



Accounting Standards Update

No. 2011-02
April 2011

Receivables (Topic 310)

A Creditor's Determination of Whether a Restructuring
Is a Troubled Debt Restructuring

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board
of the Financial Accounting Foundation
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a Troubled Debt Restructuring

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Summary

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

Given the recent economic downturn, the volume of debt restructured (modified) by creditors has increased. Several stakeholders raised concerns about whether additional guidance or clarification is needed to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. Diversity in practice could adversely affect the comparability of information for users about restructurings of receivables.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all creditors, both public and nonpublic, that restructure receivables that fall within the scope of Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors.

What Are the Main Provisions?

In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist:

1. The restructuring constitutes a concession.
2. The debtor is experiencing financial difficulties.

The amendments to Topic 310 clarify the guidance on a creditor's evaluation of whether it has granted a concession as follows:

1. If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below-market rate, which may indicate that the creditor has granted a concession. In that circumstance, a creditor should consider all aspects of the restructuring in determining whether it has granted a concession. If a creditor determines that it has granted a concession, the creditor must make a separate assessment about whether the debtor is experiencing financial difficulties to determine whether the restructuring constitutes a troubled debt restructuring.
2. A temporary or permanent increase in the contractual interest rate as a result of a restructuring does not preclude the restructuring from being

considered a concession because the new contractual interest rate on the restructured debt could still be below the market interest rate for new debt with similar risk characteristics. In such situations, a creditor should consider all aspects of the restructuring in determining whether it has granted a concession. If a creditor determines that it has granted a concession, the creditor must make a separate assessment about whether the debtor is experiencing financial difficulties to determine whether the restructuring constitutes a troubled debt restructuring.

3. A restructuring that results in a delay in payment that is insignificant is not a concession. However, an entity should consider various factors in assessing whether a restructuring resulting in a delay in payment is insignificant. The amendments include examples illustrating the assessment of whether a restructuring results in a delay in payment that is insignificant.

The amendments to Topic 310 clarify the guidance on a creditor's evaluation of whether a debtor is experiencing financial difficulties as follows:

1. A creditor may conclude that a debtor is experiencing financial difficulties, even though the debtor is not currently in payment default. A creditor should evaluate whether it is probable that the debtor would be in payment default on any of its debt in the foreseeable future without the modification.

In addition, the amendments to Topic 310 clarify that a creditor is precluded from using the effective interest rate test in the debtor's guidance on restructuring of payables (paragraph 470-60-55-10) when evaluating whether a restructuring constitutes a troubled debt restructuring.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

There is currently diversity in practice in identifying restructurings of receivables that constitute troubled debt restructurings for a creditor. The clarifying guidance in this Update should result in more consistent application of U.S. GAAP for debt restructurings.

When Will the Amendments Be Effective?

For Public Entities

The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these

amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. An entity should disclose the total amount of receivables and the allowance for credit losses as of the end of the period of adoption related to those receivables that are newly considered impaired under Section 310-10-35 for which impairment was previously measured under Subtopic 450-20, Contingencies—Loss Contingencies.

An entity should disclose the information required by paragraphs 310-10-50-33 through 50-34, which was deferred by Accounting Standards Update No. 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*, for interim and annual periods beginning on or after June 15, 2011.

For Nonpublic Entities

The amendments in this Update are effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods.

Early Adoption

Early adoption is permitted for public and nonpublic entities. A nonpublic entity may early adopt the amendments for any interim period of the fiscal year of adoption. A nonpublic entity that elects early adoption should apply the provisions of this Update retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

IFRS does not have guidance on troubled debt restructurings. IFRS 7, *Financial Instruments: Disclosures*, requires the disclosure of the carrying amount of renegotiated debt, which is defined as debt whose terms were renegotiated that otherwise would be past due or impaired without that renegotiation.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck-out~~.

