and Subtopic 470-50 apply to all entities. As such, the recommended solution described herein would also apply to all entities. Also, the diversity in practice that this issue is intended

to address is not limited to a particular type of entity. Therefore, the suggested approach and conditions proposed in paragraph 40 are not specific to public debt issuances or certain types of entities and would be applied to all entities.

Affected Population

44. The proposed clarification would be applicable to all debt instruments, regardless of whether the debt is syndicated, publicly issued or private placement debt. The intention of the clarification is to address situations in which the nature of the transaction reflects two distinct and separate transactions and not an exchange of one debt instrument for another.

Conditions to Apply Extinguishment Accounting

45. In assessing what factors would establish a distinction from what is viewed as an exchange or modification versus what would be viewed as two separate transactions, we considered the following to be important factors:

- (a) The existing debt was repaid in accordance with its original contractual terms or repurchased at fair value. Repayment at the contractual terms or at fair market value would reflect a distinct transaction that is not tied or connected to the issuance of a new debt instrument, such that the repayment is not reflective of a negotiation between the debtor and the existing creditors in connection with the issuance of a new debt instrument. This factor would also be consistent with an extinguishment result under paragraph 405-20-40-1(a)(1).
- (b) The repayment of the existing debt and issuance of the new debt were not negotiated collectively. In order to assert that the repayment of existing debt and issuance of new debt are two distinct and separate transactions, it is important that there were no conversations or discussions with the existing creditors to modify the existing debt and that the decision of the existing creditors to invest in the new debt is not linked to or conditioned on being an existing creditor of the old debt.
- (c) The new debt is issued at market terms and marketed to investors in a normal marketing process (for example, a roadshow or e-room). This indicates that new investors/lending institutions were given the opportunity to participate at market terms and that any existing lenders who choose to participate were not given any preferential treatment or incentive to do so (which could be indicative of a negotiation to modify the existing debt).
- (d) If the debtor used an agent, the contractual terms of any agreements with that agent are consistent with the issuance of a new debt instrument. The use of an agent should be reflective of the use of an agent in two distinct transactions, such that the agent is paid a fee based on the total amount of the new debt instrument and does not reflect differing fees depending on the level of participation of the old lenders in the new instrument.

Other Factors Considered

46. When considering what factors were important to distinguish when the clarification can be applied, we considered the collective views on the issue and the practitioners' published guidance (Appendix A). We acknowledge the following factors were considered but ultimately dismissed:

- (a) The conditions should only be applied to public issuances or widely held private placement debt. Given the published views of practitioners on this issue, we considered whether the proposed clarification to 470-50 should be limited to only these situations. Such types of transactions are not individually negotiated between the issuer and investor/lender and would be reflective of market terms with typically many parties to the transaction, such that it would not be indicative of a negotiation with existing lenders. While these types of circumstances may be more easily discernable as two distinct transactions when old debt is repaid with the proceeds of new debt, we do not believe that the clarification should be limited to only those debt arrangements. We dismissed that consideration given that if a debtor is able to demonstrate that the proposed conditions to the clarification are met, irrespective of the type of debt arrangement, the nature of the repayment of the existing debt and issuance of new debt would be reflective of two distinct transactions.
- (b) New investors purchased more than an insignificant portion of the new debt, or no individual or single group of investors holds a significant portion of both the existing debt and the new debt. While this is a consideration in some practitioners' published views, the portion of the new debt held by investors is not considered to be a determining factor to whether the repayment of existing debt and issuance of new debt can be considered two distinct transactions. If the debt was marketed at current market terms and it can be demonstrated through other factors that the existing debt holders did not enter into the new debt arrangement as a contingency to be paid an amount of the existing debt arrangement, the portion of the debt held by new or existing investors is not overly relevant. Limiting the clarification on the basis of the portion of new investors involved would create subjectivity as to what is considered "significant." Furthermore, this would penalize issuers who, based upon their industry or ability to market their debt, have fewer lending institutions available to which they can market their debt.
- (c) The cash inflows from the issuance of the new debt and the cash outflows from the repayment of the old debt occurred on a gross, as opposed to a net, basis. We considered whether cash flows on a gross basis is an important factor to indicate two distinct transactions. While cash flows on a gross basis might be determinative of two distinct transactions, as long as the cash flows paid to contractually settle the old debt instrument and the cash flows received to issue the new debt instrument are distinguishable, even if a net amount is exchanged, that would be indicative that the transactions may be separate/distinguishable. It would be impractical to limit the clarification to only those transactions settled on a gross basis, because it is possible that

the cash flows of the two transactions would be settled on a net basis for investors who are parties to both transactions. Such net settlement is typically done to reduce credit risk for both the investor and the issuer. Ultimately, we dismissed including a condition as to how the cash flows are settled, because that would not be a determining factor given the possible scenarios in which settlement would occur in practice.

