

Assets → 310 Receivables → 10 Overall ↴

35 Subsequent Measurement

i **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

 [Related Proposed ASUs](#)

- 310-10-35-1** This Subsection provides the following subsequent measurement guidance:
- a. [Loan](#) impairment
 - b. Credit losses for loans and trade receivables
 - c. Credit losses for [standby letters of credit](#) and certain loan commitments
 - d. Subsequent measurement of specific types of receivables.

 PENDING CONTENT



Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

> Impairment of Loans and Receivables

- 310-10-35-2** [Subtopic [450-20](#) provides the basic guidance for recognition of impairment losses for all receivables (except those receivables specifically addressed by other Topics, such as debt securities). This Subsection provides more specific guidance on measurement and disclosure for a subset of the population of loans. That subset consists of loans that are identified for evaluation and that are individually deemed to be impaired (because it is [probable](#) that the creditor will be unable to collect all the contractual interest and principal payments as scheduled in the loan agreement). It also includes all loans that are restructured in a troubled debt restructuring involving a modification of terms, except for those loans that are excluded from the scope of this guidance, as discussed in paragraph [310-10-35-13\(b\) through \(d\)](#). [[EITF D-080, paragraph 1](#)]]

 PENDING CONTENT 

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Editor's Note: Paragraph 310-10-35-2 will be superseded upon transition, together with its heading.

> **Impairment of Loans and Receivables**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-3

This Subsection addresses both the impairment concepts applicable to all receivables, with references to the guidance in Subtopic [450-20](#) where appropriate, and the impairment concepts related to loans that are identified for evaluation and that are individually deemed to be impaired, as discussed in paragraph [310-10-35-2](#).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· > General Concepts

310-10-35-4

[The following provides an overview of generally accepted accounting principles (GAAP) for loan impairment: [[EITF D-080, paragraph](#)]]

- a. [It is usually difficult, even with hindsight, to identify any single event that made a particular loan uncollectible. However, the concept in GAAP is that impairment of receivables shall be recognized when, based on all available information, it is probable that a loss has been incurred based on past events and conditions existing at the date of the financial statements. [[EITF D-080, paragraph](#)]]
- b. [Losses shall not be recognized before it is probable that they have been incurred, even though it may be probable based on past experience that losses will be incurred in the future. It is inappropriate to consider possible or expected future trends that may lead to additional losses. Recognition of losses shall not be deferred to periods after the period in which the losses have been incurred. [[EITF D-080, paragraph](#)]]
- c. [GAAP does not permit the establishment of allowances that are not supported by appropriate analyses. The approach for determination of the allowance shall be well documented and applied consistently from period to period. [[EITF D-080, paragraph](#)]]
- d. [Under Subtopic [450-20](#), the threshold for recognition of impairment shall be the same whether the creditor has many loans or has only one loan. Paragraph [310-10-35-9](#) requires that if the conditions of paragraph [450-20-25-2](#) are met, accrual shall be made even though the particular receivables that are uncollectible may not be identifiable. [[EITF D-080, paragraph](#)]]
- e. [The guidance in this Subsection is more specific than Subtopic [450-20](#) in that it requires certain methods of measurement for loans that are individually considered impaired, but it does

not fundamentally change the recognition criteria for loan losses. [[EITF D-080, paragraph](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-4 will be superseded upon transition, together with its heading.

> > **General Concepts**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· > Impairment of Receivables

310-10-35-5 The following discusses the general principles for measurement impairment of receivables under Subtopic [450-20](#), specifically:

- a. Applicability
- b. Losses from uncollectible receivables.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-5 will be superseded upon transition, together with its heading.

> > **Impairment of Receivables**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· · > Applicability

310-10-35-6 [A creditor needs to apply judgment based on individual facts and circumstances to determine what represents large groups of smaller-balance homogeneous loans. Paragraphs [310-10-35-7 through 35-11](#) would apply to those groups of smaller-balance loans as well as loans that are not identified for evaluation or that are evaluated but are not individually considered impaired. [[EITF D-080, paragraph 2](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-6 will be superseded upon transition, together with its heading.

> > > **Applicability**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· · > Losses from Uncollectible Receivables

310-10-35-7 [The conditions under which receivables exist usually involve some degree of uncertainty about their collectibility, in which case a contingency exists. [[FAS 005, paragraph 22](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-7 will be superseded upon transition, together with its heading.

> > **Losses from Uncollectible Receivables**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-8 [Subtopic [450-20](#) requires recognition of a loss when both of the following conditions are met: [[EITF D-080, paragraph 5](#)]]

- a. [Information available before the financial statements are issued or are available to be issued (as discussed in Section [855-10-25](#)) indicates that it is probable that an asset has been impaired at the date of the financial statements. [[EITF D-080, paragraph 5](#)]]
- b. [The amount of the loss can be reasonably estimated. [[EITF D-080, paragraph 5](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-9 [Losses from uncollectible receivables shall be accrued when both of the preceding conditions are met. Those conditions may be considered in relation to individual receivables or in relation to groups of similar types of receivables. If the conditions are met, accrual shall be made even though the particular receivables that are uncollectible may not be identifiable. [[FAS 005, paragraph 22](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-10 [If, based on current information and events, it is probable that the entity will be unable to collect all amounts due according to the contractual terms of the receivable, the condition in paragraph [450-20-25-2\(a\)](#) is met. As used here, all amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments will be collected as scheduled

according to the receivable's contractual terms. However, a creditor need not consider an insignificant delay or insignificant shortfall in amount of payments as meeting the condition in paragraph 450-20-25-2(a). Whether the amount of loss can be reasonably estimated (the condition in paragraph 450-20-25-2(b)) will normally depend on, among other things, the experience of the entity, information about the ability of individual debtors to pay, and appraisal of the receivables in light of the current economic environment. In the case of an entity that has no experience of its own, reference to the experience of other entities in the same business may be appropriate. [FAS 005, paragraph 23]]

 PENDING CONTENT 

Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-11

[The inability to make a reasonable estimate of the amount of loss from uncollectible receivables (that is, failure to satisfy the condition in paragraph 450-20-25-2(b)) precludes accrual and may, if there is significant uncertainty as to collection, suggest that the cost recovery method, [FAS 005, paragraph 23]] [the cash-basis method, or some other method shall be used. [ASU 2014-09, paragraph 25]]

 PENDING CONTENT 

Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· > Loans That Are Identified for Evaluation or That Are Individually Considered Impaired

310-10-35-12

The following addresses impairment of loans that are identified for evaluation or that are individually considered impaired, specifically:

- a. Applicability
- b. Identifying loans for evaluation
- c. Assessing whether a loan is impaired
- d. Measurement of impairment
- e. Interaction with loss contingencies
- f. Changes in the net carrying amount of an impaired loan.

 PENDING CONTENT 

Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-12 will be superseded upon transition, together with its heading.

> > Loans That Are Identified for Evaluation or That Are Individually Considered Impaired

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· · > Applicability

310-10-35-13 [This guidance applies to all creditors. It addresses the accounting by creditors for impairment of a loan by specifying how allowances for credit losses related to certain loans shall be determined. [[FAS 114, paragraph 5](#)]] [The accounting for impaired loans shall be consistent among all creditors and for all types of lending except for loans that are measured at [fair value](#) or at the lower of cost or fair value in accordance with specialized industry practice. [[FAS 114, paragraph 36](#)]] [Therefore, this guidance applies to all loans that are identified for evaluation, uncollateralized as well as collateralized, except the following: [[FAS 114, paragraph 6](#)]]

- a. [Large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment. Those loans may include but are not limited to credit card, residential mortgage, and consumer installment loans. [[FAS 114, paragraph 6](#)]]
- b. [Loans that are measured at fair value or at the lower of cost or fair value, for example, in accordance with [Topic 948](#) or other specialized industry practice. [[FAS 114, paragraph 6](#)]]
- c. [Subparagraph superseded by Accounting Standards Update No. 2016-02.](#)
- d. [Debt securities as defined in [Topic 320](#). [[FAS 114, paragraph 6](#)]]

[This guidance does not address when a creditor should record a direct write-down of an impaired loan, nor does it address how a creditor should assess the overall adequacy of the allowance for credit losses. [[FAS 114, paragraph 7](#)]]

 PENDING CONTENT 

Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-13 will be superseded upon transition, together with its heading.

> > [Applicability](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· · > Identifying Loans for Evaluation

310-10-35-14 [This guidance does not specify how a creditor should identify loans that are to be evaluated for collectibility. [[FAS 114, paragraph 7](#)]] [A creditor shall apply its normal loan review procedures in making that judgment. [[FAS 114, paragraph 7](#)]] [Sources of information useful in identifying loans for evaluation include the following: [[FAS 114, paragraph 7](#)]]

- a. [A specific materiality criterion [[FAS 114, paragraph 7](#)]]
- b. [Regulatory reports of examination [[FAS 114, paragraph 7](#)]]
- c. [Internally generated listings such as watch lists, past due reports, overdraft listings, and listings of loans to insiders [[FAS 114, paragraph 7](#)]]
- d. [Management reports of total loan amounts by borrower [[FAS 114, paragraph 7](#)]]
- e. [Historical loss experience by type of loan [[FAS 114, paragraph 7](#)]]

- f. [Loan files lacking current financial data related to borrowers and guarantors [[FAS 114, paragraph 7](#)]]
- g. [Borrowers experiencing problems such as operating losses, marginal working capital, inadequate cash flow, or business interruptions [[FAS 114, paragraph 7](#)]]
- h. [Loans secured by collateral that is not readily marketable or that is susceptible to deterioration in realizable value [[FAS 114, paragraph 7](#)]]
- i. [Loans to borrowers in industries or countries experiencing economic instability [[FAS 114, paragraph 7](#)]]
- j. [Loan documentation and compliance exception reports. [[FAS 114, paragraph 7](#)]]

 PENDING CONTENT 

Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-14 will be superseded upon transition, together with its heading.

