FASB FINANCIAL ACCOUNTING STANDARDS BOARD

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Project	**Post-Implementation Review of Update 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments***
Project Stage	**Post-Effective Date Evaluation of Benefits and Costs**
Issue	**PCC Feedback**

Post-Implementation Review Process

1. The Post-Implementation Review (PIR) process is part of the Financial Accounting Foundation's (FAF) Board of Trustees' oversight responsibilities of the FASB. The PIR process assists the Trustees in evaluating the effectiveness of the standard-setting process for the FASB.

2. The PIR process is an evaluation of whether a standard is achieving its objective by providing investors and other allocators of capital (herein referred to as "investors") with relevant information in ways that justify the costs of providing it. It is an important quality control mechanism built into FASB's standard-setting process that begins after the issuance of select standards. During the PIR process, the FASB solicits and considers diverse stakeholder input and other research to evaluate the standards that are issued and whether there are areas of improvement that the Board should address.

3. The purpose of this session is to provide PCC members with an overview of the history of the credit losses project that led to the issuance of Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (CECL), and significant PIR activities performed to date. This includes information about why the FASB launched a project on credit losses following the global financial crisis in 2007.

4. In this session, PCC members will be asked to provide insights and observations on the Board's activities during the credit losses project, certain aspects of initially applying the guidance, and the benefits and costs of the ongoing application of the CECL standard.

5. This memo is organized as follows:

   (a) Section 1: History of the Credit Losses Project

   (b) Section 2: Expected Benefits and Expected Costs

Questions for the PCC
1. Do PCC members believe that the CECL standard achieved the expected benefits for financial statement users? Do PCC members have additional observations to share on what information on credit losses is being used (or not used) and how it is being used?
2. Do PCC members have additional observations to share on the initial and ongoing costs to comply with CECL? If so, please describe the nature of those costs (for example, systems, processes, and applying certain areas of guidance).

Section 1: History of the Credit Losses Project

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

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

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

2010 Proposed Update

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

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

11. Many respondents to the 2010 proposed Update agreed with recording the entire credit loss in the period estimated. Furthermore, revising the probable threshold for recognizing credit losses was widely supported. Many investors noted that the probable threshold that had existed for recognizing credit losses prevented financial institutions from recognizing credit losses that were imminent in 2007 and 2008. While most stakeholders supported the objective of a single impairment model, some asserted that the 2010 proposed Update retained three different impairment models (that is, one for pools, one for individual assets, and one for purchased assets). Additionally, stakeholders expressed concern about the requirement to assume that economic conditions as of the reporting date would remain

unchanged in the future because it would limit the information that is considered to past events and current conditions. Respondents noted that restricting the ability to include future conditions would generate significant volatility in the income statement and the amount of reserves would be procyclical (overstated reserves at the trough of a cycle and understated reserves at the peak of a cycle) and, thus, could have severe, unfavorable effects on the overall economy.

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

2011 Supplementary Document

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

14. The Board received more than 200 comment letters in response to the 2011 Supplementary Document. The FASB staff also performed extensive outreach with preparers, regulators, auditors, investors, and other interested parties during the comment period. Generally, preparers, and auditors supported developing an impairment model that would address the "too little, too late" concern. The procyclicality of reserving also was an overriding concern of those stakeholders. Furthermore, they supported moving away from the "probable" threshold that was required to recognize credit losses. Many respondents to the 2011 Supplementary Document indicated that the condition for when to transfer an asset between the good book and the bad book needed to be further refined for the proposed amendments to be operable. Some suggested that a bright line be established to promote consistent application. Many preparers and auditors noted that without stronger definitions of the important terms, the model would not be operable, auditable, or understandable, and comparability would not be achieved. Additionally, respondents said that the concept of "foreseeable future period" was vague and could lead to counterintuitive results (such as the foreseeable future being shortened during a downturn in the economy, thereby potentially decreasing the credit impairment allowance overall). Finally, many nonfinancial institutions stated that they do not manage their financial assets in the same way as financial institutions and, therefore, they found the good book and the bad book proposal unfamiliar and inconsistent with their current practices. In addition, preparers argued that reporting credit losses in a ratable fashion would not reflect actual loss experience, noting that the credit risk is greatest at origination and tapers down over the life of the asset. Those preparers also argued that ratably recognizing expected credit loss would not address the objective of addressing "too little, too late."

