FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout
Segment Reporting
October 13, 2021

Meeting Purpose

1. In October 2020, the Board decided to pursue a principle (the "principle") that would require the disclosure of the significant segment expense categories and amounts that are both:

   (a) Regularly provided to the chief operating decision maker (CODM) and

   (b) Included in the reported measure of segment profit or loss.

2. The purpose of this Board meeting is to present an analysis of certain follow-on issues related to the principle. The Board also will be asked to provide feedback on the next steps of the project. There are four issues for discussion.

Questions for the Board
Issue 1: Single Reportable Segment Entities 1. Does the Board want to specify that single reportable segment entities should apply the significant expense principle and does it want to require that those entities also apply the existing Topic 280 disclosures? ***Issue 2: Significant Expense Principle: The Easily Derivable Concept*** 2. Does the Board want to include the easily computable concept as part of the segment expense principle? ***Issue 3: Mapping of Entity-Wide Amounts to the Income Statement Lines*** 3. Does the Board want to require a mapping of entity-wide expense totals to the corresponding income statement lines on an annual basis? ***Issue 4: Plan to Complete Initial Deliberations*** 4. Does the Board have comments on the staff's next steps as described in the updated project plan?

Issue 1: Single Reportable Segment Entities

3. To date, the majority of Board discussions have been in the context of a public entity that has multiple reportable segments. Accordingly, the Board will discuss implications for entities that have a single reportable segment.

4. There are two types of single reportable segment entities:

   (a) Type 1: Single operating segment is also a single reportable segment.

   (b) Type 2: Multiple operating segments are aggregated into a single reportable segment. There are two variations under Type 2:

      (i) The first variation includes a public entity that identifies multiple operating segments and aggregates them into a single reportable segment. The entity only reports consolidated financial statements and notes.

      (ii) Another variation includes instances in which a public entity identifies multiple operating segments. Some of the operating segments may be combined into a single reportable segment. The entity reports a segmentation of results of the single reportable segment from "other" items.

5. The discussion of Issue 1 addresses disclosure requirements for entities with a single reportable segment, regardless of the type of single reportable segment.

Alternative A: Specify That the Principle and the Existing Segment Disclosures Apply to Single Reportable Segment Entities

6. Under Alternative A, the guidance would specify that the principle and existing segment disclosures and reconciliation requirements apply to single reportable segment entities.

7. This issue does not include consideration of the entity-wide disclosures in paragraph 280-10-50-38. That paragraph is clear that the entity-wide disclosure requirements apply to single reportable segment entities.

8. There are two options under this alternative:

   (a) *Alternative A1: Clarify the Principle and the Existing Segment Disclosure and Reconciliation Requirements Apply but Remain Silent on Which Profit Measure Should be Applied*. Under Alternative A1, the guidance would clarify that the principle and the existing segment disclosure and reconciliation requirements apply to single reportable segment entities but would remain silent on whether those entities should disclose a separate internal profit or loss measure that the CODM uses to manage the business and apply the principle to that measure.

(b) *Alternative A2: Clarify the Principle Applies and Provide Guidance About Which Profit Measure Should Be Applied.* Under Alternative 2, the guidance would clarify that the principle and existing segment disclosure and reconciliation requirements apply to single reportable segment entities. Additionally, under Alternative A2, the guidance would provide implementation guidance about which profit measure should be applied (for example, an internal measure used by the CODM to manage the business).

Alternative B: Specify That the Principle and the Existing Segment Disclosure Requirements Do Not Apply to Single Reportable Segment Entities

9. Under Alternative B, the guidance would state that the principle and existing segment disclosure requirements do not apply to single reportable segment entities.

Issue 2: The Easily Derivable Concept

10. In some cases, the management reports that are regularly provided to the CODM (the CODM package) may include expense information in a form other than the actual expense amount, for example, advertising expense as a percentage of sales.

11. At the March 2021 meeting, the Board discussed developing an easily derivable concept as part of the principle. That concept would require that public entities apply the principle to expense amounts that are easily derivable from information that is regularly provided to the CODM. At the March meeting, the Board directed the staff to perform additional outreach on the concept.

12. If the Board wants to include the concept that was discussed at the March 2021 Board meeting as part of the principle, the staff has developed the following potential approach:

    (a) Retain the term *easily*

    (b) Change the terms *derive/derived/derivable* to *compute/computed/computable*

    (c) Do not limit the easily computable concept to a specific form of information.