Amendments to Subtopic 310-40

2. Add paragraph 310-40-15-8A and paragraphs 310-40-15-13 through 15-20 and their related headings, with a link to transition paragraph 310-40-65-1, as follows:

Receivables—Troubled Debt Restructurings by Creditors

Scope and Scope Exceptions

General

> > Troubled Debt Restructuring

310-40-15-5 A restructuring of a debt constitutes a troubled debt restructuring for purposes of this Subtopic if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

310-40-15-6 That concession is granted by the creditor in an attempt to protect as much of its investment as possible. That concession either stems from an agreement between the creditor and the debtor or is imposed by law or a court; for example, either of the following circumstances might occur:

- a. A creditor may restructure the terms of a debt to alleviate the burden of the debtor's near-term cash requirements, and many troubled debt restructurings involve modifying terms to reduce or defer cash payments required of the debtor in the near future to help the debtor attempt to improve its financial condition and eventually be able to pay the creditor.

- b. The creditor may accept cash, other assets, or an equity interest in the debtor in satisfaction of the debt though the value received is less than the amount of the debt because the creditor concludes that step will maximize recovery of its investment. Although troubled debt that is fully satisfied by foreclosure, repossession, or other transfer of assets or by grant of equity securities by the debtor is, in a technical sense, not restructured, that kind of event is included in the term troubled debt restructuring in this Subtopic.

310-40-15-7 Whatever the form of concession granted by the creditor to the debtor in a troubled debt restructuring, the creditor's objective is to make the best of a difficult situation. That is, the creditor expects to obtain more cash or other value from the debtor, or to increase the probability of receipt, by granting the concession than by not granting it.

310-40-15-8 In general, a debtor that can obtain funds from sources other than the existing creditor at market interest rates at or near those for nontroubled debt is not involved in a troubled debt restructuring. A debtor in a troubled debt restructuring can obtain funds from sources other than the existing creditor in the troubled debt restructuring, if at all, only at effective interest rates (based on market prices) so high that it cannot afford to pay them.

310-40-15-8A In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor shall not apply the guidance in paragraph 470-60-55-10.

310-40-15-9 A troubled debt restructuring may include, but is not necessarily limited to, one or a combination of the following:

- a. Transfer from the debtor to the creditor of receivables from third parties, real estate, or other assets to satisfy fully or partially a debt (including a transfer resulting from foreclosure or repossession)
- b. Issuance or other granting of an equity interest to the creditor by the debtor to satisfy fully or partially a debt unless the equity interest is granted pursuant to existing terms for converting the debt into an equity interest
- c. Modification of terms of a debt, such as one or a combination of any of the following:
 - 1. Reduction (absolute or contingent) of the stated interest rate for the remaining original life of the debt
 - 2. Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk
 - 3. Reduction (absolute or contingent) of the face amount or maturity amount of the debt as stated in the instrument or other agreement
 - 4. Reduction (absolute or contingent) of accrued interest.

310-40-15-10 The guidance in this Subtopic shall be applied to all troubled debt restructurings including those consummated under reorganization, arrangement,

or other provisions of the Federal Bankruptcy Act or other federal statutes related thereto.

310-40-15-11 For purposes of this Subtopic, none of the following are considered troubled debt restructurings:

- a. Changes in lease agreements (for guidance, see Topic 840)
- b. Changes in employment-related agreements, for example, pension plans and deferred compensation contracts
- c. Unless they involve an agreement between debtor and creditor to restructure, either of the following:
 1. Debtors' failures to pay trade accounts according to their terms
 2. Creditors' delays in taking legal action to collect overdue amounts of interest and principal.
- d. Modifications of loans within a pool accounted for in accordance with Subtopic 310-30 (see paragraph 310-30-15-6)
- e. Changes in expected cash flows of a pool of loans accounted for in accordance with Subtopic 310-30 (see paragraph 310-30-15-6) resulting from the modification of one or more loans within the pool.

310-40-15-12 A debt restructuring is not necessarily a troubled debt restructuring for purposes of this Subtopic even if the debtor is experiencing some financial difficulties. For purposes of this Subtopic, none of the following debt restructurings, for example, are considered troubled debt restructurings:

- a. The **fair value** of cash, other assets, or an equity interest accepted by a creditor from a debtor in full satisfaction of its receivable at least equals the creditor's **recorded investment in the receivable**.
- b. The fair value of cash, other assets, or an equity interest transferred by a debtor to a creditor in full settlement of its payable at least equals the debtor's carrying amount of the payable.
- c. The creditor reduces the **effective interest rate** on the debt primarily to reflect a decrease in market interest rates in general or a decrease in the risk so as to maintain a relationship with a debtor that can readily obtain funds from other sources at the current market interest rate.
- d. The debtor issues in exchange for its debt new marketable debt having an effective interest rate based on its market price that is at or near the current market interest rates of debt with similar maturity dates and stated interest rates issued by nontroubled debtors.