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

16. While developing application guidance for the three-bucket model, the Board received requests to clarify a number of principles in the model, including the Bucket 1 measurement objective and the "transfer criteria" that trigger a change in the measurement of credit losses. Many stakeholders viewed the proposed transfer criteria as reintroducing an incurred loss recognition threshold for a full lifetime loss estimate. From April 2012 through July 2012, the FASB staff and individual Board members held

detailed working sessions with stakeholders (including investors, preparers, auditors, and regulators) to address the application issues through additional clarifying guidance. Despite those efforts, stakeholders continued to express significant concerns about whether the three bucket impairment model was operable, auditable, and understandable. The most significant operability concerns related to the use of two different measurement objectives—a portion of total expected losses for some assets and a full measurement approach for assets that have exhibited significant deterioration since origination or acquisition. Concerns were raised about (a) the ambiguity of the criteria for determining which measurement objective to utilize, (b) the potential for earnings management relating to the timing of the transfers between measurement objectives, and (c) the potential "cliff effect" of moving from an approach that measures a portion of total expected losses for some assets to a full measurement approach, and vice versa. Many stated that the model would result in inconsistent application and would not provide investors with comparable or transparent results. Furthermore, investors expressed concern about interpreting any model that utilizes two different measurement objectives to arrive at the allowance for credit losses recognized on the balance sheet.

2012 Exposure Draft

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

18. The Board received significant input on the December 2012 proposed Update through comment letters and through direct outreach with numerous preparers, auditors, and investors. Since redeliberations began in July 2013, the Board received more than 360 comment letters. It also obtained feedback through investor meetings with more than 70 analysts and investors. In addition, the Board conducted 17 field visits with preparers (including multinational and domestic, financial and nonfinancial, and public and private institutions). The Board held various roundtables with preparers, investors, and regulators, and outreach was performed with 265 preparers, of which approximately 60 percent were small banks or credit unions. The Board considered this feedback during its redeliberations at public meetings held in 2013, 2014, 2015, and 2016. Topic 326, Financial Instruments—Credit Losses, is the result of those redeliberations.

Update 2016-13 (June 2016)

Basis for the Board's CECL Decisions

19. The Board decisions in the CECL standard are consistent the improvements made in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. Update 2016-01 amended certain recognition, measurement, and presentation guidance to provide more decision useful information about the carrying amount of financial instruments. The amendments in Update 2016-01 require that equity securities be measured at fair value, with changes in fair value included in net income in the period of the change, except for investments in consolidated subsidiaries and those that qualify for the equity method of accounting. The Board placed weight on the fact that equity securities have no maturity and that the primary way to realize their total value (beyond periodic dividends) is through sale. Thus, an entity is not required to record credit losses from other changes in fair value for these instruments because value ultimately is realized through sale (that is, the entity will not realize value only by collection). The same measurement attribute applies to all trading securities because value is expected through sale, and any credit losses are reflected through changes in fair value recorded in earnings. For that reason, financial instruments classified as trading and equity securities do not require a separate credit loss model.

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

21. The Board acknowledged that available-for-sale debt securities are recorded at fair value with changes in fair value included in other comprehensive income because under the measurement approach in Update 2016-01, an entity represents that it may realize the total value of the securities either through

collection or through sales of the securities. For these assets, a credit loss model is required to recognize in earnings any changes in fair value due to credit-related factors because those losses are expected to be realized regardless of whether the entity will realize value through collection or through sale. However, the Board decided that an allowance for credit losses on available-for-sale debt securities should be limited by the amount that fair value is less than amortized cost because an entity can sell its investment at fair value to avoid realization of credit losses.