> > > [Identifying Loans for Evaluation](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-15

- [After a loan has been individually identified for evaluation, a creditor shall not aggregate loans with common risk characteristics when assessing whether loans are impaired. [[EITF D-080, paragraph 13](#)]]
- [Only if a creditor can identify which individual loans (if any) are impaired (because it is probable that the creditor will be unable to collect all the contractual interest and principal payments as scheduled in the loan agreement) shall an allowance be measured for individual loans under this Subsection. [[EITF D-080, paragraph 13](#)]]

 PENDING CONTENT 

Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· · > Assessing Whether a Loan Is Impaired

310-10-35-16

- [A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. [[FAS 114, paragraph 8](#)]] [All amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement. [[FAS 114, paragraph 8](#)]] See Subtopic [310-40](#) for specific application of this guidance to loans restructured in a troubled debt restructuring.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-16 will be superseded upon transition, together with its heading.

> > **Assessing Whether a Loan Is Impaired**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-17

[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. [[FAS 114, paragraph 8](#)]] [A creditor shall apply its normal loan review procedures in making that judgment. [[FAS 114, paragraph 8](#)]] [An insignificant delay or insignificant shortfall in amount of payments does not require application of this guidance. [[FAS 114, paragraph 8](#)]] [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. [[FAS 114, paragraph 8](#)]] [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. [[FAS 114, paragraph 8](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-18

[The term *probable* is used consistent with its use in Subtopic [450-20](#), which defines probable as an area within a range of the likelihood that a future event or events will occur confirming the fact of the loss. That range is from probable to remote, as follows: [[FAS 114, paragraph 10](#)]]

- a. [Probable. The future event or events are likely to occur. [[FAS 114, paragraph 10](#)]]
- b. [Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely. [[FAS 114, paragraph 10](#)]]
- c. [Remote. The chance of the future event or events occurring is slight. [[FAS 114, paragraph 10](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

- 310-10-35-19** [The term probable is further described in paragraph [450-20-25-3](#), which indicates that [[FAS 114, paragraph 10](#)]] [the conditions for accrual in paragraph [450-20-25-2\(a\)](#) are not intended to be so rigid that they require virtual certainty before a loss is accrued. They require only that it be probable that an asset has been impaired or a liability has been incurred and that the amount of loss be reasonably estimable. [[FAS 114, paragraph 10](#)]] [Application of the term probable in practice requires judgment, and probable does not mean virtually certain. Probable is a higher level of likelihood than more likely than not. [[EITF D-080, paragraph 8](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
Paragraph superseded by Accounting Standards Update No. 2016-13.

· · > Measurement of Impairment

- 310-10-35-20** [Measuring impairment of a loan requires judgment and estimates, and the eventual outcomes may differ from those estimates. Creditors shall have latitude to develop measurement methods that are practical in their circumstances. [[FAS 114, paragraph 11](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-20 will be superseded upon transition, together with its heading.

> > > **Measurement of Impairment**

Paragraph superseded by Accounting Standards Update No. 2016-13.

- 310-10-35-21** [Some impaired loans have risk characteristics that are unique to an individual borrower, and the creditor shall apply the measurement methods described in paragraphs [310-30-30-2](#); [310-10-35-22](#) through [35-28](#); and [310-10-35-37](#) on a loan-by-loan basis. However, some impaired loans may have risk characteristics in common with other impaired loans. A creditor may aggregate those loans and may use historical statistics, such as average recovery period and average amount recovered, along with a composite [effective interest rate](#) as a means of measuring impairment of those loans. [[FAS 114, paragraph 12](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-22

[When a loan is impaired (see paragraphs [310-10-35-16 through 35-17](#)), a creditor shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is a [collateral-dependent loan](#). [[FAS 114, paragraph 13](#)]] [If that practical expedient is used, Topic [820](#) shall apply. [[ASU 2011-04, paragraph 85](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-23

[If a creditor uses the fair value of the collateral to measure impairment of a collateral-dependent loan and repayment or satisfaction of a loan is dependent on the sale of the collateral, the fair value of the collateral shall be adjusted to consider estimated costs to sell. [[FAS 114, paragraph 46](#)]] [However, if repayment or satisfaction of the loan is dependent only on the operation, rather than the sale, of the collateral, the measure of impairment shall not incorporate estimated costs to sell the collateral. [[FAS 114, paragraph 46](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-24

[The creditor may choose a measurement method on a loan-by-loan basis. A creditor shall consider estimated costs to sell, on a discounted basis, in the measure of impairment if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan. If the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral) is less than the [recorded investment](#) in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), a creditor shall recognize an impairment by creating a valuation allowance with a corresponding charge to bad-debt expense or by adjusting an existing valuation allowance for the impaired loan with a corresponding charge or credit to bad-debt expense. [[FAS 114, paragraph 13](#)]] [The term *recorded investment in the loan* is distinguished from *net carrying amount of the loan* because the latter term is net of a valuation allowance, while the former term is not. The recorded investment in the loan does, however, reflect any direct write-down of the investment. [[FAS 114, paragraph 13](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-25

[If a creditor bases its measure of loan impairment on a present value amount, the creditor shall calculate that present value amount based on an estimate of the expected future cash flows of the impaired loan, discounted at the loan's effective interest rate. [FAS 114, paragraph 14]] [A creditor's recorded investment in a loan at origination and during the life of the loan, as long as the loan performs according to its contractual terms, is the sum of the present values of the future cash flows that are designated as interest and the future cash flows that are designated as principal discounted at the effective interest rate implicit in the loan. A loan that becomes impaired (because it is probable that the creditor will be unable to collect all the contractual interest payments and contractual principal payments as scheduled in the loan agreement) shall continue to be carried at an amount that considers the discounted value of all expected future cash flows in a manner consistent with the loan's measurement before it became impaired. [EITF D-080, paragraph 20]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-26

[If a creditor bases its measure of loan impairment on a present value calculation, the estimates of expected future cash flows shall be the creditor's best estimate based on reasonable and supportable assumptions and projections. All available evidence, including estimated costs to sell if those costs are expected to reduce the cash flows available to repay or otherwise satisfy the loan, shall be considered in developing the estimate of expected future cash flows. The weight given to the evidence shall be commensurate with the extent to which the evidence can be verified objectively. If a creditor estimates a range for either the amount or timing of possible cash flows, the likelihood of the possible outcomes shall be considered in determining the best estimate of expected future cash flows. [FAS 114, paragraph 15]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-27

[In addition, a creditor shall consider all available information reflecting past events and current conditions when developing the estimate of expected future cash flows. All available information would include existing environmental factors, for example, existing industry, geographical, economic, and political factors that are relevant to the collectibility of that loan and that indicate that it is probable that an asset had been impaired at the date of the financial statements. [EITF D-080, paragraph 16]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-28 [If the loan's contractual interest rate varies based on subsequent changes in an independent factor, such as an index or rate, for example, the prime rate, the London Interbank Offered Rate (LIBOR), or the U.S. Treasury bill weekly average, that loan's effective interest rate may be calculated based on the factor as it changes over the life of the loan or may be fixed at the rate in effect at the date the loan meets the impairment criterion in paragraphs [310-10-35-16 through 35-17](#). The creditor's choice shall be applied consistently for all loans whose contractual interest rate varies based on subsequent changes in an independent factor. Projections of changes in the factor shall not be made for purposes of determining the effective interest rate or estimating expected future cash flows. [[FAS 114, paragraph 14](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-29 [The measurement method selected for an individual impaired loan shall be applied consistently to that loan. A change in method shall be justified by a change in circumstance. [[FAS 114, paragraph 53](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-30 There are two considerations related to measurement of impairment:

- a. Impact of hedging
- b. Measurement of impairment when foreclosure is probable.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
Paragraph superseded by Accounting Standards Update No. 2016-13.

... > Impact of Hedging

310-10-35-31 [Section [815-25-35](#) implicitly affects the measurement of impairment under this Topic by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted recorded investment in a hedged loan. [[DIG F04, paragraph RESPONSE](#)]] [When the recorded investment of a loan has been adjusted under fair value hedge accounting, the effective rate is the discount rate that equates the present value of the loan's future cash flows with that adjusted

recorded investment. [[DIG F04, paragraph RESPONSE](#)]] [The adjustment under fair value hedge accounting of the loan's carrying amount for changes in fair value attributable to the hedged risk under Section [815-25-35](#) shall be considered to be an adjustment of the loan's recorded investment. [[DIG F04, paragraph RESPONSE](#)]] [Paragraph [815-25-35-11](#) explains that the loan's original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value. [[DIG F04, paragraph RESPONSE](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-31 will be superseded upon transition, together with its heading.

> > > **Impact of Hedging**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-31A

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

[Paragraph [815-25-35-11](#) also explains that an entity shall not adjust the recorded investment or the discount rate of the individual assets or individual beneficial interest included in the closed portfolio for a basis adjustment that is maintained on the closed portfolio basis in accordance with paragraph [815-25-35-1\(c\)](#). [[ASU 2022-01, paragraph 4](#)]]

... > Measurement of Impairment When Foreclosure Is Probable

310-10-35-32

[Regardless of the measurement method, a creditor shall measure impairment based on the fair value of the collateral when the creditor determines that foreclosure is probable. [[FAS 114, paragraph 13](#)]] [When a creditor determines that foreclosure is probable, a creditor shall remeasure the loan at the fair value of the collateral so that loss recognition is not delayed until actual foreclosure. [[FAS 114, paragraph 69](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-32 will be superseded upon transition, together with its heading.