Issue 3: Mapping of Entity-Wide Amounts to the Income Statement Lines

13. In March and May of 2021, the Board decided the following:

    (a) Each significant expense category would be required to be reconciled to its corresponding consolidated amount on an annual basis.

    (b) A public entity also would be required to disclose the following information by reportable segment regardless of whether the CODM is regularly provided with this information:

(i) An amount for *other items* that is the difference between segment revenue less the significant expenses disclosed under the principle and the segment profit or loss measure

(ii) A description of the composition of other items

(iii) The amount for other items would not be required to reconcile to a corresponding consolidated amount.

14. The Board's previous decision to reconcile each significant expense category to its corresponding consolidated amount is not required to be to an income statement line. Rather, the reconciliation to the corresponding consolidated amount is to the entity-wide total of the expense category. This gives rise to an additional consideration of whether to also require disclosure of the amount and location of each consolidated amount within the income statement lines (mapping requirement).

15. Under the principle, the expense categories are based on the CODM reporting package, which means that the individual expenses that are regularly provided to the CODM may not have a one-for-one relationship to an income statement line. For example, the CODM package may report employee expenses by segment, whereas in the consolidated income statement, employee expenses may be included within (a) cost of revenue and selling, general, and administrative expense and (b) research and development expense lines.

16. If the Board wants to require that a public entity disclose a mapping of how the entity-wide expense totals link to the income statement lines, the guidance would clarify that:

(a) A public entity would describe both the amount and the lines on the income statement that include the entity-wide expense amount when an entity-wide expense amount is located in two or more lines.

(b) If a consolidated entity-wide expense amount is included in a single line on the income statement, the entity would only describe the line.

(c) A public entity would not be required to describe the amount and the lines on the income statement associated with the other items amount. This is because the Board has previously decided that there is no requirement for the other items amount to be reconciled to an entity-wide total.

Issue 4: Plan to Complete Initial Deliberations

17. The staff has updated the project plan and would like to get the Board's feedback on the remaining technical issues for the initial deliberations phase of the project.

18. If the Board agrees with this plan, the following matters would complete the initial deliberations:

(a) Perform an assessment of decisions to date and analysis of the disclosure framework

(b) Determine transition method

(c) External review and discussion of any sweep issues

(d) Summarize and evaluate costs and benefits

(e) Determine the comment period.

FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout
Conceptual Framework—Measurement
October 13, 2021

Meeting Purpose

1. The Board will discuss the staff's approach to developing a chapter of the Conceptual Framework on measurement and provide feedback to the staff about whether that approach is suitable to facilitate Board decisions on measurement (question 1 below).
2. After the Board provides its feedback on the general approach and the approach to entry price system-specific issues, the staff will ask questions about the entry price system (questions 2–6).

Questions for the Board
1. Does the Board have any feedback on the approach to the project as outlined by the staff?
2. Are the considerations for deciding the initial measurement of assets and liabilities outlined in the entry price system appropriate? Are there any that should be removed or changed? Should anything else be included?
3. Should the Conceptual Framework state that (a) an asset should never be reported at more than what can be recovered and (b) a liability should never be reported at less than what it will take to satisfy that liability in an entry price system? Are the considerations on the impairment of an asset or the onerous treatment of a liability appropriate? Should anything else be included?
4. Should the Conceptual Framework explain that the purpose of depreciation or amortization could be either diminution of value or spreading the cost of assets over multiple reporting periods?
4A. Upon the Board's determination of its objective for the depreciation or amortization of a particular asset, should the Conceptual Framework further explain that that objective would guide the Board in matters on depreciation method, salvage value, and depreciation period?
5. Should the Conceptual Framework include a concept on reversals of impairments of assets, depreciation, amortization, or onerous treatment of liabilities?
6. Does the Board think that the discussion of the contributions of the entry price system to financial reporting is appropriate? What about the discussion of the limitations of the entry price system? Should anything else be included?

Topic 1: Project Plan

3. At the November 30, 2016 Board meeting, the Board decided the following on initial measurement:

   (a) There are three categories of initial measurement:

      (i) Entry price

      (ii) Exit price

      (iii) Estimated future cash flows.

   (b) Exit price is appropriate as an initial carrying amount of an asset when the subsequent measure of the asset will be at exit price.

   (c) For transactions in which something other than cash is exchanged, the initial measure of an asset should be based on the exit price for the asset transferred.

