

Proposed Accounting Standards Update

Issued: September 23, 2026

Comments Due: November 9, 2026

**Transfers and Servicing—Servicing Assets
and Liabilities (Subtopic 860-50)**

Mortgage Servicing Rights—Recapture

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 860 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to

director@fasb.org, or sending a letter to “Technical Director,

File Reference No. 2026-ED600, FASB, 801 Main Avenue,

PO Box 5116, Norwalk, CT 06856-5116.”

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until November 9, 2026. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to director@fasb.org, File Reference No. 2026-ED600
- Sending a letter to “Technical Director, File Reference No. 2026-ED600, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at www.fasb.org.

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

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Proposed Accounting Standards Update
Transfers and Servicing—Servicing Assets
and Liabilities (Subtopic 860-50)
Mortgage Servicing Rights—Recapture
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Summary and Questions for Respondents

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

The Board is issuing this proposed Update to specify that an entity should include the value attributable to recapture when measuring the right to service a residential mortgage loan (a residential mortgage servicing right [MSR]) under Subtopic 860-50, Transfers and Servicing—Servicing Assets and Liabilities.

Recapture refers to a mortgage servicer's ability to solicit a borrower to refinance an existing mortgage loan and retain the servicing rights on the new loan. In this way, the servicer can preserve some or all of the economic benefit of servicing when the existing loan is prepaid through refinancing. Because market participants generally assign value to recapture, that value is often reflected in the prices paid for residential MSRs. However, Subtopic 860-50 does not specifically state whether recapture should be included in the measurement of a residential MSR, which has resulted in diversity in practice and reduced comparability.

To address stakeholder concerns, the amendments in this proposed Update would require that the effects of recapture be included when measuring a residential MSR by specifying that an entity must value all rights and obligations associated with a mortgage servicing contract, including recapture, in accordance with Topic 820, Fair Value Measurement.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to all entities that recognize residential MSRs under Subtopic 860-50. The proposed amendments would not affect other servicing assets or liabilities recognized under Subtopic 860-50.

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

Current GAAP does not explicitly address whether the value attributable to recapture should be included when measuring a residential MSR. The amendments in this proposed Update would specify that an entity must value all rights and obligations associated with a residential mortgage servicing contract in accordance with Topic 820 when measuring a residential MSR, including the effects of recapture.

The amendments in this proposed Update would (1) increase transparency by aligning the measurement of residential MSRs with how they are priced in the marketplace and (2) improve consistency and comparability across entities by reducing diversity in how servicers consider recapture in their residential MSR valuations.

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

An entity would be required to apply the amendments in this proposed Update using a modified prospective approach that would require that the entity apply the proposed amendments to all residential MSRs outstanding as of the beginning of the period of adoption, with a cumulative-effect adjustment (if applicable) to the opening balance of retained earnings as of the date of adoption. Therefore, an entity would apply the proposed amendments to its existing residential MSRs as follows:

1. Residential MSRs subsequently accounted for under the fair value measurement method would be remeasured as of the beginning of the period of adoption using fair value as determined in accordance with the proposed amendments.
2. Residential MSRs subsequently accounted for under the amortization method would be evaluated and measured for impairment as of the beginning of the period of adoption using fair value as determined in accordance with the proposed amendments.

Early adoption would be permitted in an interim or annual reporting period, provided that an entity that adopts the amendments in this proposed Update in an interim reporting period would be required to adopt the proposed amendments as of the beginning of the annual reporting period that includes that interim reporting period.

The effective date will be determined after the Board considers stakeholder feedback on the amendments in this proposed Update.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Scope

Question 1: Is the scope of the amendments in this proposed Update clear and operable? Do you anticipate any auditing challenges? Please explain why or why not.

Question 2: Should the proposed amendments apply to other servicing assets and liabilities within the scope of Subtopic 860-50 (for example, servicing assets and liabilities related to commercial loans, credit card receivables, automobile loans, and student loans)? Please explain why or why not.