- (d) The issuer was not experiencing financial difficulties. While this is a factor to be considered in one practitioner's published view, we believe that including this as a condition to the clarification is not necessary. If an issuer was experiencing financial difficulty, the issuer would not have the ability to issue new debt to new investors at market terms in their normal marketing process. One of the factors to determine whether an issuer is experiencing financial difficulty is described in paragraph 470-60-55-8, which states that "Absent 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 ability to demonstrate the repayment of existing debt with proceeds from new debt at current market terms would not be indicative of an issuer experiencing financial difficulty. As the inclusion of this condition would be redundant, we ultimately dismissed including it.

Application of Proposed Approach

47. The following examples illustrate various scenarios to demonstrate how an Issuer would apply the clarification.

Example 1: Issuer has existing debt of \$10,000,000 with a stated interest rate of 8 percent, held equally among 5 lenders. The debt matures in 5 years, is prepayable, and has a fair market value of \$12,000,000. The current market interest rate is 5 percent. The Issuer is seeking additional capital for an expansion project and looking to take advantage of the decline in the current market interest rate. The Issuer markets a new debt instrument through its normal marketing process and issues \$20,000,000 in new debt with a stated rate of 5.5 percent to 10 lenders, of which 4 were existing lenders to the old debt. The Issuer did not attempt to negotiate a modification of the existing debt with its current lenders. The Issuer uses \$10,000,000 of the proceeds from the new debt to repay the old debt under its contractual terms.

The Issuer first evaluates the conditions in paragraph 470-50-40-9. The Issuer determines it meets those conditions because the existing debt was repaid in accordance with its original contractual terms, the issuance of the new debt and repayment of the existing debt were not negotiated collectively, and the new debt was issued at market terms, following the Issuer's normal marketing process. Therefore, the Issuer applies extinguishment accounting.

Example 2: Issuer has \$550,000,000 of existing publicly issued debt outstanding (550,000 of \$1,000 par bonds). Issuer engages an agent to place \$400,000,000 of new debt into the market. Issuer plans to use the proceeds to repurchase some of its old debt. Given the interest rate environment and its financial condition, Issuer believes that it can obtain a lower long-term financing cost by undertaking these transactions. The fair market value of the existing debt is \$1,100 compared to its par of \$1,000. Issuer repurchases \$300,000,000 of its outstanding debt for \$330,000,000 (that is, at market value of the existing debt). The agreement with the agent is structured such that fees are established separately for the placement of the new debt and repurchase of existing debt.

The Issuer first evaluates the conditions in paragraph 470-50-40-9. The Issuer determines it meets the conditions as the existing debt was repurchased at market value, the issuance of the new debt and repayment of the existing debt were not negotiated collectively, and the new debt was issued at market terms, following the Issuer's normal marketing process, and the use of an agent is reflective of the use of an agent in two distinct transactions. Therefore, the Issuer applies extinguishment accounting.

Example 3: Issuer has \$250,000,000 of existing debt outstanding, with a stated interest rate of 8 percent held by three lenders. The debt matures in 5 years, is prepayable, and has a fair market value of \$255,000,000. The current market interest rate is 5 percent. Issuer markets new debt of \$300,000,000 with a stated interest rate of 7 percent, to 4 lenders, of which 3 are the existing lenders under the old debt. Issuer pays fees of 0.25 percent to the new lender, and fees of 0.35 percent to the existing lenders who participated in the new debt.

Issuer first evaluates the conditions in paragraph 470-50-40-9. Issuer determines those conditions are not met as the payment of additional fees to existing lenders who participated in the new debt is not reflective of the issuance of new debt at market terms. Therefore, Issuer applies Subtopic 470-50 on a lender-by-lender basis.

Transition and Transition Disclosures

48. Transition is proposed on a prospective basis, requiring application to debt instruments settled after the adoption of the proposed amendments. The Lead EITF Member does not recommend providing a retrospective transition option.
49. In the period of adoption, an entity would disclose the nature of the change in accounting principle, including an explanation of the newly adopted accounting principle.
50. The Lead EITF Member recommends allowing early adoption any time after the issuance of the final Accounting Standards Update.