   (d) The overall objective in identifying costs to be included in the initial carrying amount of an asset at entry price should be to capture the costs incurred to bring the asset to the location and condition necessary for it to be capable of operation.

   (e) The following categories help identify the types of costs that should be included in an initial carrying amount consistent with the objective in (d):

      (i) Government-imposed charges

      (ii) Cost of services related to the acquisition of the asset and readying the asset for use

      (iii) Cost to participate in the market for the asset.

   (f) Gains and losses on cash flow hedges are neither part of the entry price of assets nor a cost to be included in initial carrying amounts of assets based on the objective and categories described in (d) and (e).

4. Although the Board had discussed many measurement concepts, it did not make decisions other than those described in paragraph 3. Because this project has not been discussed since November 2019 and there has been Board turnover in that time, the staff is asking for the Board's perspectives on the decisions in paragraph 3 and other issues related to this project.

Topic 2: Entry Price

5. The Board discussion will address concepts related to an entry price system that could be part of a measurement chapter of the Conceptual Framework. Additionally, the staff will solicit Board member feedback more broadly on to how the entry price system contributes to the objective of financial reporting and what the limits of the entry price system are.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Joint Venture Formations

October 13, 2021

Meeting Purpose

1. The purpose of the October 13, 2021 Board meeting is to continue initial deliberations on the project, discussing (a) whether a joint venture should apply the measurement period guidance in accordance with Subtopic 805-10, Business Combinations—Overall, which allows an entity to recognize and adjust provisional amounts for items for which the accounting is incomplete, (b) disclosure requirements for a joint venture upon formation, and (c) valuation considerations.

Questions for the Board
Measurement Period 1. Does the Board support allowing a joint venture to apply the measurement period guidance in accordance with Subtopic 805-10 to the amounts recognized in its formation transaction? The measurement period guidance allows an entity to recognize and adjust provisional amounts for items for which the accounting is incomplete. *Disclosures* 2. Which of the following disclosure approaches does the Board support for joint ventures upon formation? (a) Disclosure objective and list approach (b) Disclosure objective-only approach. 3. If the Board selects the disclosure objective and list approach, are there any listed disclosures that the Board would like to remove or modify? *Valuation Considerations* 4. Does the Board have any questions on the staff's research on the valuation of a 100-percent interest in the joint venture?

Project Background

2. At the July 22, 2020 Board meeting, the Board decided to require that a joint venture, upon formation, account for contributions by the venturers as though the joint venture was the acquirer of a business within the scope of Subtopic 805-10. The acquirer of a business must apply the recognition and measurement guidance in Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest, to identifiable assets and liabilities. That Subtopic requires that the acquirer recognize and measure the identifiable assets acquired and liabilities assumed at fair value (with certain exceptions).

3. At the February 17, 2021 Board meeting, the Board continued its initial deliberations on the project. The Board decided to require that a joint venture, upon formation, measure its net assets (including goodwill) using the fair value of the joint venture as a whole. The Board also directed the staff to complete research on (a) areas of misalignment (including basis differences) between a venturer's equity method accounting and a joint venture's accounting under the selected fair value alternative, (b) whether a joint venture should be able to utilize a measurement period like the acquirer of a business, and (c) disclosure requirements for a joint venture upon formation.

4. The August 4, 2021 Board meeting covered item (a) in paragraph 3 of this research. At that meeting, the Board tentatively decided to not to expand the scope and objective of the project to include eliminating sources of venturer basis differences.

5. At the October 13, 2021 Board meeting, the staff will cover its research on items (b) and (c) in paragraph 3 of this handout, in addition to valuation considerations.

Issue 1: Measurement Period

6. At the February 17, 2021 Board meeting, the Board asked the staff to research whether a joint venture should apply the measurement period guidance in accordance with Subtopic 805-10. Paragraphs 805-10-25-13 through 25-19 provide guidance on the measurement period in a business combination. The measurement period is the period after the acquisition date when an acquirer is permitted to adjust the provisional amounts recognized for a business combination if the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs. The measurement period allows the acquirer to take reasonable time to obtain the information necessary to identify and measure any of the following as of the acquisition date in accordance with the requirements of Topic 805:

(a) The identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree

(b) The consideration transferred for the acquiree (or the other amount used in measuring goodwill)

(c) In a business combination achieved in stages, the equity interest in the acquiree previously held by the acquirer

(d) The resulting goodwill recognized or the gain on a bargain purchase recognized.