>> Determining Whether a Creditor Has Granted a Concession

310-40-15-13 A creditor has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due, including interest accrued at the original contract rate. In that situation, and if the payment of principal at original maturity is primarily dependent on the value of collateral, an

entity shall consider the current value of that collateral in determining whether the principal will be paid.

310-40-15-14 A creditor may restructure a debt in exchange for additional collateral or guarantees from the debtor. In that situation, a creditor has granted a concession when the nature and amount of that additional collateral or guarantees received as part of a restructuring do not serve as adequate compensation for other terms of the restructuring. When additional guarantees are received in a restructuring, an entity shall evaluate both a guarantor's ability and its willingness to pay the balance owed.

310-40-15-15 If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below-market rate, which may indicate that the creditor has granted a concession. In that situation, a creditor shall consider all aspects of the restructuring in determining whether it has granted a concession.

310-40-15-16 A temporary or permanent increase in the contractual interest rate as a result of a restructuring does not preclude the restructuring from being considered a concession because the new contractual interest rate on the restructured debt could still be below market interest rates for new debt with similar risk characteristics. In that situation, a creditor shall consider all aspects of the restructuring in determining whether it has granted a concession.

> > Evaluating Whether a Restructuring Results in a Delay in Payment That Is Insignificant

310-40-15-17 A restructuring that results in only a delay in payment that is insignificant is not a concession. The following factors, when considered together, may indicate that a restructuring results in a delay in payment that is insignificant:

- a. The amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due.
- b. The delay in timing of the restructured payment period is insignificant relative to any one of the following:
 1. The frequency of payments due under the debt
 2. The debt's original contractual maturity
 3. The debt's original expected duration.

310-40-15-18 If the debt has been previously restructured, an entity shall consider the cumulative effect of the past restructurings when determining whether a delay in payment resulting from the most recent restructuring is insignificant.

310-40-15-19 Examples 3, 4, and 5 in paragraphs 310-40-55-16 through 55-25 illustrate a creditor's evaluation about whether a delay in payment resulting from a restructuring is insignificant.

> > Determining Whether a Debtor Is Experiencing Financial Difficulties

310-40-15-20 In evaluating whether a receivable is a troubled debt restructuring, a creditor must determine whether the debtor is experiencing financial difficulties. In making this determination, a creditor shall consider the following indicators:

- a. The debtor is currently in payment default on any of its debt. In addition, a creditor shall evaluate whether it is probable that the debtor would be in payment default on any of its debt in the foreseeable future without the modification. That is, a creditor may conclude that a debtor is experiencing financial difficulties, even though the debtor is not currently in payment default.
- b. The debtor has declared or is in the process of declaring bankruptcy.
- c. There is substantial doubt as to whether the debtor will continue to be a going concern.
- d. The debtor has securities that have been delisted, are in the process of being delisted, or are under threat of being delisted from an exchange.
- e. On the basis of estimates and projections that only encompass the debtor's current capabilities, the creditor forecasts that the debtor's entity-specific cash flows will be insufficient to service any of its debt (both interest and principal) in accordance with the contractual terms of the existing agreement for the foreseeable future.
- f. Without the current modification, the debtor cannot obtain funds from sources other than the existing creditors at an effective interest rate equal to the current market interest rate for similar debt for a nontroubled debtor.

The above list of indicators is not intended to include all indicators of a debtor's financial difficulties.

3. Add paragraphs 310-40-55-16 through 55-25 and their related headings, with a link to transition paragraph 310-40-65-1, as follows:

Implementation Guidance and Illustrations

> > Example 3: Commercial Real Estate Debt with Balloon Payment

310-40-55-16 A restructuring that results in only a delay in payment that is insignificant is not a concession. This Example illustrates the guidance in paragraphs 310-40-15-17 through 15-18 for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties.