Question 3: The proposed amendments do not define a residential mortgage loan. Is additional guidance needed to describe the types of residential MSRs that would be within the scope of the proposed guidance? For example, should a residential mortgage loan be defined as related to a single-family residential mortgage only? Please explain why or why not.

Measurement of a Residential MSR

Question 4: Would the proposed amendments to include the value attributable to recapture when measuring a residential MSR provide decision-useful

information and improve comparability? Are the proposed amendments clear and operable? Do you anticipate any auditing challenges? Please explain why or why not.

Transition and Effective Date

Question 5: Are the proposed transition requirements operable? If not, why not, and what transition method would be more appropriate and why? Would the proposed transition disclosures be decision useful? Please explain why or why not.

Question 6: How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Please explain why or why not. If so, how much additional time would you recommend for entities other than public business entities?

Question 7: The proposed amendments would permit early adoption. Do you agree that early adoption should be permitted at any time before the effective date? Please explain why or why not.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck-out~~.

Amendments to Master Glossary

2. Add the Master Glossary term *Fair Value* to Subtopic 860-50 as follows:

Fair Value (second definition)

The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.

Amendments to Subtopic 860-50

3. Amend paragraphs 860-50-30-1, 860-50-35-1, 860-50-35-17, 860-50-40-6, 860-50-45-2, 860-50-50-1, and 860-50-55-5 and add paragraphs 860-50-30-10 and its related heading and 860-50-35-1B, with a link to transition paragraph 860-50-65-1, as follows:

Transfers and Servicing—Servicing Assets and Liabilities

Initial Measurement

860-50-30-1 An entity shall initially measure at {add glossary link to 2nd definition} fair value {add glossary link to 2nd definition}, a **servicing asset** or **servicing liability** that qualifies for separate recognition regardless of whether explicit consideration was exchanged.

> Servicing Assets and Servicing Liabilities for Residential Mortgage Loans

860-50-30-10 When measuring a servicing asset or a servicing liability related to a residential mortgage loan at fair value, an entity shall include all of the servicer's rights and obligations associated with that contract (for example, including the ability to solicit a borrower of an underlying residential mortgage loan for refinancing), unless those rights and obligations are required to be recognized separately (for example, in accordance with paragraphs 860-50-25-6 through 25-7).

Subsequent Measurement

860-50-35-1 An entity shall subsequently measure each class of **servicing assets** and **servicing liabilities** using either of the following methods:

- a. Amortization method. Amortize servicing assets or servicing liabilities in proportion to and over the period of estimated net servicing income (if servicing revenues exceed servicing costs) or net servicing loss (if servicing costs exceed servicing revenues), and assess servicing assets or servicing liabilities for impairment or increased obligation based on {add glossary link to 2nd definition}fair value{add glossary link to 2nd definition} at each reporting date.
- b. Fair value measurement method. Measure servicing assets or servicing liabilities at fair value at each reporting date and report changes in fair value of servicing assets and servicing liabilities in earnings in the period in which the changes occur.

860-50-35-1B When measuring the fair value of a servicing asset or a servicing liability related to a residential mortgage loan for purposes of assessing impairment under the amortization method or applying the fair value measurement method, an entity shall apply the guidance in paragraph 860-50-30-10.

> Obligation to Service Refinanced Mortgage Loans

860-50-35-17 When an entity that is servicing mortgage loans refinances a mortgage loan that is being serviced (resulting in prepayment of the old mortgage loan and origination of a new mortgage loan), the entity shall not consider the estimated future net servicing income (that is, servicing revenue in excess of servicing costs) from the new mortgage loan in determining how to amortize any capitalized cost related to acquiring the mortgage servicing asset for the old mortgage loan. ~~The mortgage servicing asset represents a~~

~~contractual relationship between the servicer and the investor in the mortgage loan, not between the servicer and the borrower.~~

Derecognition

> Overall

860-50-40-6 The criteria in paragraphs 860-50-40-2 through 40-4 apply to transfers of servicing rights relating to loans previously sold and to transfers of servicing rights relating to loans that are retained by the transferor. The carrying amount of servicing rights sold relating to loans that have been retained shall be allocated at the date of sale between the servicing rights and the loans retained using relative **{add glossary link to 2nd definition}** fair values **{add glossary link to 2nd definition}**.