> > > **Measurement of Impairment When Foreclosure Is Probable**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

.. > Interaction with Subtopic 450-20

310-10-35-33

The following provides guidance on the interaction between the impairment guidance for receivables in general, which is discussed in Subtopic [450-20](#), and the impairment guidance for loans that are identified for evaluation or that are individually considered impaired discussed in this Subsection.

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> > **Interaction with Subtopic ~~450-20~~**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-34

[In addition to the allowance calculated in accordance with the guidance in this Subsection, a creditor shall continue to recognize an allowance for credit losses necessary to comply with Subtopic [450-20](#). [[FAS 114, paragraph 7](#)]] [The total allowance for credit losses related to loans includes those amounts that have been determined in accordance with that Subtopic and with this Subsection. [[FAS 114, paragraph 20A](#)]] [Double counting by applying this Subsection and then applying that Subtopic to measure the same loss again is inappropriate. [[EITF D-080, paragraph 5](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-35

[If a creditor concludes that an individual loan specifically identified for evaluation is impaired, the creditor shall not establish an allowance in addition to one measured under this Subsection. [[EITF D-080, paragraph 11](#)]] [The allowance provided for a specific loan under this Subsection shall not be supplemented by an additional allowance under Subtopic [450-20](#). The allowance established under this Subsection shall be the sole measure of impairment for that loan. (See boxes C and G in the flowchart in paragraph [310-10-55-1](#)). [[EITF D-080, paragraph 11](#)]] [For a loan that is impaired, no additional loss recognition is appropriate under Subtopic [450-20](#) even if the measurement of impairment under this Subsection results in no allowance. For example, a creditor might conclude for a collateral-dependent loan that it is impaired (because it is probable that the creditor will be unable to collect all the contractual interest and principal payments as scheduled in the loan agreement). The creditor might measure the impairment using the fair value of the collateral, which could result in no allowance if the fair value of the collateral is greater than the recorded investment in the loan. Another example would be when the recorded investment of an impaired loan has been written down to a level where no allowance is required. [[EITF D-080, paragraph 12](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-36

[If a creditor concludes that an individual loan specifically identified for evaluation is not impaired under this Subsection, that loan may be included in the assessment of the allowance for loan losses under Subtopic [450-20](#), [[EITF D-080, paragraph 10](#)] [but only if specific characteristics of the loan indicate that it is probable that there would be an incurred loss in a group of loans with those characteristics. Characteristics or risk factors must be specifically identified to support an accrual for losses that have been incurred but that have not yet reached the point where it is probable that amounts will not be collected on a specific individual loan. A creditor shall not ignore factors and information obtained in the evaluation of the loan's collectibility. For example, if an individual loan specifically identified for evaluation is fully collateralized with risk-free assets, then consideration of that loan as sharing characteristics with a group of uncollateralized loans is inappropriate. Under Subtopic [450-20](#), a loss is recognized if characteristics of a loan indicate that it is probable that a group of similar loans includes some losses even though the loss could not be identified to a specific loan. However, a loss would be recognized only if it is probable that the loss has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. (See boxes D, E, and F in the flowchart in paragraph [310-10-55-1](#).) [[EITF D-080, paragraph 10](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· · > Changes in the Net Carrying Amount of an Impaired Loan

310-10-35-37

[After the initial measurement of impairment, if there is a significant change (increase or decrease) in the amount or timing of an impaired loan's expected future cash flows, or if actual cash flows are significantly different from the cash flows previously projected, a creditor shall recalculate the impairment by applying the procedures specified in paragraphs [310-10-35-21 through 35-22](#) and [310-10-35-24 through 35-26](#) and by adjusting the valuation allowance. Similarly, a creditor that measures impairment based on the observable market price of an impaired loan or the fair value of the collateral of an impaired collateral-dependent loan shall adjust the valuation allowance if there is a significant change (increase or decrease) in either of those bases. However, the net carrying amount of the loan shall at no time exceed the recorded investment in the loan. [[FAS 114, paragraph 16](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-37 will be superseded upon transition, together with its heading.

> > **Changes In the Net Carrying Amount of an Impaired Loan**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-38

[When an asset is carried on a discounted basis, the present value of expected future cash flows will increase from one reporting period to the next as a result of the passage of time. The present value also may change from changes in estimates of the timing or amount of expected future cash flows. Similarly, the observable market price of an impaired loan or the fair value of the collateral of an impaired collateral-dependent loan may change from one reporting period to the next. Because the net carrying amount of an impaired loan shall be the present value of expected future cash flows (or the observable market price or the fair value of the collateral) not only at the date at which impairment initially is recognized but also at each subsequent reporting period, recognition of changes in that measure is required. However, the net carrying amount of the loan shall never exceed the recorded investment in the loan. [[EITF D-080, paragraph 28](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-39

[Except as noted in the next paragraph, this Subsection does not address how a creditor should recognize, measure, or display interest income on an impaired loan. Some accounting methods for recognizing income may result in a recorded investment in an impaired loan that is less than the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral). In that case, while the loan would meet the definition of an impaired loan in paragraphs [310-10-35-16 through 35-17](#), no additional impairment would be recognized. Those accounting methods include recognition of interest income using a cost-recovery method, a cash-basis method, or some combination of those methods. The recorded investment in an impaired loan also may be less than the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral) because the creditor has charged off part of the loan. [[FAS 114, paragraph 17](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-10-35-40

[The following are two alternative income recognition methods to account for changes in the net carrying amount of an impaired loan subsequent to the initial measure of impairment: [[FAS 118, paragraph 4](#)]]

a. [Under the first income recognition method, a creditor shall accrue interest on the net carrying amount of the impaired loan and report other changes in the net carrying amount of the loan as an adjustment to bad-debt expense. [[FAS 118, paragraph 4](#)]]

b. [Under the second income recognition method, a creditor shall recognize all changes in the net carrying amount of the loan as an adjustment to bad-debt expense. [[FAS 118, paragraph 4](#)]] See paragraph [310-10-50-19](#) for a disclosure requirement related to this method.

[Those income recognition methods are not required, and a creditor is not precluded from using either of those methods. [[FAS 118, paragraph 4](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
Paragraph superseded by Accounting Standards Update No. 2016-13.

> Credit Losses for Loans and Trade Receivables

310-10-35-41

[Credit losses for loans and trade receivables, which may be for all or part of a particular loan or trade receivable, shall be deducted from the allowance. The related loan or trade receivable balance shall be charged off in the period in which the loans or trade receivables are deemed uncollectible. Recoveries of loans and trade receivables previously charged off shall be recorded when received. [[SOP 01-6, paragraph 8](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-41 will be superseded upon transition, together with its heading.

> **Credit Losses for Loans and Trade Receivables**

Paragraph superseded by Accounting Standards Update No. 2016-13.

310-10-35-42

[Practices differ between entities as some industries typically credit recoveries directly to earnings while financial institutions typically credit the allowance for loan losses for recoveries. [[SOP 01-6, paragraph 8](#)]] [The combination of this practice and the practice of frequently reviewing the adequacy of the allowance for loan losses results in the same credit to earnings in an indirect manner. [[SOP 01-6, paragraph 8](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

> Credit Losses for Standby Letters of Credit and Certain Loan Commitments

310-10-35-43 [Paragraph [825-10-35-1](#) states that an accrual for credit loss on a financial instrument with off-balance-sheet risk (including standby letters of credit and certain loan commitments) shall be recorded separate from a valuation account related to a recognized financial instrument and provides related guidance. [[SOP 01-6, paragraph 8](#)]]

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-43 will be superseded upon transition, together with its heading.

> **Credit Losses for Standby Letters of Credit and Certain Loan Commitments**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

> Subsequent Measurement of Specific Types of Receivables

310-10-35-44 The following provides guidance on aspects of subsequent measurement for various types of receivables, specifically:

- a. Financial assets subject to prepayment
- b. Standby commitments to purchase loans
- c. Loans and trade receivables not held for sale
- d. Nonmortgage loans held for sale
- e. Loans not previously held for sale
- f. Amortization of discount or premium on notes
- g. Premium allocated to loans purchased in a credit card portfolio
- h. Hedged portfolios of loans.

 PENDING CONTENT


Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

The following provides guidance on aspects of subsequent measurement for various types of receivables, specifically:

- a. Financial assets subject to prepayment
- b. Standby commitments to purchase [loans](#)
- c. Loans and trade receivables not held for sale
- d. Nonmortgage loans held for sale
- e. Loans not previously held for sale
- f. Amortization of discount or premium on notes
- g. Premium allocated to loans purchased in a credit card portfolio
- h. Hedged portfolios of loans
- i. [\[Interest income. \[ASU 2016-13, paragraph 10 \] \]](#)

· > Financial Assets Subject to Prepayment

310-10-35-45 [\[Paragraph 860-20-35-2](#) requires that financial assets, except for instruments that are within the scope of Subtopic [815-10](#), that can contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment be subsequently measured like investments in debt securities classified as available for sale or trading under Topic [320](#). [\[FAS 140, paragraph 14 \]](#)]

· > Standby Commitments to Purchase Loans

310-10-35-46 [\[This paragraph](#) applies only to standby commitments to purchase loans. It does not apply to other customary kinds of commitments to purchase loans, nor does it apply to commitments to originate loans. [\[SOP 01-6, paragraph 8 \]](#)] If a standby commitment is accounted for as a written put option as discussed in paragraph [310-10-25-6](#), [\[the liability](#) recorded at the amount of the option premium received (representing the fair value of the standby commitment on the trade date) shall thereafter be accounted for at the greater of the initial standby commitment fee or the fair value of the written put option. Unrealized gains (that is, recoveries of unrealized losses) or losses shall be credited or charged to current operations. [\[SOP 01-6, paragraph 8 \]](#)] However, see Subtopic [815-10](#) for guidance on accounting for written put options that are within the scope of that Subtopic.