7. An entity applying a measurement period must consider all pertinent factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognized or whether that information results from events that occurred after the acquisition date.

8. In accordance with Subtopic 805-10, the measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period cannot exceed one year from the acquisition date. If the initial accounting for a business combination is incomplete or particular assets, liabilities, noncontrolling interests, or items of consideration and the amounts recognized in financial statements for the business combination have been determined only provisionally, the acquirer is required to provide the following disclosures described in paragraph 805-20-50-4A for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively:

(a) The reasons why the initial accounting is incomplete.

(b) The assets, liabilities, equity interests, or items of consideration for which the initial accounting is incomplete.

(c) The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 805-10-25-17, including separately the amount of adjustment to current-period income statement line items relating to the income effects that would have been recognized in previous periods if the adjustment to provisional amounts were recognized as of the acquisition date. Alternatively, an acquirer may present those amounts separately on the face of the income statement.

Issue 2: Disclosures

9. At the February 17, 2021 Board meeting, the Board discussed disclosures for newly formed joint ventures and directed the staff to conduct additional research. The disclosure alternatives for the Board's consideration at the October 13, 2021 Board meeting are as follows:

(a) **Disclosure Objective and List Approach—**Establish an objective that would require a joint venture to disclose information that enables users of its financial statements to evaluate the nature and financial effect of the joint venture formation in the period of formation. To meet that disclosure objective, a joint venture would be required to provide the following joint venture-specific disclosures (the disclosures below are an example of how they may appear as proposed amendments):

a. The formation date.
b. A description of the purpose for which the joint venture was formed (for example, to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities).
c. The formation-date fair value of the joint venture as a whole.
d. A description of the recognized assets and businesses acquired by the joint venture.
e. The amounts recognized by the joint venture for each major class of assets and liabilities as a result of accounting for its formation, either on the face of the financial statements or notes.
f. A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining operations of the contributed assets or businesses, intangible assets that do not qualify for separate recognition, or other factors.

(b) **Disclosure Objective-Only Approach**—Establish an objective that would require a joint venture to disclose information that enables users of its financial statements to evaluate the nature and financial effect of the joint venture formation in the period of formation. This alternative only would provide a disclosure objective and would require a joint venture to use its discretion to determine what disclosures should be provided to meet that objective.

Issue 3: Valuation Considerations

10. In accordance with the Board's tentative decisions on this project related to measurement, a joint venture, upon formation, would measure its total net assets (including goodwill) using the fair value of the joint venture as a whole. Therefore, a joint venture would measure its total net assets upon formation as the fair value of 100 percent of the joint venture's equity immediately after formation.

11. The staff received questions from Board members about whether the fair value of the joint venture as a whole would be equal to the sum of the separate noncontrolling interests held by the venturers and whether any differences between those amounts would create equity method basis differences for the venturers.

Board Meeting Handout

Codification Improvements: Financial Instruments—Credit Losses (Vintage Disclosure: Gross Writeoffs and Gross Recoveries)

October 13, 2021

Meeting Purpose

1. The purpose of this meeting is to provide updated research and outreach information about whether gross writeoffs and recoveries should be presented in the vintage disclosure and, if so, whether that information should be required to be presented on a cumulative or current year basis.

Questions for the Board
1. Does the Board want to require the disclosure of gross writeoffs by year of origination within the vintage disclosures required by paragraph 326-20-50-6? (Issue 1A)
2. Does the Board want to require the disclosure of gross recoveries by year of origination within the vintage disclosures required by paragraph 326-20-50-6? (Issue 1B)
3. If the answers to Question 1 and/or Question 2 is yes, does the Board want to require cumulative or, alternatively, current year information to be required?
4. Does the Board want to require prospective transition? (Issue 2)
5. Subject to what the staff learns through comment letters, does the Board think that the expected benefits of the changes justify the perceived costs?
6. Does the Board direct the staff to draft a proposed Accounting Standards Update for vote by written ballot?
7. What comment period does the Board select for the amendments in the proposed Update?