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

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

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

net amortized cost balance in an entity's balance sheet should reflect the amount expected to be collected.

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

Transition Resource Group and Other FASB Staff Implementation Materials

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

27. Additionally, the FASB staff received questions on acceptable, practical methods to measure expected credit losses. Specifically, questions were raised about (a) whether the weighted-average remaining maturity (WARM) method was appropriate for smaller, less complex pools of assets and (b) using historical loss experience and reasonable and supportable forecasts to estimate expected credit losses. Regulated financial institutions, primarily community banks, credit unions, and bank industry groups, also raised broad concerns about complex statistical modeling associated with the implementation of CECL. In response, FASB Staff Q&A—Topic 326, No.1[1] was issued in January 2019 and FASB Staff Q&A—Topic 326, No. 2[2] was issued in July 2019 to support ongoing implementation efforts in practice. The FASB also hosted a Small Bank Roundtable meeting in February 2016 with representatives from community banks, credit unions, bank industry groups, regulators, and auditors. During that meeting,

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

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

the FASB discussed with participants their current processes for determining the allowance for credit losses and how those current processes reconcile with the new guidance. The Board also clarified that CECL does not require a uniform loss estimation method to be implemented by all entities. The Board emphasized the flexible and scalable nature of the standard and interagency regulators encouraged simple and practical implementation that should be tailored to the nature and complexity of each institution.

28. Following the issuance of CECL, the FASB supported the Federal Reserve and National Credit Union Administration with the development of spreadsheet tools[3] for CECL implementation by small institutions with non-complex loan portfolios. The FASB also participated in webinars hosted by bank regulators to support CECL implementation by their supervised entities.

2019 and 2021 Roundtables

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

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

Standard Setting

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

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

    (b) Accounting Standards Update No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in Update 2022-02

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

eliminate the TDR designation of a loan modification and the related accounting guidance in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors. Additionally, public business entities are required to include current-period gross writeoffs by year of origination with their vintage disclosures.[4]

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

(d) Accounting Standards Update 2025-08, *Financial Instruments—Credit Losses (Topic 326): Purchased Loans*. The amendments in Update 2025-08 expand the gross-up approach to purchased seasoned loans. Purchased seasoned loans are non-PCD loans, excluding credit cards, deemed seasoned[5] by the acquirer's assessment of its involvement with the origination of the loan. Currently under GAAP, only PCD assets are eligible to use the gross-up approach upon acquisition. Under the gross-up approach, an allowance for credit losses is initially recognized through an adjustment to the purchase price.

Section 2: Expected Costs and Expected Benefits

32. The following summarizes how the FASB considered the expected benefits and expected costs and concluded that the benefits of more timely measurement of expected credit losses justify the costs. Although the Board's due process procedures are designed to gather information about benefits and costs, the analysis is unavoidably more qualitative than quantitative.

Expected Benefits for Investors

33. On the basis of extensive due process and significant input received from investors and preparers, the Board concluded that the CECL standard will provide investors with more decision-useful information about the credit risk inherent in financial assets and the change in expected credit losses occurring

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[4] Gross writeoff information must be included in the vintage disclosures required for public business entities in accordance with paragraph 326-20-50-6, which requires that an entity disclose the amortized cost basis of financing receivables by credit quality indicator and class of financing receivable by year of origination.

