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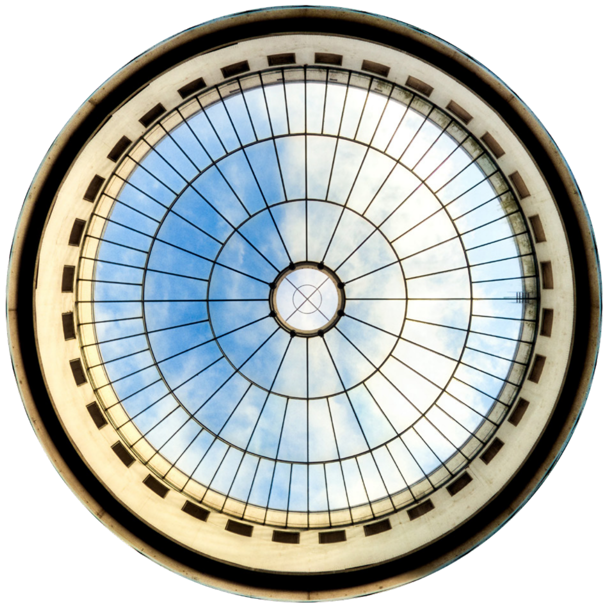

In This Issue

FASB Issues Proposal to Improve Credit Losses Standard

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On June 27, 2019, the FASB issued a proposed ASU[1] that would amend certain aspects of the Board's new credit loss standard, ASU 2016-13.[2] Comments on the proposed ASU are due by July 29, 2019.

Key Proposed Changes

The proposed ASU would amend or clarify the following aspects of the credit losses guidance:

- *Purchased credit-deteriorated (PCD) financial assets* — Entities would be permitted to record a negative allowance when measuring the expected credit losses for a PCD financial asset, not to exceed the PCD asset's amortized cost basis (excluding any unamortized noncredit discount or premium).

Connecting the Dots

ASU 2019-04[3] clarified that an entity is required to include expected recoveries of amounts previously written off and expected to be written off in determining the allowance for credit losses ("ALL") for non-PCD assets. As a result, an entity may be required to include a negative allowance (or basis recovery) in the ALL for non-PCD assets that have been written off as long as the negative allowance does not exceed the aggregate amount of previous or expected write-offs of the non-PCD asset. The proposed ASU would allow an entity to apply a similar approach when determining the ALL for PCD assets.

[1] FASB Proposed Accounting Standards Update (ASU), *Codification Improvements to Topic 326,* Financial Instruments — Credit Losses.
[2] FASB Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*.
[3] FASB Accounting Standards Update No. 2019-04, *Codification Improvements to Topic 326,* Financial Instruments — Credit Losses, *Topic 815,* Derivatives and Hedging, *and Topic 825,* Financial Instruments.

- *Transition relief for troubled debt restructurings* — Entities would be able to calculate the effective interest rate for existing troubled debt restructurings by using prepayment assumptions as of the date they adopt ASU 2016-13.
- *Disclosure relief for accrued interest receivable (AIR)* — ASU 2019-04 provides certain alternatives for the measurement of the ALL on AIR. Those include (1) measuring an ALL on AIR separately, (2) electing to provide separate disclosure of the AIR component of amortized cost as a practical expedient, and (3) making accounting policy elections to simplify certain aspects of the presentation and measurement of AIR. The proposed ASU would amend ASC 320[4] to give entities that elect the separate measurement or disclosure alternative in (1) or (2) the same AIR disclosure relief they have under ASU 2019-04 when accounting for available-for-sale debt securities.
- *Financial assets secured by collateral maintenance provisions* — ASC 326-20-35-6 provides entities with a practical expedient for financial assets secured by collateral maintenance provisions (e.g., the borrower is contractually required to adjust the amount of the collateral securing the financial asset). The practical expedient allows entities to measure the expected credit losses of the financial asset as the difference between the amortized cost basis and the fair value of the collateral. If the fair value of the collateral equals or exceeds the amortized cost basis of the financial asset, an expected credit loss of zero may be appropriate.

  The proposed ASU clarifies that to use the practical expedient, an entity must "reasonably [expect] the borrower to continue to replenish the collateral to meet the requirements of the contract." Furthermore, the proposal addresses situations in which the fair value of the collateral is less than the amortized cost of the financial asset. In such circumstances, entities should estimate expected credit losses on the portion of the amortized cost basis that is unsecured (i.e., the amount by which the amortized cost basis of the financial asset exceeds the fair value of the collateral). The expected credit loss should not exceed the difference between the amortized cost basis of the financial asset and the fair value of the collateral.

The proposed ASU would also make conforming amendments to ASC 805-20.

Effective Date

For entities that have not yet adopted ASU 2016-13, the amendments would be effective on the same date as those in ASU 2016-13. For entities that have adopted ASU 2016-13, the amendments would be effective for fiscal years beginning after December 15, 2019, and interim periods therein.

[4] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

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