CREDIT LOSSES

ASU 2016-13 FINANCIAL INSTRUMENTS—CREDIT LOSSES (TOPIC 326)

Overview

On June 16, 2016, the FASB completed its Financial Instruments—Credit Losses project by issuing ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The new guidance requires organizations to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts.

To that end, the new guidance:

- Eliminates the probable initial recognition threshold in current GAAP and, instead, reflects an organization's current estimate of all expected credit losses over the contractual term of its financial assets
- Broadens the information an entity can consider when measuring credit losses to include forward-looking information
- Increases usefulness of the financial statements by requiring timely inclusion of forecasted information in forming expectations of credit losses
- Increases comparability of purchased financial assets with credit deterioration (PCD assets) with other purchased assets that do not have credit deterioration as well as originated assets because credit losses that are expected will be recorded through an allowance for credit losses for all assets
- Increases users' understanding of underwriting standards and credit quality trends by requiring additional information about credit quality indicators by year of origination (vintage)
- For available-for-sale debt securities, aligns the income statement recognition of credit losses with the reporting period in which changes occur by recording credit losses (and subsequent changes in credit losses) through an allowance rather than a write down

The new guidance affects organizations that hold financial assets and net investments in leases that are not accounted for at fair value with changes in fair value reported in net income.

The new guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

Effective Dates

For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after

December 15, 2019. Thus, for a calendar-year company, it would be effective January 1, 2020.

For public business entities that are not SEC filers, the new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020.

For all other organizations, the new guidance is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021.

Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

Additional Information

- Download the **Accounting Standards Update**
- Read the **Press Release** introducing the ASU

To Learn More

- Read the **FASB In Focus**—a summary of the ASU
- Read the **FASB: Understanding Costs and Benefits**
- Watch ***Why a New Credit Losses Standard?*** —a video featuring FASB Chair Russ Golden and FASB Members Hal Schroeder and Marc Siegel

Post-Issuance Activities

- Visit the **Transition Resource Group for Credit Losses webpage** to stay up to date on implementation issues discussed and addressed by the TRG.

Have A Question?

Submit questions about the new requirements using our Technical Inquiry System.