 PENDING CONTENT


Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[This paragraph applies only to standby commitments to purchase loans. It does not apply to other customary kinds of commitments to purchase loans, nor does it apply to commitments to originate loans. [[SOP 01-6, paragraph 8](#)]] If a standby commitment is recorded at the amount of the option as discussed in paragraph [310-10-25-6](#), [the liability recorded at the amount of the option premium received (representing the [fair value](#) of the standby commitment on the trade date) shall thereafter be accounted for at the greater of the initial standby commitment fee or the fair value of the written put option. Unrealized gains (that is, recoveries of unrealized losses) or losses shall be credited or charged to current operations. [[SOP 01-6, paragraph 8](#)]] However, see Subtopic [815-10](#) for guidance on accounting for written put options that are within the scope of that Subtopic.

· > Loans and Trade Receivables Not Held for Sale

310-10-35-47 [Loans and trade receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff shall be reported in the balance sheet at outstanding principal adjusted for any chargeoffs, the allowance for loan losses (or the allowance for doubtful accounts), any deferred fees or costs on originated loans, and any unamortized premiums or discounts on purchased loans. [[SOP 01-6, paragraph 8](#)]] [(Discounts offered as a result of the pricing of a sale or a product or service may be termed sales discounts. This Subsection does not address these discounts.) [[SOP 01-6, paragraph 8](#)]]

 PENDING CONTENT


Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Loans and trade receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff shall be reported in the balance sheet at outstanding principal adjusted for any writeoffs, the allowance for credit losses, any deferred fees or costs on originated loans, and any unamortized premiums or discounts on purchased loans. [[SOP 01-6, paragraph 8](#)]] [(Discounts offered as a result of the pricing of a sale or a product or service may be termed sales discounts. This Subsection does not address these discounts.) [[SOP 01-6, paragraph 8](#)]]

 PENDING CONTENT


Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

Editor's Note: Paragraph 310-10-35-47 will be amended upon transition, together with its heading:

> > **Nonmortgage Loans and Trade Receivables Not Held for Sale**

[Trade receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff shall be reported in the balance sheet at [amortized cost basis](#). [[SOP 01-6, paragraph 8](#)]] [(Discounts offered as a result of the pricing of a sale or a product or service may be termed sales discounts. This Subsection does not address these discounts.) [[SOP 01-6, paragraph 8](#)]] [For financial instruments measured at amortized cost basis, see Subtopic [326-20](#) for additional guidance on credit losses. [[ASU 2019-04, paragraph 8](#)]]

310-10-35-47A
 PENDING CONTENT


Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

[Nonmortgage loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff shall be reported in the balance sheet at their amortized cost bases. See Subtopic [326-20](#) for guidance on the measurement of credit losses for financial instruments measured at amortized cost basis. See Topic [948](#) for guidance on mortgage loans classified as held-for-long-term-investment. [[ASU 2019-04, paragraph 8](#)]]

· > Nonmortgage Loans Held for Sale

310-10-35-48 [Nonmortgage loans held for sale shall be reported at the lower of cost or fair value. [[SOP 01-6, paragraph 8](#)]] [This paragraph applies only to nonmortgage loans. See Topic [948](#) for guidance related to mortgage loans classified as held for sale. [[SOP 01-6, paragraph 8](#)]]

 PENDING CONTENT 

Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Nonmortgage loans held for sale shall be reported at the lower of [amortized cost basis](#) or fair value. [[SOP 01-6, paragraph 8](#)]] [This paragraph applies only to nonmortgage loans. See Topic [948](#) for guidance related to mortgage loans classified as held for sale. [[SOP 01-6, paragraph 8](#)]]

 PENDING CONTENT 

Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

[Nonmortgage loans held for sale shall be reported at the lower of amortized cost basis or fair value. [[SOP 01-6, paragraph 8](#)]] [The amount by which amortized cost basis exceeds fair value shall be accounted for as a valuation allowance. Changes in the valuation allowance shall be included in the determination of net income of the period in which the change occurs. [[ASU 2019-04, paragraph 8](#)]] [This paragraph applies only to nonmortgage loans. See Topic [948](#) for guidance related to mortgage loans classified as held for sale. [[SOP 01-6, paragraph 8](#)]]

· > Transfers of Nonmortgage Loans between Classifications

310-10-35-48A

 PENDING CONTENT 

Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

[For a nonmortgage loan that is transferred into the held-for-sale classification from the nonmortgage loan not-held-for-sale classification, an entity shall reverse in earnings any allowance for credit losses previously recorded on the nonmortgage loan not held for sale at the transfer date. An entity shall then reclassify and transfer the nonmortgage loan into the held-for-sale classification at its amortized cost basis (which is reduced by any previous writeoffs but excludes any allowance for credit losses). An entity shall then determine if a valuation allowance is necessary by following the guidance in Subtopic [310-10](#). [[ASU 2019-04, paragraph 8](#)]]

310-10-35-48B

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

[For a nonmortgage loan that is transferred into the not-held-for-sale classification from the nonmortgage loans held-for-sale classification, an entity shall reverse in earnings any valuation allowance previously recorded on the nonmortgage loan held for sale at the transfer date. An entity shall then reclassify and transfer the nonmortgage loan into the not-held-for-sale classification at its amortized cost basis (which is reduced by any previous writeoffs but excludes any valuation allowance). An entity shall then determine if an allowance for credit losses is necessary by following the guidance in Subtopic [326-20](#). **[ASU 2019-04, paragraph 8]]**

· > Loans Not Previously Held for Sale

310-10-35-49

[This paragraph applies to both mortgage and nonmortgage loans. **[SOP 01-6, paragraph 8]]** **[** Once a decision has been made to sell loans not previously classified as held for sale, such loans shall be transferred into the held-for-sale classification and carried at the lower of cost or fair value. **[SOP 01-6, paragraph 8]]** **[** At the time of the transfer into the held-for-sale classification, any amount by which cost exceeds fair value shall be accounted for as a valuation allowance. **[SOP 01-6, paragraph 8]]**

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-10-35-49 will be superseded upon transition, together with its heading.

> > **Loans Not Previously Held for Sale**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· > Amortization of Discount or Premium on Notes

310-10-35-50 See paragraph [835-30-35-2](#) for guidance related to amortization of discounts or premiums.

310-10-35-51 See Subtopic [835-30](#) for further guidance on situations in which interest shall be imputed.

· > Premium Allocated to Loans Purchased in a Credit Card Portfolio

310-10-35-52 When an entity purchases a credit card portfolio that includes the cardholder relationships as discussed in paragraph [310-10-25-7](#), **[** at an amount that exceeds the sum of the amounts due under the credit card receivables, **[EITF 88-20, paragraph ISSUE]]** **[** the premium allocated to the loans shall be amortized over the life of the loans in accordance with Subtopic [310-20](#). **[EITF 88-20, paragraph DISCUSSION]]** **[** If the credit card agreement provides for a repayment period beyond expiration of the card if the card is not renewed, that period shall be considered in determining the life of the credit card loan. **[EITF 88-20, paragraph DISCUSSION]]**

· > Hedged Portfolios of Loans

310-10-35-53 Entities sometimes wish to hedge risk associated with portfolios of loans or specific loan cash flows. See Section [815-20-55](#) for implementation guidance in such situations.

· > Interest Income

310-10-35-53A

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Except as noted in paragraphs [310-10-35-53B](#) through [35-53C](#), this Subsection does not address how a creditor should recognize, measure, or display interest income on a financial asset with a credit loss. Some accounting methods for recognizing income may result in an amortized cost basis of a financial asset that is less than the amount expected to be collected (or, alternatively, the fair value of the collateral). Those accounting methods include recognition of interest income using a cost-recovery method, a cash-basis method, or some combination of those methods. [[FAS 114, paragraph 17](#)]]

310-10-35-53B

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[When recognizing interest income on [purchased financial assets with credit deterioration](#) within the scope of Topic [326](#), an entity shall not recognize as interest income the discount embedded in the purchase price that is attributable to the acquirer's assessment of expected credit losses at the date of acquisition. The entity shall accrete or amortize as interest income the non-credit-related discount or premium of a purchased financial asset with credit deterioration in accordance with existing applicable guidance in Section [310-20-35](#) or [325-40-35](#). [[ASU 2016-13, paragraph 10](#)]]

310-10-35-53C
 PENDING CONTENT


Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Recognition of income on purchased financial assets with credit deterioration is dependent on having a reasonable expectation about the amount expected to be collected. Subsequent to purchase, this Subtopic does not prohibit placing financial assets on nonaccrual status, including use of the cost recovery method or cash basis method of income recognition, when appropriate. For example, if the timing of either a sale of the financial asset into the secondary market or a sale of collateral in essentially the same condition as received upon foreclosure is indeterminate, the creditor likely does not have the information necessary to reasonably estimate cash flows expected and shall cease recognizing income on the financial asset. However, the ability to place a financial asset on nonaccrual shall not be used to circumvent recognition of a credit loss. If the financial asset is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate. Such rewards of ownership would include use of the collateral in operations of the entity or improving the collateral for resale. [[SOP 03-3, paragraph 6](#)]] [Consistent with paragraph [310-20-35-18](#), interest income shall not be recognized to the extent that the net investment in the financial asset would increase to an amount greater than the payoff amount. [[ASU 2016-13, paragraph 10](#)]]

Acquisition, Development, and Construction Arrangements

310-10-35-54 This Subsection provides the following subsequent measurement guidance:

- a. Lender interest in [expected residual profit](#)
- b. Changes in initial determination factors
- c. Other matters.