Other Presentation Matters

860-50-45-2 To accomplish that separate reporting, an entity may do either of the following:

- a. Display separate line items for the amounts that are subsequently measured using the fair value measurement method and amounts that are subsequently measured using the amortization method
- b. Present the aggregate of those amounts that are subsequently measured at **{add glossary link to 2nd definition}** fair value **{add glossary link to 2nd definition}** and those amounts that are subsequently measured using the amortization method (see paragraphs 860-50-35-9 through 35-11) and disclose parenthetically the amount that is subsequently measured at fair value that is included in the aggregate amount.

Disclosure

> All Entities within the Scope of Subtopic

860-50-50-1 This Section is organized as follows:

- a. All **servicing assets** and **servicing liabilities**

- b. Servicing assets and servicing liabilities subsequently measured at {add glossary link to 2nd definition}fair value{add glossary link to 2nd definition}
- c. Servicing assets and servicing liabilities subsequently amortized
- d. Servicing assets and servicing liabilities for which subsequent measurement at fair value is elected as of the beginning of the fiscal year.

For overall guidance on Topic 860's disclosures, see Section 860-10-50.

Implementation Guidance and Illustrations

> Implementation Guidance

• > Recognition of Servicing Assets and Servicing Liabilities

• • > Servicer Is Not Entitled to Receive a Contractually Specified Servicing Fee

860-50-55-5 The following guidance addresses whether an entity should recognize a servicing liability if it transfers all or some of a **financial asset** that meets the definition of a participating interest that is accounted for as a sale and undertakes an obligation to service the asset but is not entitled to receive a contractually specified servicing fee. In the circumstances described, the transferor-servicer would be required to recognize a servicing liability at {add glossary link to 2nd definition}fair value{add glossary link to 2nd definition} if the benefits of servicing are less than **adequate compensation**. The requirements in paragraph 860-50-25-1 apply even if it is not customary to charge a contractually specified servicing fee. Example 1, Case C (paragraph 860-50-55-25) illustrates a transaction in which a transferor agrees to service loans without explicit compensation.

4. Add paragraph 860-50-65-1 and its related headings as follows:

Transition and Open Effective Date Information

General

> Transition Related to Accounting Standards Update No. 202X-XX, Transfers and Servicing—Servicing Assets and Liabilities (Subtopic 860-50): Mortgage Servicing Rights—Recapture

860-50-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 202X-XX, *Transfers and Servicing—Servicing Assets and Liabilities (Subtopic 860-50): Mortgage Servicing Rights—Recapture*:

Effective date and early adoption

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

Transition methods

- c. An entity shall apply the pending content that links to this paragraph to any servicing asset and servicing liability related to a residential mortgage loan that is outstanding as of the beginning of the period of adoption, as follows:
 - 1. Servicing assets and liabilities subsequently measured using the fair value measurement method shall be measured at fair value as determined in accordance with the pending content that links to this paragraph as of the beginning of the annual reporting period in which the pending content is adopted, with a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position)
 - 2. Servicing assets and liabilities subsequently measured using the amortization method shall be evaluated and measured for impairment consistent with the requirements in this Subtopic as of the beginning of the annual reporting period in which the pending content that links to this paragraph is adopted, with a cumulative-effect adjustment (if applicable) to the opening balance of retained earnings (or other appropriate components of equity or net assets in

the statement of financial position). For the purposes of evaluating impairment, an entity shall measure fair value as determined in accordance with the pending content that links to this paragraph.