310-40-55-17 A creditor originates a seven-year loan to a debtor. The debt:

- a. Has a fixed interest rate
- b. Is collateralized by commercial real estate
- c. Requires monthly interest payments
- d. Requires a balloon principal payment at maturity.

310-40-55-18 At origination, the debtor expects to repay the principal by refinancing the debt with the real estate held as collateral. That is, the collateral is the primary source of payment of the debt's principal balance, whether through a refinancing of the debt or a sale of the property. However, before maturity, the fair value of the collateral was less than the principal amount due at maturity, and as a result of market conditions, the debtor is unable to refinance the debt. The debtor plans to sell the property to repay the debt and requests an extension of the debt's maturity date to allow time to liquidate the property. In response to the debtor's financial difficulties, the creditor grants the debtor a three-month extension of the debt maturity date. At the time that this extension was granted, the debtor had not yet identified a buyer for the collateral.

310-40-55-19 The restructuring results in a delay in payment that is not insignificant. Although the delay in timing of payment is insignificant (relative to the frequency of payments due, the debt's original contractual maturity, and the debt's original expected duration), the creditor expects a significant shortfall in cash flows relative to the contractual amount due when the property is sold because the property is the sole source of repayment.

>> Example 4: Residential Mortgage Debt—Temporary Payment Deferral

310-40-55-20 A restructuring that results in only a delay in payment that is insignificant is not a concession. This Example illustrates the guidance in paragraphs 310-40-15-17 through 15-18 for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties.

310-40-55-21 A debtor obtains a 30-year mortgage loan that requires monthly principal and interest payments. In year 4, the debtor experiences financial difficulties and misses two payments. On the basis of the debtor's financial hardship, the debtor and the creditor agree on a forbearance arrangement and repayment plan. Under the terms of the forbearance arrangement and repayment plan, the creditor agrees not to take any foreclosure action if the debtor increases its next four monthly payments such that each payment includes one fourth of the delinquent amount plus interest. The agreement does not result in the creditor charging the debtor interest on past due interest. At the end of the forbearance arrangement, the debtor will:

- a. Have repaid all past due amounts
- b. Be considered current in relation to the debt's original terms
- c. Have resumed making monthly payments set out under the debt's original terms.

310-40-55-22 The restructuring results in a delay in payment that is insignificant. At the time of the forbearance arrangement, the creditor expects to collect all amounts due for the periods of delay. Furthermore, the length of delay resulting from the forbearance arrangement is considered insignificant in relation to the frequency of payments due, the debt's original contractual maturity, and the debt's original expected duration.

>> Example 5: Commercial Line of Credit—Short-Term Extension before the Finalization of Renegotiated Terms

310-40-55-23 A restructuring that results in only a delay in payment that is insignificant is not a concession. This Example illustrates the guidance in paragraphs 310-40-15-17 through 15-18 for determining whether a delay in payment is insignificant. This Example assumes that the debtor is experiencing financial difficulties and is not intended to illustrate the determination of whether a debtor is experiencing financial difficulties.

310-40-55-24 A commercial debtor has a revolving line of credit with a creditor with an original term of five years. The terms of the line of credit require interest payments every 90 days on the average daily balance of the line. As the line of credit nears maturity, the debtor and creditor begin renegotiating the terms of a new line of credit. Because of a temporary cash shortfall due to a delay in collections from two key customers, the debtor is unable to make the final interest payment before the two parties finish renegotiating the terms of the new line of credit. The terms of the renegotiated line of credit are expected to be similar to the current line of credit, which are comparable to terms available to debtors with similar risk characteristics. The creditor expects the debtor to recover quickly from this temporary cash flow shortage. Accordingly, the creditor extends a 3-month payment deferral by adding the missed interest payment to the balance of the line and requiring the debtor to make its first interest payment 90 days after the new line of credit is finalized, or 180 days after the due date of the missed interest payment.