Background

2. In July 2018, a stakeholder submitted a technical inquiry about the amendments in Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, regarding the credit-quality information disclosure requirements in paragraphs 326-20-50-4 through 50-9 and the illustration of those disclosure requirements in Example 15 (paragraph 326-20-55-79). Paragraph 326-20-50-6 requires that public business entities disclose in the footnotes to the financial statements the amortized cost basis related to financing receivables or net

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investment in leases, within each credit-quality indicator by year of origination (that is, vintage year). Paragraph 326-20-55-79 (Example 15) illustrates how an entity might meet the disclosure requirements. In addition to providing amortized cost basis by origination year, the illustration includes a line item for gross writeoffs and recoveries for each origination year. The vintage disclosures are not required for entities that are not public business entities.

3. At the April 3, 2019 Board meeting, the Board concluded that the intent of Example 15 was unclear. Therefore, to provide further clarity, the Board decided that an entity should apply the guidance in paragraphs 326-20-50-4 through 50-9 when preparing credit-quality disclosures and that an entity is not required to disclose gross writeoffs and recoveries by vintage year, as illustrated in Example 15. However, the Board directed the staff to perform additional research and outreach on whether gross writeoffs and recoveries should be required to be presented by year of origination.

4. At the July 14, 2021 Board meeting, the Board discussed whether the gross writeoffs and recoveries project should move forward and begin initial deliberations or be removed from the Board's technical agenda and considered in conjunction with the post-implementation review process for credit losses. The Board decided to keep the project on its technical agenda and begin initial deliberations on whether gross writeoff and recovery information should be presented in the vintage disclosure. Board members acknowledged that many users find this information critical, and that the vintage table is currently incomplete without writeoff and recovery information. Certain Board members expressed their preference that this project be completed expeditiously, noting that the longer this information is excluded from the vintage table, the more years of information will be lost.

Issue 1A: Writeoffs

5. In outreach performed by the staff, most users agreed that gross writeoff information disaggregated by origination year would provide decision-useful information that would be helpful in performing their analyses. Users explained that this information would allow them to understand trends in credit quality by origination year over time, increases comparability of portfolio performance among peer financial institutions, and improves the usefulness of the vintage disclosure holistically. Users also expressed that although cumulative information would be the most decision useful, current year writeoffs by vintage also would be helpful to their analyses.

6. Nearly all preparers stated that they currently do not have the system capabilities to produce gross writeoff information by year of origination and that providing that information may cause a significant operational burden. Financial institutions explained that writeoff information is not currently tracked/available at the level of granularity that would be needed to satisfy this

disclosure requirement. Therefore, if writeoff information was required to be provided by year of origination, system changes would need to be made.

7. Nearly all preparers preferred providing writeoff information on a current year only basis (if it were to be required at all). That is, preparers indicated that they would provide disclosure of gross writeoffs that occurred during the current reporting period by year of origination (along with comparative periods as required by Topic 205, Presentation of Financial Statements). Preparers noted that providing cumulative disclosures would be more costly and complex to produce and that the data needed to provide cumulative disclosure would be more difficult to obtain. Cumulative writeoff data are not currently tracked at the level of granularity that would be needed to populate this potential disclosure requirement.

8. Audit firms acknowledged that gross writeoff information by year of origination would be auditable. However, the firms described potential operational challenges that their clients may face in producing that information. Additionally, most firms did not express concern about auditing cumulative data. They noted that any independence or predecessor/successor auditor issues would be able to be overcome such that the auditability of the information would be feasible.

9. Regulators acknowledged that gross writeoff information by year of origination would provide information that is useful for risk-based supervisory activities for certain portfolios to allow them to further evaluate credit-risk management within the portfolio. However, some regulators suggested that although the information would be decision useful, those disclosures should be required only if it is not costly or operationally burdensome for preparers to produce.

Issue 1B: Recoveries

10. Some financial statement users commented that gross recovery information by year of origination would be decision-useful information but was not as important as gross writeoff information by vintage. Users generally agreed that gross recovery information in isolation would not be as useful as gross writeoff information, but some indicated that it may be useful to provide net writeoff information.

11. In general, preparers had the same feedback about providing gross recovery information by year of origination as they did for providing gross writeoff information by vintage. That is, many of the operational challenges noted by preparers about providing gross writeoff information by year of origination also would be relevant for providing gross recovery information by year of origination. However, preparers noted that some additional operational complexities are specific to providing recovery information, including the time lag between

writeoff and recoveries leading to diminished information usefulness and providing information about recoveries realized through sales.