Transition disclosures

- d. An entity shall disclose the nature of and reason for the change in accounting principle, the method of applying the change, and the cumulative effect of the change on retained earnings (or other components of equity or net assets in the statement of financial position) as of the beginning of the annual reporting period in which the pending content that links to this paragraph is adopted in both the interim reporting period (if applicable) and the annual reporting period of the change.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board.

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Frederick L. Cannon
Susan M. Cospers
Marsha L. Hunt
Dr. Joyce T. Joseph
Catherine M. Shakespeare

Background Information and Basis for Conclusions

Introduction

BC1. The Emerging Issues Task Force (EITF) Agenda Committee added a project to the EITF's agenda to address how recapture rights should be considered when measuring a residential mortgage servicing right (MSR). Stakeholders have noted that Subtopic 860-50, Transfers and Servicing—Servicing Assets and Liabilities, does not specifically state whether recapture should be included in the measurement of a residential MSR, which has resulted in diversity in practice and reduced comparability.

BC2. The EITF discussed the issue, developed a proposed solution, and recommended that the Board add a project to its technical agenda to address how an entity should consider recapture when accounting for residential MSRs. Specifically, the EITF recommended that a residential MSR and recapture should be treated as a single unit of account and, therefore, the effects of recapture should be included when measuring a residential MSR.

BC3. The following summarizes the EITF's considerations in reaching its recommendation and the Board's basis for supporting the amendments in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

Servicing Assets and Liabilities

BC4. The servicing of financial assets, such as mortgage loans, credit card receivables, and automobile loans, refers to the operational activities required to manage those assets and commonly includes collecting payments from borrowers, monitoring delinquencies, temporarily investing funds pending distribution, and managing escrowed funds. While servicing is inherent in all financial assets, servicing assets and liabilities themselves represent executory contracts and are not financial assets.

BC5. Subtopic 860-50 provides guidance on the accounting for servicing assets and liabilities (collectively, “servicing assets,” unless the distinction between a servicing asset and a servicing liability is relevant). Under that Subtopic, an entity recognizes a servicing asset in either of the following circumstances:

- a. It acquires a servicing right without the related financial asset (referred to as an “acquired servicing asset” or “acquired residential MSR” in the context of residential MSRs).
- b. It retains the right to service a transferred financial asset in a transfer that qualifies for sale accounting under Topic 860 (referred to as a “retained servicing asset” or “retained residential MSR” in the context of residential MSRs).

BC6. Under Subtopic 860-50, an entity initially measures a servicing asset at fair value and subsequently measures that asset using either of the following methods:

- a. *Fair value measurement method.* A servicing asset is remeasured at fair value at each reporting date, with changes in fair value recognized in earnings.
- b. *Amortization method.* A servicing asset is amortized in proportion to, and over the period of, estimated net servicing income and assessed for impairment on the basis of fair value at each reporting date.

Residential MSRs

BC7. A residential MSR represents a contractual right to service an underlying residential mortgage loan. Recapture refers to a servicer’s ability to solicit borrowers of an underlying loan for refinancing. This allows the servicer to retain the economic benefit that is lost if the loan is prepaid and refinanced through the servicing of the new loan. While the ability to recapture may exist in other types of loans, it is most prevalent within residential mortgage loans, which are primarily fixed-rate instruments without prepayment penalties, because of their sensitivity to prepayment and interest rate risks. Stakeholders have observed that market participants typically ascribe value to recapture for residential mortgage loans and, as a result, recapture is often included in the transaction prices that entities pay (or demand) when buying (or selling) residential MSRs.

BC8. While Subtopic 860-50 indicates that an entity should measure a residential MSR at fair value, it does not explicitly address how to consider the value attributable to recapture when measuring a residential MSR, resulting in diversity in practice and reduced comparability. In particular, stakeholders highlighted diversity related to (a) the initial measurement of an acquired residential MSR (recapture is generally included) versus the initial measurement of a retained residential MSR (recapture may or may not be included) and (b) whether and how recapture is incorporated in the subsequent measurement of a residential MSR (some entities may exclude recapture, some entities may include recapture as an explicit input, and some entities may include recapture by implicitly adjusting other valuation assumptions).