310-40-55-25 The restructuring results in a delay in payment that is insignificant. Although the debtor is unable to make the contractual payment at the time it is due, thereby resulting in the three-month deferral, the creditor still expects to collect all amounts due, including interest at the contractual rate. Furthermore, the delay in timing of payment represents only one payment cycle under the terms of the line, which is insignificant relative to the frequency of payments due, the debt's original contractual maturity, and the debt's original expected duration.

4. Add paragraph 310-40-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring

310-40-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*:

- a. For public entities, the pending content that links to this paragraph shall be effective for the first interim or annual period beginning on or after June 15, 2011. The pending content that links to this paragraph shall be applied retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. Early adoption is permitted.
- b. As a result of the clarifications in guidance resulting from the pending content that links to this paragraph, an entity may identify receivables that are newly considered impaired under Section 310-10-35 for which impairment was previously measured under Subtopic 450-20. An entity shall disclose the total recorded investment in such receivables and the associated allowance for credit losses as of the end of the period of adoption. For purposes of measuring impairment of those receivables, an entity shall apply the pending content that links to this paragraph prospectively for the first interim or annual period beginning on or after June 15, 2011.
- c. The following paragraph illustrates the disclosure required by (b) above:

As a result of adopting the amendments in Accounting Standards Update No. 2011-02, Entity A reassessed all restructurings that occurred on or after the beginning of the current fiscal year (January 1, 2011) for identification as troubled debt restructurings. Entity A identified as troubled debt restructurings certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as troubled debt restructurings, Entity A identified them as impaired under the guidance in Section 310-10-35. The amendments in Accounting Standards Update No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. At the end of the first interim period of adoption (September 30, 2011), the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under Section 310-10-35 was \$50.8 million, and the

allowance for credit losses associated with those receivables, on the basis of a current evaluation of loss, was \$7.2 million.

- d. For nonpublic entities, the pending content that links to this paragraph shall be effective for annual periods ending after December 15, 2012, including interim periods within those annual periods. Early adoption is permitted for any interim period of the fiscal year of adoption. For a nonpublic entity electing early adoption, the pending content that links to this paragraph applies to restructurings occurring on or after the beginning of the fiscal year of adoption.

5. Amend paragraph 310-40-00-1, by adding the following items to the table, as follows:

310-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
310-40-15-8A	Added	2011-02	04/05/2011
310-40-15-13 through 15-20	Added	2011-02	04/05/2011
310-40-55-16 through 55-25	Added	2011-02	04/05/2011
310-40-65-1	Added	2011-02	04/05/2011

Amendments to Subtopic 310-10

6. Amend paragraphs 310-10-50-31 through 50-34 to change the effective date from *Indefinite* to *June 15, 2011*, and the link to transition paragraph 310-10-65-3 to transition paragraph 310-40-65-1.

7. Amend paragraph 310-10-00-1, by adding the following items to the table, as follows:

310-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	Action	Accounting Standards Update	Date
310-10-50-31 through 50-34	Amended	2011-02	04/05/2011

The amendments in this Update were adopted by the affirmative vote of five members of the Financial Accounting Standards Board. Messrs. Buck and Schroeder abstained from voting.

Members of the Financial Accounting Standards Board:

Leslie F. Seidman, *Chairman*
Daryl E. Buck
Russell G. Golden
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background

BC2. Given the recent economic downturn, the volume of debt restructured (modified) by creditors has increased. For example, a creditor may agree to restructure a debt to defer principal payment or maturity, decrease the amount of payments due for a temporary or permanent period of time, or agree to delay collection in exchange for additional collateral or guarantees. Several stakeholders raised concerns about whether additional guidance or clarification is needed to help creditors in determining whether a creditor has granted a concession for purposes of determining whether a restructuring constitutes a troubled debt restructuring.

BC3. In response to these concerns, in July 2010, the Board added a project to its agenda to clarify the accounting for and disclosures about troubled debt restructurings by creditors. The Board determined that this project would focus on the identification as well as recognition and measurement aspects of troubled debt restructurings.

BC4. The Board issued an Exposure Draft of a proposed Update, *Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors*, on October 12, 2010. The Board received 133 comment letters on the Exposure Draft. Most respondents agreed that additional guidance was needed for the accounting for troubled debt restructurings by creditors. Several respondents stated that there is diversity in practice and inconsistency in applying the existing guidance. Others disagreed with some aspects of the proposals. The Board considered those comments during its redeliberations of the Exposure Draft at public meetings in January and February 2011.