Issue 2: Transition

12. The staff asked preparers if it would be operationally feasible to provide gross writeoff and/or recovery information for periods before the effective date of any change in disclosure requirements. Nearly all preparers expressed that it would not be feasible or would be challenging to provide gross writeoff or recovery information by year of origination before the adoption of an amendment that would require that disclosure. Most concerns stemmed from the feedback that preparers would need to make system changes to be able to track and provide this information, and, therefore, information before adoption of an amendment would not be readily available and would have to be captured manually.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Financial Instruments—Credit Losses (Topic 326): Targeted Improvements to the Accounting for Troubled Debt Restructuring for Creditors

October 13, 2021

Meeting Purpose

1. The objective of this meeting is to determine if the recognition and measurement of troubled debt restructurings (TDRs) should be eliminated for creditors that adopted Topic 326, Financial Instruments—Credit Losses, and whether disclosures about certain modifications made by creditors should be enhanced.

Questions for the Board
1. Does the Board want to eliminate TDR recognition and measurement guidance from GAAP for those creditors that have adopted Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*?   2. Does the Board want to require the disclosure enhancements cited in paragraph 12 related to modifications made to borrowers experiencing financial difficulty?   3. Does the Board want to exclude modifications that only represent an insignificant delay in payment from the proposed enhanced disclosure requirements?   4. Does the Board want to require prospective transition for the proposed amendments to recognition and measurement (that is, to modifications occurring after the adoption of a final Update), with an option to elect modified retrospective transition (that is, a cumulative effect opening retained earnings adjustment as of the beginning of the earliest period presented after adoption of Update 2016-13)?   5. Does the Board want to require a prospective transition for the proposed amendments to disclosure requirements (that is, as of the period of adoption)?   6. Subject to what the Board learns through comment letters, does the Board think that the expected benefits of the changes justify the perceived costs?   7. Does the Board direct the staff to draft a proposed Accounting Standards Update for vote by written ballot, which would eliminate recognition and measurement guidance for TDRs by creditors for entities that have adopted Update 2016-13 and enhance disclosure requirements for modifications made to borrowers experiencing financial difficulty?   8. What comment period does the Board select for the amendments in the proposed Update?

Background

2. Subtopic 310-40, Receivables—Troubled Debt Restructuring for Creditors, provides guidance to determine which loan modifications represent TDRs and how creditors should account for those modifications that are deemed to be TDRs. The amendments in Update 2016-13 eliminated specific impairment guidance included in Subtopic 310-40 but retained the TDR designation and measurement principles as well as some of the disclosure requirements.

3. After the issuance of Update 2016-13, the Board established a transition resource group (TRG) to address any practice concerns for entities adopting the new guidance. At the June 2017 TRG meeting, members and observers discussed an issue of whether or not a discounted cash flow (DCF) model had to be used to capture the economic loss of certain concessions, such as an interest rate concession. Similar feedback as those practice issues discussed during the TRG meeting resurfaced during the most recent outreach related to the post-implementation review (PIR) process. That is, stakeholders indicated that having to use a DCF model to measure the effect of certain concessions (such as interest rate concessions) for TDRs after the adoption of current expected credit losses (CECL) can be costly and complex.

4. In 2020, the staff began conducting outreach as part of the PIR process with financial statement preparers who adopted Update 2016-13. Many of those preparers commented that the allowance for credit losses captured the effect of most concessions recognized as TDRs, repeating previous concerns about TDR accounting, and recommended that the Board eliminate TDR accounting altogether. In addition, those preparers noted that the designation of a loan modification as a TDR and the related accounting and disclosure may not provide users of financial statements with decision-useful information, especially when considering that for much of 2020 entities stopped applying the TDR guidance and provided investors with information specific to forbearance programs to address their questions. Lastly, the staff and Board received feedback that there may be significant judgment involved in determining whether a modification should be designated as a TDR, and, therefore, the cost of applying the guidance may not justify the benefits.

5. At the May 2021 CECL roundtable, most stakeholders supported a project that would supersede existing recognition and measurement guidance related to TDRs while also enhancing disclosure requirements. Preparers in particular noted that disclosure information would still be necessary to provide analysts and other users with information about their loan modification programs. Preparers referenced the information that they provided analysts with during 2020 as an example of decision-useful information about the modification programs.

6. At the July 14, 2021 Board meeting, the Board added a project to its technical agenda to address the accounting for TDRs by creditors for entities that have adopted Update 2016-13 and to enhance disclosure requirements for certain modifications, specifically those that are considered to be loss mitigating. That is, information about modifications made in an effort for creditors to maximize collections of a loan is decision useful for financial statement users (including regulators and analysts). As a result, the Board requested that the staff focus proposed disclosure enhancements on those types of loan modifications.