Benefits and Costs

BC9. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the benefits and costs of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC10. On the basis of the EITF discussions, the Board expects that the amendments in this proposed Update would improve the decision usefulness of the financial reporting information provided to investors by (a) increasing transparency through aligning the measurement of residential MSRs with how market participants consider the economic effects of recapture in transaction pricing and (b) increasing consistency and comparability across entities and between the accounting for acquired and retained residential MSRs.

BC11. The Board does not anticipate that entities would incur significant costs to implement the amendments in this proposed Update because the proposed amendments are narrowly focused and generally align with how many residential MSRs are currently valued. Additionally, the Board expects that the

adoption of the proposed amendments would involve limited incremental operational complexity or ongoing compliance costs.

BC12. For these reasons, the Board concluded that the expected benefits of the amendments in this proposed Update would justify the expected costs.

Basis for Conclusions

Scope

BC13. The EITF recommended and the Board agreed that the amendments in this proposed Update would apply to all entities with residential MSRs recognized in accordance with Subtopic 860-50.

BC14. The EITF considered whether the proposed scope should apply to residential MSRs only or to all servicing assets within the scope of Subtopic 860-50 (for example, servicing assets related to commercial loans, credit card receivables, automobile loans, and student loans). EITF members generally agreed that the issue raised by stakeholders was specific to residential MSRs and that expanding the scope of the proposed guidance to all servicing assets within the scope of Subtopic 860-50 could be overly broad and potentially have unintended consequences. EITF members also discussed that recapture is not currently a significant factor in the valuation of other types of servicing assets. For example, servicing assets related to commercial loans and other financial assets are generally less sensitive to prepayment and interest rate risks because the underlying loans are variable-rate loans or have significant prepayment penalties or both.

BC15. However, some EITF members noted that the amendments in this proposed Update could be applied to all servicing assets; therefore, those EITF members questioned why the scope would be limited to residential MSRs. Additionally, some EITF members noted that if market conditions changed and recapture became more significant to other types of servicing assets, diversity in practice for how those assets are measured could develop, similar to the diversity in practice currently observed for residential MSRs.

BC16. The Board agreed with the EITF's views and noted that the proposed scope is sufficiently narrow to address the specific issue identified by stakeholders. However, consistently with comments from some EITF

members, the Board expressed an interest in understanding whether the scope of the amendments in this proposed Update should apply more broadly to all servicing assets. Some Board members also questioned whether additional guidance is needed for a scope that is limited to residential MSR. In particular, those Board members questioned whether a residential MSR should be defined as the right to service single-family residential mortgages only or whether it also should include the right to service multifamily residential mortgages, which may be less sensitive to prepayment and interest rate risks and, therefore, to recapture. As a result, the Board decided to include questions in this proposed Update to solicit stakeholder feedback on whether the proposed amendments should be expanded to all servicing assets and whether additional guidance is needed to clarify the scope of the proposed amendments.

BC17. Additionally, because the guidance in Subtopic 860-50 applies to all entities and because residential MSR are held by a wide range of financial institutions, including public business entities and entities other than public business entities, the EITF recommended and the Board agreed that the amendments in this proposed Update should apply to all entities.

Initial Measurement

BC18. The EITF recommended and the Board agreed that recapture and a residential MSR are a single unit of account and, therefore, the value attributable to recapture should be included when measuring a residential MSR. Additionally, the EITF recommended and the Board agreed that recapture should not be defined and that the term *fair value* in Subtopic 860-50 should be linked to Definition 2 of the Master Glossary term. Therefore, as a result of these decisions, the amendments in this proposed Update would require that an entity value all rights and obligations associated with a mortgage servicing contract, including the value attributable to recapture, in accordance with Topic 820, Fair Value Measurement, when measuring the right to service a residential mortgage loan, unless those rights and obligations are required to be accounted for separately under GAAP.