Use of Debtor's Effective Interest Rate Test

BC5. Stakeholders told the Board that creditors were using the test in paragraph 470-60-55-10, which requires a comparison of the effective rate on the debt immediately before and immediately after a restructuring, to identify whether that restructuring constitutes a concession. That guidance is followed by debtors in evaluating whether a restructuring of a payable is a troubled debt restructuring. Because that guidance was intended to be used only by debtors, and because its use can result in inconsistent accounting among creditors, the Board decided to preclude creditors from using the test. Previously existing guidance in paragraphs 310-40-15-3 and 470-60-15-3 acknowledged that the identification of a restructuring as a troubled debt restructuring need not be symmetrical between the debtor and the creditor.

BC6. Respondents to the Exposure Draft agreed with this conclusion, noting that while the debtor's effective interest rate test may be helpful in determining whether a restructuring constitutes a troubled debt restructuring, its use is not appropriate as a source of evidence for creditors to conclude that a restructuring is not a troubled debt restructuring, because such an evaluation fails to consider all terms of the restructuring.

Consideration of the Terms of a Restructuring in Relation to Market Interest Rates

BC7. Stakeholders noted that it was often difficult to identify a market interest rate for debt with terms similar to those of the restructured debt. The Board noted that in a troubled debt restructuring, the creditor usually is not adequately compensated for the increased exposure to credit risk that results from the contractual changes or delays in payments arising from the restructuring. Also, the debtor usually could not afford what the market would charge at the time of a restructuring. To address those problems, the Exposure Draft proposed that a debtor's inability to access funds at a market rate for debt with similar risk characteristics as the restructured debt would be considered a troubled debt restructuring.

BC8. Respondents to the Exposure Draft said that the mere absence of a market rate for debt with similar risk should not automatically result in a troubled debt restructuring, because credit markets occasionally contract severely, which could affect an individual entity's access to funds at a market rate. Those respondents emphasized that, in those instances, a debtor should not be presumed to be experiencing financial difficulties. The Board agreed and decided to revise the proposed guidance in the Exposure Draft to specify that if a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below-market rate, which may indicate that the creditor has

granted a concession. Furthermore, the Board acknowledged that the evaluation of whether a concession has been granted is subjective and that all terms of a restructuring need to be considered and that the presence of this one indicator should not lead creditors to automatically presume that a concession has been granted.

BC9. Respondents to the Exposure Draft generally agreed that a temporary or permanent increase in the interest rate charged by a creditor should not preclude a restructuring from being identified as a troubled debt restructuring.

Indicators That a Debtor Is Experiencing Financial Difficulties

BC10. The Board also decided to clarify the guidance for determining whether a debtor is experiencing financial difficulties. The Board acknowledged that the indicators in paragraphs 470-60-55-8 through 55-9 for determining whether a debtor is experiencing financial difficulties also are, with minor revisions, applicable to a creditor's assessment of whether a restructuring is a troubled debt restructuring. Respondents to the Exposure Draft supported including these indicators in a creditor's evaluation of the debtor's financial difficulties.

BC11. The Board also noted that there may be cases where debt is restructured because the creditor's historical experience with similar debt indicates that payment default by the debtor is probable in the foreseeable future. These cases may be especially prevalent with residential mortgages that have monthly payments that increase significantly at some point during the term of the debt because of an interest-only payment period in the earlier years of the term or a feature that results in negative amortization of the principal balance. The Board decided to require creditors to consider the probability of payment default when determining whether a debtor is experiencing financial difficulties, and to clarify that a receivable for which payment default is probable in the foreseeable future is an indicator of financial difficulties. Respondents to the Exposure Draft agreed that in cases where payment default is probable, it is appropriate for a creditor to conclude that a debtor is experiencing financial difficulties.