> Changes in Initial Determination Factors

310-10-35-55 [The factors that were evaluated in determining the accounting treatment at inception subsequently change for some acquisition, development, and construction arrangements, for example, as a result of a renegotiation of the terms. [[PB 01, paragraph 20](#)]] [Consequently, the accounting treatment for an acquisition, development, and construction arrangement shall be periodically reassessed. [[PB 01, paragraph 20](#)]]

310-10-35-56 [An acquisition, development, and construction arrangement originally classified as an investment or joint venture could subsequently be treated as a [loan](#) if the risk to the lender diminishes significantly, and the lender will not be receiving over 50 percent of the expected residual profit in the project. [[PB 01, paragraph 20](#)]] [The lender shall demonstrate a change in the facts relied upon when initially making the accounting decision, not just the absence of, or reduced participation in, the expected residual profit. [[PB 01, paragraph 20](#)]] [For instance, risk may be reduced if a valid take-out commitment from another lender who has the capability to perform under the commitment is obtained and all conditions affecting the take-out commitment have been met, thus assuring the primary lender recovery of its funds. [[PB 01, paragraph 20](#)]]

- 310-10-35-57** [Conversely, if the lender assumes further risks or rewards in an acquisition, development, and construction arrangement by, for example, releasing collateral supporting a guarantee or increasing its percentage of profit participation to over 50 percent, the lender's position may change to that of an investor in real estate. [[PB 01, paragraph 20](#)]]
- 310-10-35-58** [Neither an improvement in the economic prospects for the project or successful, ongoing development of the project nor a deterioration in the economic prospects for the project justifies a change in classification of an acquisition, development, and construction arrangement. [[PB 01, paragraph 20](#)]]
- 310-10-35-59** [A change in classification is expected to occur infrequently and shall be supported by appropriate documentation. [[PB 01, paragraph 20](#)]] [The change in factors in an acquisition, development, and construction arrangement shall be evaluated based on the guidance in this Subsection and accounted for prospectively. [[PB 01, paragraph 20](#)]]
- 310-10-35-60** [If an acquisition, development, and construction arrangement accounted for as a real estate joint venture continues into a permanent phase with the project generating a positive cash flow and paying debt service currently, income shall be recognized in accordance with Topic 970. [[PB 01, paragraph 21](#)]]

> Other Matters

- 310-10-35-61** [Regardless of the accounting treatment for an acquisition, development, and construction arrangement, management shall on a continuing basis review the collectibility of uncollected principal, accrued interest, and fees and provide for appropriate allowances. [[PB 01, paragraph 22](#)]]

Securities and Exchange Commission (SEC)

General

> Accounting for Loan Losses by Registrants Engaged in Lending Activities

- 310-10-S35-1** [See paragraph [310-10-S99-4](#), SAB Topic 6.L., for SEC Staff views on accounting for loan losses by registrants engaged in lending activities. [[SAB TOPIC 6.L, paragraph 1 General](#)]]

Assets → 310 Receivables → 20 Nonrefundable Fees and Other Costs ↴

35 Subsequent Measurement

(i) General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

- 310-20-35-1** This Section addresses measurement issues for certain fees and costs related to various forms of lending, specifically:
- a. [Loan origination fees](#) and costs
 - b. [Commitment fees](#) and costs
 - c. [Credit card fees](#) and costs
 - d. [Loan](#) refinancing or restructuring
 - e. Purchase of a loan or group of loans
 - f. Interest method and other amortization matters
 - g. Estimating principal prepayments
 - h. Lending transactions unrelated to the origination of loans
 - i. [Blended-rate loans](#).

> Loan Origination Fees and Costs

- 310-20-35-2** Loan origination fees deferred in accordance with paragraph [310-20-25-2](#) shall be recognized over the life of the loan as an adjustment of yield (interest income). Likewise, [direct loan origination costs](#) deferred in accordance with that paragraph shall be recognized as a reduction in the yield of the loan except as set forth in paragraph [310-20-35-12](#) (for a troubled debt restructuring). Paragraph [310-20-30-2](#) explains that loan origination fees and related direct loan origination costs for a given loan shall be offset and only the net amount shall be amortized.

 PENDING CONTENT

Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

Loan origination fees deferred in accordance with paragraph [310-20-25-2](#) shall be recognized over the life of the loan as an adjustment of yield (interest income). Likewise, [direct loan origination costs](#) deferred in accordance with that paragraph shall be recognized as a reduction in the yield of the loan. Paragraph [310-20-30-2](#) explains that loan origination fees and related direct loan origination costs for a given loan shall be offset and only the net amount shall be amortized. For loans that are refinanced or restructured, see paragraphs [310-20-35-9 through 35-10](#).

> Commitment Fees and Costs

310-20-35-3 Except as set forth in this paragraph, fees received for a commitment to originate or purchase a loan or group of loans shall be, if the commitment is exercised, recognized over the life of the loan as an adjustment of yield or, if the commitment expires unexercised, recognized in income upon expiration of the commitment:

- a. If the entity's experience with similar arrangements indicates that the likelihood that the commitment will be exercised is remote, the commitment fee shall be recognized over the commitment period on a straight-line basis as service fee income. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise shall be recognized over the life of the loan as an adjustment of yield. The term *remote* is used here, consistent with its use in Topic [450](#), to mean that the likelihood is slight that a loan commitment will be exercised before its expiration.
- b. If the amount of the commitment fee is determined retrospectively as a percentage of the line of credit available but unused in a previous period, if that percentage is nominal in relation to the stated interest rate on any related borrowing, and if that borrowing will bear a market interest rate at the date the loan is made, the commitment fee shall be recognized as service fee income as of the determination date.

> Credit Card Fees and Costs

310-20-35-4 The following guidance addresses the amortization of deferred origination costs of credit cards with fees, without fees, or when the fees have been waived for a limited period of time.

310-20-35-5 Fees deferred in accordance with paragraph [310-20-25-15](#) shall be recognized on a straight-line basis over the period the fee entitles the cardholder to use the card. This accounting shall also apply to other similar card arrangements that involve an extension of credit by the card issuer.

310-20-35-6 In connection with the issuance of a credit card that is not a [private label credit card](#), an issuer may incur certain credit card origination costs that qualify as direct loan origination costs pursuant to this Topic. Paragraph [310-20-25-16](#) explains that only the costs of origination that qualify as direct loan origination costs under the definition of that term are eligible for deferral. That definition explains that all other costs shall be charged to expense as incurred. That definition explains that, therefore, costs eligible for deferral would likely exceed fees only when a credit card is first issued.

310-20-35-7 The net amount of credit card origination costs netted against the related credit card fee, if any, and recognized in accordance with paragraph [310-20-25-17](#) shall be amortized on a straight-line basis over the privilege period. That paragraph states that significance for this purpose shall be evaluated based on the amount of the fee relative to the related costs and provides related guidance.

310-20-35-8 Any net amount deferred in accordance with paragraph [310-20-25-18](#) shall be amortized on a straight-line basis over the privilege period.

> Loan Refinancing or Restructuring

310-20-35-9 If the terms of the new loan resulting from a loan refinancing or restructuring other than a troubled debt restructuring are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan with the lender, the refinanced loan shall be accounted for as a new loan. This condition would be met if the new loan's effective yield is at least equal to the effective yield for such loans and modifications of the original debt instrument are more than minor. Any unamortized net fees or costs and any prepayment penalties from the original loan shall be recognized in interest income when the new loan is granted. The effective yield comparison considers the level of nominal interest rate, commitment and origination fees, and direct loan origination costs and would also consider comparison of other factors where appropriate, such as compensating balance arrangements.

 PENDING CONTENT

Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

If the terms of the new loan resulting from a loan refinancing or restructuring, in which the refinancing or restructuring is not itself a troubled debt restructuring, are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan with the lender, the refinanced loan shall be accounted for as a new loan. This condition would be met if the new loan's effective yield is at least equal to the effective yield for such loans and modifications of the original debt instrument are more than minor. Any unamortized net fees or costs and any prepayment penalties from the original loan shall be recognized in interest income when the new loan is granted. The effective yield comparison considers the level of nominal interest rate, commitment and origination fees, and direct loan origination costs and would also consider comparison of other factors where appropriate, such as compensating balance arrangements.

 PENDING CONTENT

Transition Date: P December 16, 2022; N December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

If the terms of the new loan resulting from a loan refinancing or restructuring, are at least as favorable to the lender as the terms for comparable loans to other customers with similar collection risks who are not refinancing or restructuring a loan with the lender, the refinanced loan shall be accounted for as a new loan. This condition would be met if the new loan's effective yield is at least equal to the effective yield for such loans and modifications of the original debt instrument are more than minor. Any unamortized net fees or costs and any prepayment penalties from the original loan shall be recognized in interest income when the new loan is granted. The effective yield comparison considers the level of nominal interest rate, commitment and origination fees, and direct loan origination costs and would also consider comparison of other factors where appropriate, such as compensating balance arrangements.