Disclosures (Other than Transition Disclosures)

51. The proposed amendments would not create new disclosure requirements (other than upon transition).

FASB Staff Analysis

EITF Deliberations

52. The staff thinks that a requirement reflecting any one of the alternative views described in this Issue Summary would address the diversity in practice on whether Subtopic 405-20 or Subtopic 470-50 is applicable and whether the debt has been extinguished when multiple lenders are involved in contemporaneous exchanges of cash in connection with the issuance of new debt and satisfaction of an existing debt obligation. The staff expects more exchanges of debt would be accounted for as extinguishments if View B or View C were applied, as compared to applying View A.
53. Because of the potential interaction between the guidance in Subtopic 405-20 and Subtopic 470-50, the EITF recommendation could be reflected in the Codification by amending either or both of those Subtopics. Therefore, the specific drafting of Codification amendments to reflect the EITF's recommendation will be further considered in the Board's due process.

PCC Research Project Update

54. During its September and December 2023 meetings, the Private Company Council (PCC) discussed the accounting and reporting requirements of Subtopic 470-50. At those meetings, PCC members expressed the view that applying that guidance can be complex and costly when transactions involve multiple lenders. At those meetings, some PCC members suggested providing private companies with the ability to bypass the required evaluations and account for the transaction as a debt extinguishment. At its June 2024 meeting, the PCC asked the staff to research the issue further. At the PCC's September 2024 meeting, the staff presented the [results of its outreach](#) conducted to date and informed PCC members that the EITF had added a project to its agenda related to debt exchanges. The staff will continue to perform research and present its findings, together with the status of this EITF project, at the PCC meeting in December 2024.

Next Steps

55. If an EITF recommendation is reached for the FASB to add a project to its technical agenda, the FASB staff will prepare an agenda decision memo for the Board to discuss at a public meeting. The agenda decision memo will include the materials discussed by the EITF, a summary of EITF discussions, the basis for the EITF's recommendation, and an analysis of the FASB's agenda criteria. The Board will discuss the issue at a public Board meeting and determine whether to add a project to the FASB technical agenda.

Appendix A: Practitioner Guidance

56. Four existing publications provide guidance on whether the proceeds from the issuance of new debt used to repay existing debt can be accounted for as an extinguishment under Topic 405, without applying the provisions of Subtopic 470-50.
57. Consistent with the agenda request, KPMG's publication *Debt and Equity Financing (August 2023)*, acknowledges that there are two views in practice on how to analyze these transactions, indicating that extinguishment under Topic 405 can be achieved if certain conditions are met, while others believe that Subtopic 470-50 must always be applied. KPMG includes the following factors and considerations on when extinguishment under Topic 405 can be met:

- *The old debt instrument has been:* (1) repaid in accordance with its original contractual terms; or (2) repurchased for its fair value.
- *The process management used to issue the new debt instrument indicates the placement of new debt.*
- *Management did not offer to exchange or modify the old debt instrument.*
- *The cash flows paid to contractually settle the old debt instrument and the cash flows received to issue the new debt instrument are distinguishable, even if a net amount is exchanged.*
- *If Debtor used an agent, the contractual terms of any agreements with that agent are consistent with the issuance of a new debt instrument.*

If all of the above five factors are present, the old debt instrument is considered extinguished for accounting purposes and all unaccreted fees associated with the old debt instrument are included in the gain or loss on extinguishment. Lender fees and all third-party costs (including agent fees) incurred in connection with the new debt instrument are deferred and accreted using the effective interest method.

If all of the above five factors are not present, then the cash flow test under paragraphs 470-50-40-10 to 40-12 is required for situations where the same creditor participated in both the old and new debt instruments.

58. By contrast, Deloitte's publication *Issuer's Accounting for Debt (March 2023)*, notes that such transactions can be accounted for as an extinguishment under Topic 405 if certain conditions are met, and the debt is publicly issued or private placement debt.