Issue 1: Eliminate TDR Guidance for Creditors That Have Adopted Update 2016-13

7. Users generally provided feedback that they found the information about COVID-19-related modifications provided on a voluntary basis in 2020 to be more informative than designation of, and disclosures about, TDRs. Some users stated that TDRs typically affect such a small portion of the portfolio that they generally review to ensure that the TDRs have not grown significantly in the current period and they do not utilize the information in great detail otherwise.

8. Preparers previously noted that the operational complexities of determining if a loan modification qualifies as a TDR under Subtopic 310-40. Specifically, preparers struggle with the complexity of determining if a concession has been granted to the creditor in paragraphs 310-40-15-13 through 15-16. In addition to the initial complexities of determining if a loan modification qualifies as a TDR, preparers also find it burdensome to perform a DCF analysis on loans for which the effect of a concession can be captured only through a DCF (that is, an interest rate concession) and to track those loans modified in a TDR separately from other, similar loans in the portfolio. Lastly, the staff received feedback that the effect of using a DCF analysis to determine the allowance for credit losses resulted in an insignificant incremental increase to the allowance, highlighting preparers' concerns that the operational costs associated with the recognition and measurement of TDRs are greater than the informational usefulness for users. Most preparers supported applying the existing modification guidance in paragraphs 310-20-35-9 through 35-12 if TDR recognition and measurement were eliminated and stated that this guidance is well understood and applied in practice currently.

9. Some prudential regulators suggested that some community banks, even after adopting CECL, may not have adequate reserves until a modification (that currently would be designated as a TDR) triggers an increase in the allowance.

10. At the May 2021 roundtable, practitioners agreed with preparers and stated that the cost of providing TDR related information may outweigh the benefits for users.

Issue 2: Disclosures

11. The staff solicited feedback on potential disclosure enhancements for borrowers experiencing financial difficulty.

12. The potential disclosures for the Board's consideration are as follows:

Description of Proposed Disclosure	Qualitative Info?	Quantitative Info?	Time Period for Disclosure
By portfolio segment: How modifications and subsequent performance are factored into the determination of allowance for credit losses (ACL)	✓		Modifications made in the current reporting period
By class of financing receivable: How the financing receivables were modified	✓	✓	Modifications made in the current reporting period
By class of financing receivable: The financial effects of modifications	✓	✓	Modifications made in the current reporting period
By portfolio segment: How defaults after modification are factored into the allowance	✓		Modifications made within the last 12 months
By class of financing receivable: The types and amount of financing receivables that defaulted	✓	✓	Modifications made within the last 12 months
By class of financing receivable: Loan reperformance of the modified financing receivables	✓	✓	Modifications made within the last 12 months

User Feedback

13. Users generally agreed that by requiring additional disclosure about modifications made to "borrowers experiencing financial difficulty," they would receive decision-useful information. That is, they agreed that it would provide them with additional information about the modifications that they cared about most if recognition and measurement of TDRs were eliminated.

14. Users shared that they are most interested in the type and magnitude of modifications, modifications by asset class/portfolio, and default rates after modification. Users supported requiring disclosure of the financial statement effect of modifications when the staff clarified the objective and proposed content of the disclosure. However, users stated that additional guidance may be needed to ensure consistency across entities.

15. A few users recommended that the Board consider expanding the required disclosures to include additional information about concentrations of modifications in certain industries so that they can further spot trends in a portfolio. That is, they suggested that the disclosure of modifications made to borrowers experiencing financial difficulty be disaggregated further to address concentrations in certain industries. For example, one user highlighted that certain industries, such as travel and entertainment, were more negatively affected by COVID-19 than other industries and it would have been useful to have seen the number of modifications given to those industries.

Preparer Feedback

16. Preparers largely supported retaining the concept of borrowers experiencing financial difficulty to determine if information about modifications should be provided. Preparers noted that the concept currently exists in paragraph 310-40-15-20, which includes a list of potential indicators that a debtor is experiencing financial difficulties. They noted that it is well-understood and operable.

17. Most preparers acknowledged that additional disclosure would be needed to provide financial statement users with information about certain loan modifications. Preparers generally supported retaining the disclosures currently required for TDRs but providing them for modifications made to borrowers experiencing financial difficulty instead. However, preparers requested further clarification about the objective and information required in providing a disclosure of the effect of the financial effect of a modification absent TDR recognition and measurement.