310-20-35-10

If the refinancing or restructuring does not meet the condition set forth in the preceding paragraph or if only minor modifications are made to the original loan contract, the unamortized net fees or costs from the original loan and any prepayment penalties shall be carried forward as a part of the net investment in the new loan. In this case, the investment in the new loan shall consist of the remaining [net investment in the original loan](#), any additional amounts loaned, any fees received, and direct loan origination costs associated with the refinancing or restructuring.

 PENDING CONTENT


Transition Date: P December 16, 2022; N December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

If the refinancing or restructuring does not meet the condition set forth in paragraph [310-20-35-9](#) or if only minor modifications are made to the original loan contract, the unamortized net fees or costs from the original loan and any prepayment penalties shall be carried forward as a part of the net investment in the new loan. In this case, the investment in the new loan shall consist of the remaining [net investment in the original loan](#), any additional funds advanced to the borrower, any fees received, and direct loan origination costs associated with the refinancing or restructuring.

310-20-35-11

A modification of a debt instrument shall be considered more than minor under paragraph [310-20-35-10](#) if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument. If the difference between the present value of the cash flows under the terms of the new debt instrument and the present value of the remaining cash flows under the terms of the original debt instrument is less than 10 percent, a creditor shall evaluate whether the modification is more than minor based on the specific facts and circumstances (and other relevant considerations) surrounding the modification. The guidance in Topic [470](#) shall be used to calculate the present value of the cash flows for purposes of applying the 10 percent test.

310-20-35-12

Fees received in connection with a modification of terms of a troubled debt restructuring as defined in Subtopic [310-40](#) shall be applied as a reduction of the [recorded investment](#) in the loan. All related costs, including direct loan origination costs, shall be charged to expense as incurred.

 PENDING CONTENT


Transition Date: P December 16, 2022; N December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

[Paragraph superseded by Accounting Standards Update No. 2022-02.](#)

· > Substitution or Addition of Debtors

310-20-35-12A
 PENDING CONTENT


Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

A loan refinancing or restructuring may involve substituting debt of another business entity, individual, or government entity for that of the debtor or adding another debtor (for example, as a joint debtor). Government entities include, but are not limited to, states, counties, townships, municipalities, school districts, authorities, and commissions. That kind of restructuring should be accounted for according to its substance. For example, a restructuring in which, after the restructuring, the substitute or additional debtor controls, is controlled by (as defined in paragraphs [310-10-15-8 through 15-8A](#)), or is under common control with the original debtor is an example of one that shall be accounted for by the creditor as a loan refinancing or restructuring as prescribed in paragraphs [310-20-35-9 through 35-11](#). Similarly, a restructuring in which the substitute or additional debtor and original debtor are related after the restructuring by an agency, trust, or other relationship that in substance earmarks certain of the original debtor's funds or funds flows for the creditor although payments to the creditor may be made by the substitute or additional debtor should be accounted for by the creditor as a loan refinancing or restructuring as prescribed in paragraphs [310-20-35-9 through 35-11](#). In contrast, a restructuring in which the substitute or additional debtor and the original debtor do not have any of the relationships described above after the restructuring shall be accounted for by the creditor according to the provisions of paragraphs [310-20-40-2 through 40-5](#).

· > Partial Satisfaction of a Receivable

310-20-35-12B
 PENDING CONTENT


Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

In a partial satisfaction of a receivable (see paragraph [310-20-35-12C](#)), the fair value of the assets received shall be used in all cases to avoid the need to allocate the fair value of the receivable between the part satisfied and the part still outstanding.

310-20-35-12C

A troubled debt restructuring may involve receipt of assets (including an equity interest in the debtor) in partial satisfaction of a receivable and a modification of terms of the remaining receivable. Even if the stated terms of the remaining receivable, for example, the stated interest rate and the maturity date or dates, are not changed in connection with the receipt of assets (including an equity interest in the debtor), the restructuring shall be accounted for as prescribed by this paragraph. A creditor shall account for a troubled debt restructuring involving a partial satisfaction and modification of terms as prescribed in this Topic except that, first, the assets received shall be accounted for as prescribed in paragraphs [310-40-40-2 through 40-4](#) and the [recorded investment in the receivable](#) shall be reduced by the fair value less cost to sell of the assets received. If cash is received in a partial satisfaction of a receivable, the recorded investment in the receivable shall be reduced by the amount of cash received.

 PENDING CONTENT


Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

A troubled debt restructuring may involve receipt of assets (including an equity interest in the debtor) in partial satisfaction of a receivable and a modification of terms of the remaining receivable. Even if the stated terms of the remaining receivable, for example, the stated interest rate and the maturity date or dates, are not changed in connection with the receipt of assets (including an equity interest in the debtor), the restructuring shall be accounted for as prescribed by this paragraph. A creditor shall account for a troubled debt restructuring involving a partial satisfaction and modification of terms as prescribed in this Topic except that, first, the assets received shall be accounted for as prescribed in paragraphs [310-40-40-2 through 40-4](#) and the [amortized cost basis](#) shall be reduced by the fair value less cost to sell of the assets received. If cash is received in a partial satisfaction of a receivable, the amortized cost basis shall be reduced by the amount of cash received.

 PENDING CONTENT


Transition Date: P December 16, 2022; N December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

A loan refinancing or restructuring may involve receipt of assets (including an equity interest in the debtor) in partial satisfaction of a receivable and a modification of terms of the remaining receivable. Even if the stated terms of the remaining receivable, for example, the stated interest rate and the maturity date or dates, are not changed in connection with the receipt of assets (including an equity interest in the debtor), the restructuring shall be accounted for as prescribed by this paragraph. A creditor shall account for a loan refinancing or restructuring involving a partial satisfaction and modification of terms as prescribed in paragraphs [310-20-35-9 through 35-11](#) except that, first, the assets received shall be accounted for as prescribed in paragraphs [310-20-40-2 through 40-4](#) and the [amortized cost basis](#) shall be reduced by the fair value less cost to sell of the assets received. If cash is received in a partial satisfaction of a receivable, the amortized cost basis shall be reduced by the amount of cash received.

· > Impairment

310-20-35-12D The Impairment or Disposal of Long-Lived Assets Subsections of Subtopic [360-10](#) do not allow the lender to look-back to lending impairments measured and recognized under this Topic or Topic [450](#) for purposes of measuring the cumulative loss previously recognized in determining the gain to be recognized on the increase in fair value less cost to sell of a foreclosed property under paragraph [360-10-35-40](#).

 PENDING CONTENT


Transition Date: P December 16, 2022; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

The Impairment or Disposal of Long-Lived Assets Subsections of Subtopic [360-10](#) do not allow the lender to look-back to credit losses measured and recorded under Topic [326](#) for purposes of measuring the cumulative loss previously recognized in determining the gain to be recognized on the increase in fair value less cost to sell of a foreclosed property under paragraph [360-10-35-40](#).

· > Mortgage Loan Payment Modifications

310-20-35-13 The borrower and lender may enter into an agreement whereby the borrower increases his mortgage payments for a specified period, at the conclusion of which the lender forgives a portion of the remaining principal on the loan. The borrower may terminate the arrangement at any time but receives no principal reduction if he makes less than 12 consecutive increased payments. The guidance in paragraph [310-20-35-11](#) shall first be used to determine whether the modification is considered more than minor under paragraph [310-20-35-10](#). If not, and assuming it is **probable** that the borrower will continue to make the increased payments for the specified period, the expense relating to the partial forgiveness shall be accrued over the period of increased payments.

310-20-35-14 Because of a decline in general interest rates, a lender may reduce the interest rate on an existing loan and collect a loan fee. Because the interest rate modification does not require another loan closing, the borrower is not charged many of the standard closing costs. The effective yield on the new loan shall be compared with the effective yield of comparable loans to the lender's other new customers to determine whether the yield on the new loan is at least as favorable as the effective yield for such loans. If so, the guidance in paragraph [310-20-35-11](#) shall be used to determine whether the modification is considered more than minor under paragraph [310-20-35-10](#). If not, the unamortized net fees and costs from the original loan and any prepayment penalties shall be carried forward as part of the net investment in the new loan. However, if the interest rate modification is provided for in the original loan contract, the change in the interest rate shall be accounted for in accordance with paragraph [310-20-35-18](#) and not considered a refinancing for purposes of paragraphs [310-20-35-9](#) through [35-10](#).

> Purchase of a Loan or Group of Loans

310-20-35-15 Paragraph [310-20-30-5](#) explains that the initial investment in a purchased loan or group of loans shall include the amount paid to the seller plus any fees paid or less any fees received. Paragraph [310-20-25-22](#) explains that the initial investment frequently differs from the related loan's principal amount at the date of purchase. This difference shall be recognized as an adjustment of yield over the life of the loan.

310-20-35-16 Paragraph [310-20-30-5](#) explains that, in applying the provisions of this Subtopic to loans purchased as a group, the purchaser may allocate the initial investment to the individual loans or may account for the initial investment in the aggregate. The cash flows provided by the underlying loan contracts shall be used to apply the interest method, except as set forth in paragraph [310-20-35-26](#). If prepayments are not anticipated pursuant to that paragraph and prepayments occur or a portion of the purchased loans

is sold, a proportionate amount of the related deferred fees and purchase premium or discount shall be recognized in income so that the [effective interest rate](#) on the remaining portion of loans continues unchanged.

> Interest Method and Other Amortization Matters

310-20-35-17 Deferred net fees or costs shall not be amortized during periods in which interest income on a loan is not being recognized because of concerns about the realization of loan principal or interest.