Unit of Account

BC19. The EITF considered three alternatives related to unit of account:

- a. One unit of account (that is, recapture and a residential MSR are a single unit of account and, as a result, recapture would be included in the measurement of a residential MSR)
- b. Two units of account (that is, recapture and a residential MSR are separate units of account that are accounted for separately and, as a result, recapture would be excluded in the measurement of a residential MSR)
- c. Two units of account that are combined as a single asset for financial reporting purposes if the separate units of account qualify for recognition as an asset under GAAP (that is, recapture and a residential MSR are separate units of account that are accounted for separately, unless recapture and the residential MSR both qualify for recognition as an asset, in which case recapture would be included in the measurement of a residential MSR).

BC20. EITF members noted that a single-unit-of-account approach would be less complex to apply and would improve consistency and comparability in financial reporting. EITF members also observed that market participants generally price residential MSRs to reflect the effects of recapture and, therefore, a single-unit-of-account approach would align the measurement of a residential MSR with transaction prices, resulting in more decision-useful information. Additionally, some EITF members indicated that there is limited benefit to disaggregating a residential MSR into separate components for financial reporting purposes when those components are not separately transacted in practice.

BC21. Some EITF members acknowledged the benefits of a two-unit-of-account approach that would require separate recognition because recapture represents a relationship between the servicer and the borrower, whereas a residential MSR represents a relationship between the servicer and the lender of the underlying residential mortgage. However, those EITF members also observed that residential mortgage servicing contracts that explicitly or implicitly permit recapture are more valuable in the market than those contracts that prohibit recapture. In their view, that difference suggests that the economic benefit of recapture arises from contractual rights embedded in the residential mortgage servicing contract. Some EITF members also observed that when measuring a residential MSR under current GAAP, entities are already permitted to include other cash flows that are unrelated to a relationship between the servicer and the lender (for example, float, which refers to a

servicer's right to short-term investment proceeds earned from investing cash payments before distributing that cash to the lender).

BC22. Most EITF members did not support the alternative that would combine two units of account into a single asset for financial reporting purposes if the separate units of account qualified for recognition as an asset because that would result in acquired and retained residential MSR being accounted for differently. This is because the relationship that provides the servicer with the ability to recapture is internally generated in a retained residential MSR and internally generated intangibles generally are not recognized as assets under GAAP. EITF members said that accounting for acquired and retained residential MSR differently would (a) not be supported by investors and (b) reduce comparability within an entity and across entities because some entities hold both types of residential MSR.

BC23. One EITF member expressed concern about how a residential MSR accounted for under the fair value measurement method would be subsequently measured under a one-unit-of-account view when the value of the recapture right was realized through the refinancing of a serviced residential mortgage loan. To address that concern, that EITF member suggested clarifying that a residential MSR and recapture are separate units of account that are combined into a single asset for financial reporting purposes, regardless of whether the residential MSR is acquired or retained. Other EITF members did not share that concern, noting that the fair value of a residential MSR appropriately declines when the right to recapture (the right to obtain a new residential MSR) has been realized. Those EITF members also indicated that the subsequent measurement concern would not outweigh the benefits of a single-unit-of-account approach, including reduced complexity and more consistent financial reporting.

BC24. The Board agreed with the EITF's views that recapture and a residential MSR are a single unit of account. The Board observed that the value attributable to recapture is reflected in transaction prices observed in the marketplace. The Board also noted that market participants generally consider recapture to be an inherent attribute of a residential mortgage servicing contract and directly attributable to, and embedded within, the servicing contract. Additionally, the Board noted that the current diversity in practice has led to reduced comparability and, in some cases, residential MSR being reported at amounts that do not fully reflect the underlying economics.