Deloitte's publication *Issuer's Accounting for Debt (March 2023)*:

Market Issuances of New Debt to Replace Old Debt

If a debtor issues new debt and uses some or all of the proceeds to contemporaneously repurchase some or all of its existing debt according to either its preexisting redemption terms or a tender offer made to all holders of the existing debt, the debtor would not necessarily be required to view all or a portion of those transactions as a debt exchange to which ASC 470-50 applies even if some of the new debt is purchased by investors that held the debt that was redeemed. Instead, it is acceptable for the debtor to evaluate the substantive terms of the transactions to determine whether they should be analyzed as either (1) an extinguishment of the existing debt under ASC 405-20 and the separate issuance of new debt (2) an exchange of debt instruments under ASC 470-50-40-6 through 40-12 for the portion of new debt held by continuing investors. In evaluating whether transactions with continuing investors should be analyzed as a debt exchange under ASC 470-50, the debtor should consider whether the redemption of the old debt and issuance of the new debt were negotiated together or in contemplation of one another (i.e.,

contingent upon one another). While this evaluation can be complex because it involves debt issued to multiple investors, if the facts suggest that the new debt offering was an arm's-length market offering that was independent of the redemption of the old debt, it is acceptable to treat the redemption of the old debt and issuance of new debt as separate transactions. Example 10-2 illustrates the conditions that must be met for an entity to conclude that the repayment of existing debt and issuance of new debt are separate transactions. If a conclusion is reached that the repayment of the old debt is a transaction that is separate from the issuance of the new debt, the old debt would be considered extinguished if any of the conditions in ASC 405-20-40-1 are met. If none of the conditions in ASC 405-20-40-1 are met, accounting for the repayment of the old debt and issuance of the new debt as separate transactions is unlikely to be appropriate (i.e., an entity should apply the guidance in ASC 470-50 to determine the appropriate accounting).

It is always acceptable to apply ASC 470-50 on a creditor-by-creditor basis to the extent that the same investor(s) held old debt and purchased new debt. An entity's decision to apply extinguishment accounting to all of the old debt (when the issuance and repayment transactions may be considered separate) as opposed to applying ASC 470-50 on a creditor-by-creditor basis is an accounting policy election that must be consistently applied. If the redemption of old debt and the issuance of new debt were negotiated together or in contemplation of one another (i.e., contingent on one another), they would not be considered separate transactions. Accordingly, an entity would apply the guidance on debt exchanges in ASC 470-50 on a creditor-by-creditor basis. Note that the mere fact that the old debt is legally extinguished is not sufficient evidence by itself to support a conclusion that the redemption of the old debt and issuance of the new debt are separate transactions.

Deloitte's publication Issuer's Accounting for Debt (March 2023):

Example 10-2

Market Issuance of New Debt to Repay Outstanding Debt

On March 1, 20X4, Entity C engages a bank to place \$300 million of new debt into the market. Entity C plans to use the proceeds to repurchase some of its old debt. Given the interest rate environment and the company's financial condition, C believes that it can obtain a lower long-term financing cost by undertaking these transactions. Also assume that the following conditions exist:

- The old debt was redeemed in accordance with either (1) a preexisting early-redemption option in the original debt agreement or (2) a tender offer to all debt holders as opposed to a separately negotiated early redemption with one or more investors in the old debt.
- The issuance of new debt was facilitated by an agent (e.g., an underwriter) that offered the new debt to qualified investors in the marketplace, which may include (but would not be limited to) investors that held the old debt. None of the investors in the old debt were required to participate in the issuance of the new debt. In addition, the holders of the old debt were not involved in the negotiations of the terms and conditions of the new debt (unless one of the debt holders acted in a placement-agent capacity for the new debt).
- The purchase of new debt by investors that held the old debt was an investment decision that is separate from the redemption of the old debt.
- No preferential treatment was given to investors in the old debt (i.e., old and new investors were offered the same terms in the new debt offering).
- There was inherently going to be overlap between the investors in the old and new debt because a large number of investors in the marketplace held the old debt.
- New investors purchased more than an insignificant portion of the new debt.
- The cash inflows from the issuance of the new debt and the cash outflows from the repayment of the old debt occurred on a gross, as opposed to a net, basis.

- Entity C was not experiencing financial difficulties.