Practitioner Feedback

18. Practitioners noted that the potential disclosures generally would be auditable but raised some operational questions that their clients may face in producing some of the potential disclosures.

Regulator Feedback

19. Prudential regulators noted that the potential disclosures would provide users with decision-useful information. One regulator mentioned that the disclosures include the most relevant enhancements needed, such as the types of modifications, their effect on the financial statements and ACL, and the effectiveness of modification programs offered to borrowers.

Feedback About Disclosure Enhancements from all Stakeholder Groups

Feedback About Periods Covered by Modification Disclosures

20. Nearly all stakeholders supported including current period only activity for the disclosures and supported including explicit guidance for when a loan modified no longer needs to be included in the disclosures about modifications made to borrowers experiencing financial difficulty. This feedback is consistent with concerns previously expressed by stakeholders that "once a TDR, always a TDR." The measurement concern about retaining TDR designation (that is, having to use a DCF to measure the ACL for the life of the loan) no longer will exist if the Board decides to eliminate TDRs for creditors. However, stakeholders cautioned the Board that entities may continue to believe that this notion should be applied to the proposed enhanced disclosures if the disclosures are unclear on what time period they should cover.

Insignificant Delay in Payment

21. Some stakeholders described modifications that are made to borrowers that provide a short-term delay or deferral of payments for temporary financial difficulty (for example, a loss of a job). Based on guidance included in paragraph 310-40-15-17, those modifications are not currently considered to be TDRs. A preparer and a prudential regulator noted that those types of modifications may not be formally documented and, therefore, may not be "legal modifications." Both of those stakeholders acknowledged that it is unclear whether it would be the Board's intent to require disclosure of those types of modifications with other modifications made to borrowers experiencing financial difficulty.

Issue 3: Transition

Recognition and Measurement

22. The staff developed the following alternatives to address transition guidance as it relates to recognition and measurement:

    (a) Alternative 1: Prospective transition

(b) Alternative 2: Modified retrospective transition

(c) Alternative 3: Prospective transition, with an option to apply the guidance on a modified retrospective basis.

Alternative 1: Prospective Transition Guidance

23. Under this alternative, an entity that has adopted Update 2016-13 no longer would apply the TDR recognition and measurement guidance for modifications made *after* the effective date. For those modifications that occurred before the effective date of any finalized guidance, an entity would continue accounting for those loans as a TDR. Therefore, if those modifications that occurred before the effective date were classified as TDRs and the concession that was provided to the borrower was an interest rate concession, an entity would be required to continue to use a DCF analysis to estimate the allowance for credit losses. Under this approach, an entity would not have to "unwind" previously designated TDRs and would continue to measure the ACL for those loans in the same way it has been.

Alternative 2: Modified Retrospective Transition Guidance

24. Under this alternative, an entity that has adopted Update 2016-13 no longer would be required to apply the TDR recognition and measurement guidance for modifications made *before or after* the effective date. Therefore, any loan modification that previously resulted in a TDR classification before the effective date no longer would be required to be classified as a TDR, and, as a result, the allowance for credit losses for that specific loan could be determined by applying any methodology, such as a loss rate methodology. That is, an entity would record an adjustment to retained earnings as of the beginning of the earliest period presented in financial statements *after* adoption of Update 2016-13 to reflect the amount of allowance "unwound" as a result of no longer separately measuring the allowance for credit losses on those loans.

Alternative 3: Prospective Transition, with an Option to Elect a Modified Retrospective Approach

25. Under this alternative, an entity would utilize a prospective transition approach for recognition and measurement but may elect to utilize a modified retrospection approach if preferred as described in Alternative 2. This alternative would allow entities to apply the guidance prospectively, which would allow entities to continue accounting for loans modified before the effective date of any finalized guidance as a TDR. However, it also would contain an option for entities that have adopted Update 2016-13 to not be required to apply the TDR recognition and measurement guidance for modifications made before or after the effective date. Therefore, any loan modification that previously resulted in a TDR classification before the

effective date no longer would be required to be classified as a TDR, and, as a result, the allowance for credit losses for that specific loan could be determined applying any methodology, such as a loss rate methodology.

Disclosure

26. As it relates to the transition methodology for disclosures, most stakeholders supported a prospective transition approach.