310-20-35-18 Net fees or costs that are required to be recognized as yield adjustments over the life of the related loan(s) shall be recognized by the interest method except as set forth in paragraphs [310-20-35-21 through 35-24](#). The objective of the interest method is to arrive at periodic interest income (including recognition of fees and costs) at a constant effective yield on the net investment in the receivable (that is, the principal amount of the receivable adjusted by unamortized fees or costs and purchase premium or discount). The difference between the periodic interest income so determined and the stated interest on the outstanding principal amount of the receivable is the amount of periodic amortization. See paragraphs [835-30-35-2 through 35-5](#) for guidance concerning the interest method. Under the provisions of this Subtopic, the interest method shall be applied as follows when the stated interest rate is not constant throughout the term of the loan:

a. If the loan's stated interest rate increases during the term of the loan (so that interest accrued under the interest method in early periods would exceed interest at the stated rate), interest income shall not be recognized to the extent that the net investment in the loan would increase to an amount greater than the amount at which the borrower could settle the obligation. Prepayment penalties shall be considered in determining the amount at which the borrower could settle the obligation only to the extent that such penalties are imposed throughout the loan term. (See Section [310-20-55](#).) Accordingly, a limit is imposed on the amount of periodic amortization that can be recognized. However, that limitation does not apply to the capitalization of costs incurred (such as direct loan origination costs and purchase premiums) that cause the investment in the loan to be in excess of the amount at which the borrower could settle the obligation. The capitalization of costs incurred is different from increasing the net investment in a loan through accrual of interest income that is only contingently receivable.

b. If the loan's stated interest rate decreases during the term of the loan, the stated periodic interest received early in the term of the loan would exceed the periodic interest income that is calculated under the interest method. In that circumstance, the excess shall be deferred and recognized in those future periods when the constant effective yield under the interest method exceeds the stated interest rate. (See Section [310-20-55](#).)

c. If the loan's stated interest rate varies based on future changes in an independent factor, such as an index or rate (for example, the prime rate, the London Interbank Offered Rate [LIBOR], or the U.S. Treasury bill weekly average rate), the calculation of the constant effective yield necessary to recognize fees and costs shall be based either on the factor (the index or rate) that is in effect at the inception of the loan or on the factor as it changes over the life of the loan. (See Section [310-20-55](#).) A variable rate loan whose initial rate differs from the rate its base factor would produce is also subject to the provisions of (a) and (b).

310-20-35-19 The preceding paragraph provides that when a loan's stated interest rate varies based on future changes in an independent factor, the lender shall calculate a constant effective yield by using the independent factor in effect at the inception of the loan or the factor as it changes over the life of the loan. In applying the guidance in (c) in the preceding paragraph, the lender may not change from one

alternative to the other during the life of the loan. The lender must select one of the two alternatives and apply the method consistently throughout the life of the loan.

310-20-35-20 In a period in which the independent factor on a variable rate loan changes, the constant effective yield is recalculated not from the inception of the loan but from the time of the change. See Example 9 (paragraph [310-20-55-43](#)) for an illustration.

310-20-35-21 Certain loan agreements provide no scheduled payment terms (demand loans); others provide the borrower with the option to make multiple borrowings up to a specified maximum amount, to repay portions of previous borrowings, and then reborrow under the same contract (revolving lines of credit).

310-20-35-22 For a loan that is payable at the lender's demand, any net fees or costs may be recognized as an adjustment of yield on a straight-line basis over a period that is consistent with any of the following:

- a. The understanding between the borrower and lender
- b. If no understanding exists, the lender's estimate of the period of time over which the loan will remain outstanding; any unamortized amount shall be recognized when the loan is paid in full.

Such estimates should be monitored regularly and revised as appropriate. If, contrary to expectation, a loan remains outstanding beyond the anticipated payment date, no adjustment is required.

310-20-35-23 For revolving lines of credit (or similar loan arrangements), the net fees or costs shall be recognized in income on a straight-line basis over the period the revolving line of credit is active, assuming that borrowings are outstanding for the maximum term provided in the loan contract. If the borrower pays all borrowings and cannot reborrow under the contract, any unamortized net fees or costs shall be recognized in income upon payment. The interest method shall be applied to recognize net unamortized fees or costs when the loan agreement provides a schedule for payment and no additional borrowings are provided for under the agreement.

310-20-35-24 For example, if the loan agreement provides the borrower with the option to convert a one-year revolving line of credit to a five-year term loan, during the term of the revolving line of credit the lender would recognize the net fees or costs as income on a straight-line basis using the combined life of the revolving line of credit and term loan. If the borrower elects to convert the line of credit to a term loan, the lender would recognize the unamortized net fees or costs as an adjustment of yield using the interest method. If the revolving line of credit expires and borrowings are extinguished, the unamortized net fees or costs would be recognized in income upon payment.

310-20-35-25 If the borrower continues to have a contractual right to borrow under the revolving line of credit, net fees and costs associated with revolving lines of credit shall be amortized over the term of the revolver even if the revolver is unused for a period of time.

> Estimating Principal Prepayments

310-20-35-26 Except as stated in the following sentence, the calculation of the constant effective yield necessary to apply the interest method shall use the payment terms required by the loan contract, and prepayments of principal shall not be anticipated to shorten the loan term. If the entity holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the entity may consider estimates of future principal prepayments in the calculation of the constant effective yield necessary to apply the interest method. If the entity anticipates prepayments in applying the interest method and a difference arises between the prepayments anticipated and actual prepayments received, the entity shall recalculate the effective yield to reflect actual payments to date and anticipated future payments. The net investment in the loans

shall be adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the loans. The investment in the loans shall be adjusted to the new balance with a corresponding charge or credit to interest income.

310-20-35-27 Loans grouped together shall have sufficiently similar characteristics that prepayment experience of the loans can be expected to be similar in a variety of interest rate environments. Loans that are grouped together for purposes of applying the preceding paragraph shall have sufficiently similar levels of net fees or costs so that, in the event that an individual loan is sold, recalculation of that loan's carrying amount will be practicable.

310-20-35-28 For loans that do qualify under paragraph [310-20-35-26](#), a lender may use either method for different loans and select the most appropriate method for a group of loans based on the characteristics of those loans. (For example, homogeneous mortgage loans might be aggregated while construction loans are accounted for separately.) However, once a lender has selected the appropriate method of accounting for a loan or a group of loans, a lender must continue to use the method throughout the life of the loan or group of loans.

310-20-35-29 If loan-by-loan accounting is used, net fees and costs shall be amortized over the contract life and adjusted based on actual prepayments.

310-20-35-30 There are a number of characteristics to be considered in determining whether the lender holds a large number of similar loans for purposes of estimating prepayments in accordance with paragraph [310-20-35-26](#). The objective is to evaluate all characteristics that would affect the ability of the lender to estimate the behavior of a group of loans. The following are examples of some characteristics that shall be considered when aggregating loans:

- a. Loan type
- b. Loan size
- c. Nature and location of collateral
- d. Coupon interest rate
- e. Maturity
- f. Period of origination
- g. Prepayment history of the loans (if seasoned)
- h. Level of net fees or costs
- i. Prepayment penalties
- j. Interest rate type (fixed or variable)
- k. Expected prepayment performance in varying interest rate scenarios.

310-20-35-31 If a lender meets the requirements of paragraph [310-20-35-26](#) for considering principal prepayments in calculating constant effective yield, several factors shall be considered in estimating those principal prepayments. The lender shall consider historical prepayment data in making its estimate of future prepayments. Also, the lender shall consider external information, including existing and forecasted interest rates and economic conditions and published mortality and prepayment tables for similar loans. If periodic changes in estimates occur or actual prepayments are different from estimated prepayments, an adjustment will be necessary.

310-20-35-32 If a lender aggregates loans for purposes of estimating prepayments and subsequently sells some of the loans, generally, the loans that are aggregated have lost their individual distinction. A pro rata calculation of net fees and costs based on the ratio of the outstanding principal balances of the loans

sold would be appropriate in the gain or loss calculation. If the lender has sufficiently detailed accounting records for the aggregated loans, specific identification may be used in the gain or loss calculation.

310-20-35-33 For each reporting period, to the extent that the amortized cost basis of an individual callable [debt security](#) exceeds the amount repayable by the issuer at the next call date, the excess (that is, the premium) shall be amortized to the next call date, unless the guidance in paragraph [310-20-35-26](#) is applied to consider estimated prepayments. For purposes of this guidance, the next call date is the first date when a call option at a specified price becomes exercisable. Once that date has passed, the next call date is when the next call option at a specified price becomes exercisable, if applicable. If there is no remaining premium or if there are no further call dates, the entity shall reset the effective yield using the payment terms of the debt security. Securities within the scope of this paragraph are those that have explicit, noncontingent call options that are callable at fixed prices and on preset dates at prices less than the amortized cost basis of the security. Whether a security is subject to this paragraph may change depending on the amortized cost basis of the security and the terms of the next call option.

> Lending Transactions Unrelated to the Origination of Loans

310-20-35-34 A lender may receive fees for lending transactions unrelated to the origination of loans. For example, a borrower may pay a fee to the lender for extending the contractual maturity of an existing loan, for converting an adjustable-rate mortgage to a fixed-rate loan, or for the assumption of an existing loan by a new borrower. The fees shall be recognized over the remaining life of the loan as an adjustment of yield. In each situation, the lender has made some form of concession to the initial or underlying borrower by altering the original terms of the initial underwriting; thus, any fees received shall be recognized as an adjustment of yield over the remaining life of the loan.