Given the above conditions, C is not required to apply ASC 470-50 to the portion of the old debt that has been redeemed and is held by investors in the new debt. Instead, it may apply extinguishment accounting to all of the old debt in accordance with ASC 405-20. It is also acceptable for C to apply ASC 470-50 on a creditor-by-creditor basis to the extent that the same investor(s) held old debt and purchased new debt. An entity's decision to apply extinguishment accounting to all of the old debt as opposed to applying ASC 470-50 on a creditor-by-creditor basis is an accounting policy election that must be consistently applied. Note the following about this example:

- If any of the above conditions are not met, C should apply the guidance on modifications and exchanges of debt in ASC 470-50. In other words, market issuances of debt that are treated separately from repayments of existing debt are limited to transactions that involve either the public issuance of debt or the private issuance of debt to qualified institutional investors in accordance with an exemption from registration with the SEC. Debt syndication transactions are not expected to qualify as market issuances of debt that are separate from repayments of existing debt.
- The above conditions focus only on whether it is acceptable to view the repayment of the old debt and issuance of new debt as separate transactions for accounting purposes. If the two transactions are treated separately C must still conclude that one of the conditions for extinguishment accounting in ASC 405-20-40-1 is met before it can derecognize the old debt. (The same is not true if the two transactions are treated as a modification or exchange, because a legal extinguishment of the modified or exchanged debt is not required in the application of debt extinguishment accounting under ASC 470-50.)

59. Ernst & Young's and PwC's publications also indicate that extinguishment accounting under Topic 405 can be applied in these transactions when the debt is public or private placement because the ability to identify the individual investors in such arrangements is difficult and generally the economics of these types of transactions are not reflective of a negotiated refinancing.

EY's publication Issuer's accounting for debt and equity financings (August 2023)

ASC 470-50-55-3 states that, for purposes of applying the debt modification guidance, the debt instrument is the individual security and the creditor is the security holder for a public debt issuance (defined as when a debtor issues a number of identical debt instruments to an underwriter that sells the debt instruments (in the form of securities) to various investors). If a modification or exchange offer were made to all investors and only some accepted, the debt modification guidance should be applied only to those investors. When an issuer refinances its public debt by repurchasing existing debt in the market and simultaneously issuing new public debt with different terms, there may be investors that both held the old debt and invested in the new debt, resulting in the contemporaneous exchange of cash between the same creditor and debtor as discussed in ASC 470-50-40-9. Determining this fact may be difficult given the number of potential investors involved. In addition, public debt repurchases through new public debt issuances are frequently not negotiated transactions between the debtor and the existing creditors. In certain cases, we believe it is reasonable that the old debt be viewed collectively as the entire public issuance with a deemed single creditor (i.e., the public, without regard to the individual investors) that is refinanced with another distinct single issuance (another public issuance) with a different creditor and that the transaction should be accounted for as an extinguishment without the application of the 10% cash flow test on either the entire issuance or at the individual creditor level. Said differently, the nature of a public-to-public refinancing with no indications of a negotiated economic outcome based on a mutually agreed-upon realignment of economic interests, would be one of extinguishment. Such a public-to-public

refinancing is likely to include the following characteristics: (1) no single investor or small group of investors holds a significant concentration of both the old and the new public debt issuances, (2) none of the old investors were included in negotiations with the underwriter in setting the terms of the new public debt issuance and (3) the old investors had the opportunity to participate in the new issuance in the same manner as new investors (i.e., the old creditors did not receive preferential treatment in terms of access to the offering or participation at a predetermined principal amount). The same concept may be applicable to a widely held private placement depending on the facts and circumstances, including whether the issuer can practically determine the identities of the old and new investors. The accounting for modifications or exchanges of existing public debt issuances should be based on the individual facts and circumstances and requires professional judgment.

PwC's publication Financing Transactions (December 2022)

There is no guidance on how to account for a refinancing of publicly traded debt securities that does not involve an exchange or modification offer (i.e., when a reporting entity issues new debt securities to investors, which potentially may include holders of the issuer's existing debt securities, and uses the proceeds to pay off existing publicly-traded debt securities potentially held by the same investors). If a literal interpretation of ASC 470-50-55-3 is applied, each individual investor should be evaluated to determine whether the individual investor holds both the new and old debt securities. When the debt securities are publicly traded, this determination may be impossible because the borrower is not privy to the ultimate lender information. In that case, we believe it is reasonable to consider the substance rather than the form of the transaction. Unless the facts and circumstances indicate otherwise, we believe it is reasonable to assume that the investors in a new publicly-traded debt security are not the same as the investors in an existing publicly-traded debt security; therefore, the refinancing of publicly-traded debt securities should be accounted for as an extinguishment. This guidance may also be applicable to private placement debt instruments (e.g., 144A bond offering) depending on the specific facts and circumstances and the information reasonably available with respect to the identities of the old and new investors. Similar accounting may be appropriate for "refunding" transactions on tax-exempt municipal bonds. If the tax-exempt municipal bond is widely held, it may be reasonable to conclude that an extinguishment has occurred.