BC25. The Board notes that the requirement to account for a residential MSR and recapture as a single unit of account would not change the accounting for other rights and obligations in a mortgage servicing contract that are required to be accounted for separately. For example, paragraphs 860-50-25-6 through 25-7 provide guidance for when an entity should separately account for a right to future interest income from serviced assets as an interest-only strip. Additionally, an entity might need to consider whether a promise in a mortgage servicing contract to provide the lender of an underlying residential mortgage loan with services that are unrelated to the servicing of that mortgage loan should be accounted for separately.

Whether to Define Recapture

BC26. Stakeholders indicated that there is diversity in practice related to which cash flows an entity uses in its valuation models to reflect recapture. Additionally, stakeholders noted that access to information about the borrowers of the underlying residential mortgage loans provides the servicer with other cross-selling opportunities in addition to recapture (referred to as “other value beyond recapture”).

BC27. On the basis of that feedback, the EITF considered whether the amendments in this proposed Update should define which cash flows an entity should include when measuring recapture and how to consider other value beyond recapture.

BC28. Some EITF members indicated that defining recapture would be necessary if the Board wanted other value beyond recapture to be excluded from the measurement of a residential MSR. However, in the view of those EITF members, this outcome would be inconsistent with a requirement to recognize the rights embedded in a residential mortgage servicing contract as a single unit of account. Therefore, those EITF members said that an entity should value a residential MSR on the basis of the fair value of the residential mortgage servicing contract.

BC29. The EITF also considered that the term *fair value* in Subtopic 860-50 is not linked to a Master Glossary term and that, regardless of whether recapture is defined, the amendments in this proposed Update should link the term *fair value* in Subtopic 860-50 to Definition 2 of the Master Glossary term. Fair value (Definition 2) is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market

participants at the measurement date” and originated from FASB Statement No. 157, *Fair Value Measurements* (now codified in Topic 820).

BC30. Some EITF members observed that linking the term *fair value* in Subtopic 860-50 to Definition 2 of that Master Glossary term would mean that an entity would have to use the fair value framework in Topic 820 and, as a result, other value beyond recapture would only be included if a market participant is willing to pay for that value. Additionally, one EITF member observed that if the market evolves, it would be challenging to define all the rights (cash flows) that a market participant could be willing to pay for, which could result in amounts recognized in GAAP that differ from market-based measurements. Therefore, these EITF members did not support defining recapture and said that an entity should value the residential mortgage servicing contract on the basis of what a market participant is willing to pay for that contract.

BC31. The EITF also agreed that defining recapture would introduce unnecessary complexity into the guidance and would be inconsistent with the principles-based framework in Topic 820 that requires that an entity apply judgment in selecting appropriate assumptions and methodologies. Additionally, GAAP does not define other assumptions used to value residential MSRs.

BC32. The Board agreed with the EITF’s recommendation for the reasons noted above.

Subsequent Measurement

Amortization

BC33. Under current GAAP, an entity that uses the amortization method to subsequently measure its residential MSRs is required to exclude future servicing fees from refinanced residential mortgage loans in determining how to amortize the capitalized cost of a residential MSR. Therefore, the effects of recapture are excluded when determining how to amortize a residential MSR. The EITF considered whether that amortization guidance should be amended as a result of the decision to include recapture when measuring a residential MSR.

BC34. The EITF recommended and the Board agreed that the amortization guidance in Subtopic 860-50 should not be amended. Some EITF members observed that the value attributable to recapture is realized through the servicing contract and that the ability to recapture does not extend beyond the existing MSR. Accordingly, EITF members and the Board concluded that the current amortization guidance that requires an entity to exclude the effects of recapture when determining amortization would continue to be appropriate.

BC35. Related to its decision that recapture and a residential MSR are a single unit of account, the Board also decided to remove the final sentence in paragraph 860-50-35-17.

Disclosure

BC36. Some stakeholders indicated that additional disclosures may be needed if recapture is required to be included when measuring a residential MSR to help investors understand (a) what amount of the residential MSR value relates to recapture, (b) whether there are any unique terms in a servicing contract that affect an entity's ability to benefit from recapture, and (c) how successful an entity is in recapture activities.