[5] An entity that has adopted the amendments in Update 2025-08 is required to evaluate, on the acquisition date, its involvement with the origination of a loan before it obtains the loan through a transfer. Loans transferred in a business combination accounted for using the acquisition method under Subtopic 805-20, Business Combinations, Identifiable Assets and Liabilities, and Any Noncontrolling Interest, are deemed purchased seasoned loans. Loans transferred through a transaction not accounted for using the acquisition method under Subtopic 805-20 are purchased seasoned loans when the transfer is completed at least 90 days after the loan origination date and the acquirer had no involvement with the origination. The transfer of a loan that is not classified as a purchased seasoned loan is accounted for like a loan originated by the acquirer. The seasoning guidance in Update 2025-08 is designed to align the initial recognition and measurement of acquired loans for economically comparable transactions.

during the period. The Board developed the amendments in the CECL standard to provide investors with relevant information. The Board expected the updated guidance to accomplish the following:

(a) Result in an earlier measurement of credit losses

(b) Result in greater transparency about the extent of expected credit losses on financial assets held at the reporting date

(c) Improve an investor's ability to understand the realizability of assets held at each reporting period

(d) Improve an investor's ability to understand changes in expected credit losses that have taken place during the period

(e) Improve an investor's ability to understand purchased financial assets with credit deterioration by enhancing the comparability of the reporting with that of originated assets, while also reducing the cost and complexity of accounting for those assets

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

Expected Cost for Preparers

34. The objective of the CECL standard is to provide investors with more decision-useful information about the expected credit losses on financial assets and other commitments to extend credit held by a reporting entity at each reporting date. The combined effect of delayed recognition until credit losses were probable and diversity in application of the "probable" threshold resulted in a misalignment between accounting standards and the market's perception of credit risk as evidenced by a significant disparity in market value as compared with book value of creditors, which was most evident in stressed economic environments. As a result, investors supported an approach for the allowance for credit losses based on management's expectations of credit losses over the contractual life of the financial assets (considering the effect of prepayments) with an explanation of inputs and assumptions and changes in those inputs and assumptions from the prior reporting period. Also, recognizing the subjective nature of estimating credit losses, investors supported additional disclosures that would facilitate investors' assessment of management's initial credit loss estimate for newly originated loans as well as subsequent changes to those estimates.

35. The Board recognized that such an approach may require significant effort for many entities to gather the necessary data and prepare, review, audit, and examine financial statements. The Board sought to minimize the cost of implementing the credit loss guidance and its complexity by developing an approach that:

(a) Permits an entity to utilize its current internal credit-risk management approaches and systems as a framework for applying the new measurement objective

(b) Does not include multiple measurement objectives that would have required different measures of credit losses depending on whether credit deterioration for financial assets has occurred for assets measured on an amortized cost basis

(c) Does not prescribe specific estimation methods to be used in any specific circumstance but, rather, allows an entity to apply judgment to develop estimation methods that are appropriate, practical, and consistent with the principles of the guidance

(d) Does not change the guidance for writing off uncollectible assets

(e) Does not change interest income reporting for originated loans on the basis of feedback received that preparers manage and investors seek separate reporting of credit risk and interest income separately

(f) Requires that an entity consider forward-looking information rather than limit consideration to current and past events, at the date of the statement of financial position

(g) Scales appropriately for smaller entities or entities with limited effects from the credit loss guidance

(h) Allows an entity to revert to historical loss information, with a straight line or immediate reversion both being acceptable methods if the expected contractual term of financial assets goes beyond periods for which reasonable and supportable forecasts can be obtained

(i) Makes targeted improvements to the impairment of available-for-sale debt securities, which was supported by both investors and preparers

(j) Provides transition relief for a prospective transition approach for assets for which the guidance in previous GAAP (Subtopic 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality) had been applied and for assets for which an other-than-temporary impairment had been recognized before the effective date.

36. Some stakeholders were also of the view that the CECL standard would impose an economic cost on preparers because recording the full estimate of expected losses may inhibit lending, particularly to less creditworthy borrowers or during an economically stressed environment. However, the Board concluded that the guidance in the CECL standard does not change the economics of lending. In other words, the same loss ultimately will be recorded, regardless of the accounting requirements. The CECL standard includes measurement guidance—not recognition guidance—and the recognition event occurs when the financial asset is initially recorded. Recording expected credit loss then becomes a matter of timing; the ultimate amount realized on a financial asset never changes.