Evaluating Whether a Restructuring Results in a Delay in Payment That Is Insignificant

BC12. The guidance for impairment of receivables in paragraph 310-10-35-17 states, "This guidance does not specify how a creditor should determine that it is probable that it will be unable to collect all amounts due according to the contractual terms of a loan. A creditor shall apply its normal loan review procedures in making that judgment. *An insignificant delay or insignificant shortfall in amount of payments does not require application of this guidance. A loan is not impaired during a period of delay in payment if the creditor expects to*

collect all amounts due including interest accrued at the contractual interest rate for the period of delay. Thus, a demand loan or other loan with no stated maturity is not impaired if the creditor expects to collect all amounts due including interest accrued at the contractual interest rate during the period the loan is outstanding" (emphasis added).

BC13. The guidance in paragraph 310-10-35-17 about insignificant delays or shortfalls is meant to prevent a loan from being designated as impaired when the resulting impairment calculation would result in a nominal allowance for loan losses. In the Exposure Draft, the Board proposed precluding the application of this guidance in determining whether a restructured receivable should be designated as a troubled debt restructuring. Respondents to the Exposure Draft said that a restructuring that results in a delay in payment that is insignificant should not be considered a concession. Respondents were concerned that requiring delays in payment that are truly insignificant to be designated as troubled debt restructurings could have an unintended, adverse effect on financial reporting. Those respondents noted that reporting insignificant delays as troubled debt restructurings would significantly increase the volume of restructurings designated as troubled debt restructurings while decreasing an entity's allowance for loan losses. Users said that reporting such restructurings as troubled debt restructurings may lessen transparency and would not be cost-beneficial.

BC14. The Board agreed that delays in payment that are insignificant are not concessions but also noted that diversity in practice had developed for determining whether delays in payment are significant. The Board decided that more guidance was needed to help creditors determine whether a delay resulting from a restructuring is insignificant. Thus, the Board decided to include (a) factors that should be considered when determining whether a delay in payment resulting from a restructuring is insignificant and (b) illustrative examples.

Effective Date and Transition

BC15. For public entities, the Board decided that the amendments in this Update should be effective for interim and annual periods beginning on or after June 15, 2011. The Board decided that this effective date provides public entities with adequate time to adopt the clarifications to the definition of troubled debt restructurings.

BC16. The Board decided to require public entities to apply the amendments in this Update to restructurings occurring on or after the beginning of the annual period of adoption. The Board noted that applying the guidance that affects the identification of troubled debt restructurings requires less subjectivity than an impairment measurement. The Board decided that applying the guidance retrospectively is necessary to provide comparable and consistent information about troubled debt restructurings, at least within the fiscal year of adoption.

However, because retrospective application could be cumbersome and because a significant portion of the increase in the volume of restructurings has occurred only in recent periods, the Board limited the retrospective application to those restructurings that occurred on or after the beginning of the annual period of adoption.

BC17. The Board decided on prospective application for the guidance that changes the way that impairment is measured for receivables that are determined to be troubled debt restructurings as a result of applying the guidance in this Update. The Board noted that the information required to apply the guidance retrospectively for purposes of calculating impairment would be very difficult to obtain and would involve the use of hindsight.

BC18. For nonpublic entities, the Board decided that the amendments in this Update should be effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The Board concluded that a later effective date is warranted for nonpublic entities to allow them additional time to adopt the clarifications to the definition of troubled debt restructurings.

BC19. The Board did not amend the effective date of the new credit quality disclosures, except for those about troubled debt restructurings in public entities, discussed in Accounting Standards Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*.

Benefits and Costs

BC20. 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 costs and benefits 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.

BC21. While the Board acknowledges that some entities may incur significant costs as a result of the amendments in this Update, the Board believes that the amendments will provide the benefit of improving consistent application of U.S. GAAP by clarifying guidance that already exists within U.S. GAAP. Specifically, the Board requires public entities to apply the provisions of this Update retrospectively to restructurings occurring on or after the beginning of the annual period of adoption. Because retrospective application is required, public entities

would disclose activity about troubled debt restructurings using a definition of troubled debt restructurings that is consistent throughout the annual period of adoption.

BC22. The Board acknowledged that retrospective calculation of impairment by public companies would be unduly burdensome and elected to require prospective application for purposes of measuring impairment. For nonpublic entities, the Board elected to require prospective application of all the provisions of this Update to reduce the cost of implementation.