BC37. After considering the current disclosure requirements in Subtopic 860-50 and Topic 820, the EITF recommended, and the Board agreed, not to require additional disclosures.

BC38. EITF members observed that the current disclosure requirements in Subtopic 860-50 and Topic 820 should provide investors with sufficient information to understand the effects of recapture on an entity's valuation model when those effects are material. Moreover, EITF members noted that linking the term *fair value* in Subtopic 860-50 to Definition 2 of the Master Glossary term would create a clearer connection to the requirements in Topic 820, including the related fair value disclosure requirements. One EITF member also observed that because recapture would not be separately recognized under the amendments in this proposed Update, it would not be decision useful to require separate disclosure of the value attributable to recapture. In addition, another EITF member indicated that requests for additional disclosures related to entity-specific performance considerations (such as how successful an entity is at recapture) would be more appropriately

provided outside the financial statements and footnotes (for example, in Management's Discussion and Analysis).

BC39. The Board agreed with the EITF's views. The Board observed that recapture is a component in determining the fair value of a residential MSR and, therefore, Subtopic 860-50 and Topic 820 provide relevant information for investors to understand the significant inputs and assumptions used by an entity when valuing recapture.

Transition, Early Adoption, and Effective Date

BC40. An entity would be required to apply the amendments in this proposed Update using a modified prospective approach. Under that approach, an entity would apply the proposed amendments to all residential MSRs outstanding as of the beginning of the period of adoption, with a cumulative-effect adjustment (if applicable) to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the adoption date. This would mean the following:

- a. *Fair value measurement method.* Existing residential MSRs subsequently accounted for at fair value would be remeasured as of the adoption date using fair value as determined in accordance with the proposed amendments.
- b. *Amortization method.* Existing residential MSRs subsequently amortized would be assessed for impairment as of the adoption date, consistent with the requirement in Subtopic 860-50 to assess servicing assets for impairment at each reporting date. For the purpose of performing this assessment, an entity would use fair value as determined in accordance with the proposed amendments and would follow the requirements in Subtopic 860-50 for assessing and measuring impairment, including evaluating whether a change in fair value results in the decrease of a previously recognized valuation allowance. The Board expects there to be limited impairments because including recapture generally should increase the value of a residential MSR.

BC41. The Board expects that a modified prospective approach would provide useful information to investors because it would provide information about the transition adjustment, while mitigating unnecessary implementation costs and complexity for preparers. However, the Board noted that, similar to observations made by some EITF members, the amendments in this proposed

Update may not result in significant changes upon adoption because recapture is one component in the fair value measurement of residential MSRs and some entities already include recapture in their measurement of residential MSRs.

BC42. With respect to transition disclosures, the Board considered the disclosure requirements in Topic 250, Accounting Changes and Error Corrections, and its decision to require a modified prospective transition approach. The Board decided that an entity would be required to disclose the nature of and reason for the change in accounting principle, the method of applying the change, and the cumulative effect of the change on retained earnings (or other components of equity or net assets in the statement of financial position) as of the adoption date in both the interim reporting period (if applicable) and the annual reporting period of the change.

BC43. The Board decided to permit early adoption in interim and annual reporting periods in which financial statements have not been issued or made available for issuance. An entity adopting the amendments in this proposed Update in an interim reporting period would be required to apply them as of the beginning of the annual reporting period that includes that interim reporting period, consistent with the requirements in paragraph 250-10-45-14.

BC44. The Board decided to permit early adoption so that entities that are prepared to adopt the proposed amendments may do so. Additionally, while acknowledging concerns about reduced comparability between entities that early adopt and those that do not, the Board noted that reduced comparability is already a challenge in the financial reporting for residential MSRs because of the current diversity in practice.

BC45. The Board will determine the effective date after it considers stakeholder feedback on the amendments in this proposed Update.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.