

Heads Up

In This Issue:

- New Disclosure Requirements
- Effective Date and Transition
- Appendix — Proposed Disclosures

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FASB Proposes Expanding Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses.

by Nedra Downing and John Sarno, Deloitte & Touche LLP

On June 24, 2009, the FASB issued an Exposure Draft of a proposed Statement, *Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The Exposure Draft is in response to concerns from financial statement users that the current disclosure framework for financing receivables and the allowance for credit losses is inadequate and lacks sufficient transparency. Accordingly, the Exposure Draft would enhance the disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses, and would help lead to greater transparency in an entity's allowance accounting policies. Have thoughts on the proposed Statement? Comments are due by August 24, 2009.

Bear in mind that the proposed Statement's scope is **not limited** to financial institutions, although many entities that will be affected by the proposed Statement already provide much of their information about financing receivables and allowance for credit losses to U.S. banking and securities regulators. That is, the proposed Statement applies to all financing receivables held by both public and nonpublic entities. Examples of financing receivables include (1) accounts receivable (exceeding one year), (2) notes receivable, and (3) lease receivables. Items excluded from financing receivables include (1) accounts receivable (less than one year), (2) debt securities, and (3) acquired beneficial interests or retained beneficial interests within the scope of Issue 99-20.¹ See paragraph 3 of the proposed Statement for a more detailed definition of financing receivables.

New Disclosure Requirements

The disclosure framework in the proposed Statement focuses on two levels of disaggregation: portfolio segment² and class of financing receivable.³ Generally, a class of financing receivable is a disaggregation of a portfolio segment. An entity should determine a class of financing receivable by segregating such receivables on the basis of the initial measurement attribute (i.e., amortized cost, fair value, lower of cost or fair

¹ EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets." (ASC 325-40, *Beneficial Interests in Securitized Financial Assets*.)

² The proposed Statement defines a portfolio segment as "the level at which a creditor develops and documents a systematic methodology to determine its allowance for credit losses (for example, by type of financing receivable, industry, and risk rates)."

³ The proposed Statement defines a class of financing receivable as "the level of information that enables users of financial statements to understand the nature and extent of exposure to credit risk arising from financing receivables held at the date of the financial statements."

value, and present value of amounts to be received). An entity should then disaggregate “to the level that management utilizes when assessing and monitoring risk and performance of the portfolio.” The proposed Statement gives a few examples of factors that an entity can consider in performing this disaggregation, including categorization of borrowers, type of financing receivable, industry, type of collateral, and geography.

The additional disclosure requirements focus on five topics: (1) the allowance for credit losses and the corresponding financing receivables, (2) the fair value of loans, (3) the credit quality of financing receivables, (4) impaired financing receivables, and (5) financing receivables that are on nonaccrual status. See the [Appendix](#) of this *Heads Up* for a complete list of the additional disclosure requirements.

Effective Date and Transition

If adopted, the proposed Statement would be effective for both public and nonpublic entities for the first interim⁴ or annual reporting period ending after December 15, 2009 (i.e., for calendar-year-end entities, the proposal would be effective for this year-end reporting season). Early adoption is encouraged. Comparative disclosures **are not** required for periods that ended before the effective date, but are required for periods ending after the effective date.

⁴ See APB Opinion No. 28, *Interim Financial Reporting*, for a discussion of interim reporting periods. (ASC 270, *Interim Reporting*.)

Appendix — Proposed Disclosures

The table below lists all the additional disclosures the proposed Statement would require.

Category	Disclosures Required
Allowance for credit losses	<ol style="list-style-type: none"> 1. A description by <i>portfolio segment</i> of the “accounting policies and methodology used to estimate the allowance for credit losses.” 2. A description by <i>portfolio segment</i> of “management’s policy for charging off uncollectible financing receivables.” 3. Rollforward of the allowance for credit losses, showing activity by <i>portfolio segment</i>, with separate presentation for receivables that are evaluated collectively for impairment (under Statement 5⁵) and those that are evaluated individually for impairment (under Statement 114⁶). 4. Rollforward of the financing receivables related to the allowance for credit losses, showing activity by <i>portfolio segment</i>, with separate presentation for receivables that are evaluated collectively for impairment and those that are evaluated individually for impairment.
Fair value	<ol style="list-style-type: none"> 1. Fair value of loans at the end of the reporting period, by <i>portfolio segment</i>. An entity should also disclose the methods and significant assumptions used to estimate fair value.
Information about credit quality	<ol style="list-style-type: none"> 1. By <i>class of financing receivable</i>, “[m]anagement’s policy for determining past due or delinquency status.” 2. For “financing receivables carried at amortized cost that are neither past due . . . nor impaired . . . , quantitative and qualitative information [by <i>class of financing receivable</i>] about the credit quality . . . at the end of the reporting period,” including a description of appropriate credit quality indicators and carrying amount by credit quality indicator. 3. For “financing receivables carried at a measurement other than amortized cost . . . that are neither past due nor impaired . . . , quantitative information” by <i>class of financing receivable</i> “about the credit quality at the end of the reporting period . . . by measurement attribute.” 4. For “financing receivables that are past due . . . but not impaired, an analysis,” by <i>class of financing receivable</i>, “of the age of the carrying amount . . . at the end of the reporting period.” 5. The “carrying amount at the end of the reporting period of financing receivables past due 90 days or more, but not impaired, for which interest is still accruing,” by <i>class of financing receivable</i>. 6. The “carrying amount of financing receivables at the end of the reporting period that are now considered current but have been modified in the current year subsequent to being past due,” by <i>class of financing receivable</i>. 7. The total of financing receivables in numbers 2, 3, and 4 above, “reconciled to the allowance for credit losses by <i>portfolio segment</i>.”

⁵ FASB Statement No. 5, *Accounting for Contingencies*. (ASC 450, *Contingencies*.)

⁶ FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* — an amendment of FASB Statements No. 5 and 15. (ASC 310, *Receivables*.)

Impaired financing receivables

1. "Management's policy for determining which loans the entity individually assesses for impairment," by *class of financing receivable*.
2. "Management's policy for recognizing interest income on impaired financing receivables, including how cash receipts are recorded," by *class of financing receivable*.
3. For each balance sheet presented, the total carrying amount and total unpaid principal balance of impaired financing receivables, and the associated allowance (if applicable), by *class of financing receivable*.
4. The factors the entity considered in determining that the financing receivable is impaired, by *class of financing receivable*.
5. For each income statement presented, the "average carrying amount of the impaired financing receivables . . . , the related amount of interest income recognized during the time . . . the financing receivables were impaired, and . . . the amount of interest income recognized using a cash-basis method of accounting" (unless not practicable) "during the time the financing receivables were impaired," by *class of financing receivable*.

Nonaccrual status

1. The "policy for placing financing receivables on nonaccrual status . . . and recording payments received on nonaccrual financing receivables, and the policy for resuming accrual of interest," by *class of financing receivable*.
 2. For each balance sheet presented, the "carrying amount of financing receivables on nonaccrual status," by *class of financing receivable*.
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