> Blended-Rate Loans

310-20-35-35 A blended-rate loan yields an interest rate between the existing loan rate and the market rate. The resulting loan is subject to the same underwriting standards as all other new loans. This arrangement is considered a refinancing but it does not meet the yield criteria prescribed in paragraph [310-20-35-9](#). Thus, the unamortized net fees and costs on the existing loan as well as the net fees and costs relating to the refinancing shall carry over to the new loan because the blended rate is below the market rate of loans with similar collection risks made to the lender's other customers.

Assets → 310 Receivables → 30 Loans and Debt Securities Acquired with Deteriorated Credit Quality ↴

35 Subsequent Measurement

i **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

- 310-30-35-1** This Section addresses the recognition and measurement of income on loans subsequent to acquisition under varying circumstances, specifically:
- Interest income
 - Income measurement
 - Expected prepayments
 - Restructured or refinanced loans
 - Variable rate loans
 - Pool of multiple loans.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

> Interest Income

- 310-30-35-2** Upon [completion of a transfer](#) of a [loan](#), this Subtopic requires that the investor (transferee) shall recognize the excess of all [cash flows expected at acquisition](#) over the investor's [initial investment](#) in the loan as interest income on a level-yield basis over the life of the loan ([accretable yield](#)).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-30-35-2 will be superseded upon transition, together with its heading.

> **Interest Income**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-30-35-3

Recognition of income under this Subtopic is dependent on having a reasonable expectation about the timing and amount of cash flows expected to be collected. Subsequent to acquisition, this Subtopic does not prohibit placing loans on nonaccrual status, including use of the cost recovery method or cash basis method of income recognition, when appropriate. For example, if the timing of either a sale of the loan into the secondary market or a sale of loan collateral in essentially the same condition as received upon foreclosure is indeterminate, the investor likely does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield and shall cease recognizing income on the loan. However, the ability to place a loan on nonaccrual shall not be used to circumvent the loss recognition guidance contained in paragraphs [310-30-35-8\(a\)](#) and [310-30-35-10\(a\)](#). Alternatively, if the timing and amount of cash flows expected to be collected from those sales are reasonably estimable, the investor shall use those cash flows to apply the interest method under this Subtopic. Consistent with paragraph [310-20-35-18](#), interest income shall not be recognized to the extent that the net investment in the loan would increase to an amount greater than the payoff amount. If the loan is acquired primarily for the rewards of ownership of the underlying collateral, accrual of income is inappropriate. Such rewards of ownership would include use of the collateral in operations of the entity or improving the collateral for resale.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-30-35-4

[Paragraph not used.](#)

310-30-35-5

This Subtopic does not address when an investor should record a direct write-down of an impaired loan.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

> Income Measurement

- 310-30-35-6** An increase in accretable yield establishes a higher [effective interest rate](#) and a different threshold for any subsequent impairment determination.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-30-35-6 will be superseded upon transition, together with its heading.

> **Income Measurement**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

- 310-30-35-7** There are two types of loans to consider for income measurement:
- a. Loan accounted for as a debt security
 - b. Loan not accounted for as a debt security.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· > Loan Accounted for as a Debt Security

- 310-30-35-8** An investor shall continue to estimate cash flows expected to be collected over the life of the loan. If, upon subsequent evaluation:
- a. The fair value of the debt security has declined below its amortized cost basis, an entity shall determine whether the decline is other than temporary. An entity shall apply the impairment of securities guidance in Section [320-10-35](#). For example, if, based on current information and events, there is a decrease in cash flows expected to be collected (that is, the investor is unable to collect all cash flows expected at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition (in accordance with (b)), an other-than-temporary impairment shall be considered to have occurred. The investor shall consider both the timing and amount of cash flows expected to be collected in making a determination about whether there has been a decrease in cash flows expected to be collected.
 - b. Based on current information and events, there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the investor shall recalculate the amount of accretable yield for the loan as the excess of the revised cash flows expected to be collected over the sum of the initial investment less cash collected less other-than-temporary impairments plus amount of yield accreted to date.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-30-35-8 will be superseded upon transition, together with its heading.

> > **Loan Accounted for as a Debt Security**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-30-35-9

The investor shall adjust the amount of accretable yield by reclassification from [nonaccretable difference](#). The adjustment shall be accounted for as a change in estimate in conformity with Topic 250, with the amount of periodic accretion adjusted over the remaining life of the loan.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· > Loan Not Accounted for as a Debt Security

310-30-35-10

An investor shall continue to estimate cash flows expected to be collected over the life of the loan. If, upon subsequent evaluation that is based on current information and events, it is probable that:

- a. The investor is unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimate after acquisition (in accordance with (b) (2)), then the loan shall be considered impaired for purposes of applying Topic 450 or, if applicable, this Topic. For purposes of applying paragraphs [310-10-35-10 through 35-11](#) to a loan within the scope of this Subtopic, the phrase *all amounts due according to the contractual terms* shall be read *all cash flows originally expected to be collected by the investor plus any additional cash flows expected to be collected arising from changes in estimate after acquisition*.
- b. There is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the investor shall:
 1. Reduce any remaining valuation allowance (or allowance for loan losses) for the loan established after its acquisition for the increase in the present value of cash flows expected to be collected
 2. Recalculate the amount of accretable yield for the loan as the excess of the revised cash flows expected to be collected over the sum of the initial investment less cash collected less write-downs plus amount of yield accreted to date.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | Transition Guidance: [326-10-65-1](#)

Editor's Note: Paragraph 310-30-35-10 will be superseded upon transition, together with its heading.

> > **Loan Not Accounted for as a Debt Security**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-30-35-11

The investor shall adjust the amount of accretable yield by reclassification from nonaccretable difference. The adjustment shall be accounted for as a change in estimate in conformity with Topic [250](#) with the amount of periodic accretion adjusted over the remaining life of the loan. The resulting yield shall be used as the effective interest rate in any subsequent application of (a) in the preceding paragraph.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | Transition Guidance: [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

> Expected Prepayments

310-30-35-12

Expected prepayments shall be treated consistently for cash flows expected to be collected and projections of contractual cash flows such that the nonaccretable difference is not affected. Similarly, the difference between actual prepayments and expected prepayments shall not affect the nonaccretable difference.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | Transition Guidance: [326-10-65-1](#)

Editor's Note: Paragraph 310-30-35-12 will be superseded upon transition, together with its heading.

> **Expected Prepayments**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

> Restructured or Refinanced Loans

310-30-35-13

The guidance in this paragraph applies only to loans accounted for as individual loans. See paragraphs [310-30-40-1](#) through [40-2](#) for guidance on derecognition of pooled loans. If an investor subsequently refinances or restructures the loan, other than through a troubled debt restructuring, the refinanced or restructured loan shall not be accounted for as a new loan, and this Subtopic, including paragraphs

[310-30-35-8 through 35-11](#), continues to apply. See Subtopic [310-40](#) for guidance on troubled debt restructurings.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-30-35-13 will be superseded upon transition, together with its heading.

> **Restructured or Refinanced Loans**

Paragraph superseded by Accounting Standards Update No. 2016-13.

> Variable Rate Loans

310-30-35-14 If a loan's contractual interest rate varies based on subsequent changes in an independent factor, such as an index or rate, for example, the prime rate, the London Interbank Offered Rate (LIBOR), or the U.S. Treasury bill weekly average, that loan's [contractually required payments receivable](#) shall be calculated based on the factor as it changes over the life of the loan. Projections of future changes in the factor shall not be made for purposes of determining the effective interest rate or estimating cash flows expected to be collected. Increases in cash flows expected to be collected shall be accounted for according to paragraph [310-30-35-8\(b\)](#) or [310-30-35-10\(b\)](#). Decreases in cash flows expected to be collected resulting directly from a change in the contractual interest rate shall be recognized prospectively as a change in estimate in conformity with Topic [250](#) by reducing, for purposes of applying paragraphs [310-30-35-8\(a\)](#) and [310-30-35-10\(a\)](#), all cash flows expected to be collected at acquisition and the accretable yield. The investor shall decrease the amount of accretable yield and the cash flows expected to be collected. Thus, for decreases in cash flows expected to be collected resulting directly from a change in the contractual interest rate, the effect will be to reduce prospectively the yield recognized rather than recognize a loss. The guidance in paragraphs [310-30-35-8 through 35-11](#) for increases and decreases shall be followed without having to meet the significance threshold contained in those paragraphs.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 310-30-35-14 will be superseded upon transition, together with its heading.

> **Variable Rate Loans**

Paragraph superseded by Accounting Standards Update No. 2016-13.

> Pool of Multiple Loans

310-30-35-15 If a loan is removed from a pool of loans, the difference between the loan's carrying amount and the fair value of the collateral or other assets received shall not affect the percentage yield calculation used to recognize accretable yield on the pool of loans.

 PENDING CONTENT

Transition Date:  December 16, 2019;  December 16, 2022 | Transition Guidance: [326-10-65-1](#)

Editor's Note: Paragraph 310-30-35-15 will be superseded upon transition, together with its heading.

> **Pool of Multiple Loans**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

Assets → 310 Receivables → 40 Troubled Debt Restructurings by Creditors ↴

35 Subsequent Measurement

i **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

310-40-35-1 This Section addresses measurement issues related to the [troubled debt restructuring](#) of a loan, specifically:

- a. Troubled Debt Restructuring
- b. Modification of Terms
- c. Partial Satisfaction of a Receivable
- d. Impairment
- e. Effective Interest Rate for a Restructured Loan.

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

[Paragraph superseded by Accounting Standards Update No. 2022-02.](#)

> Troubled Debt Restructuring

310-40-35-2 A creditor shall account for a troubled debt restructuring according to the type of the restructuring as prescribed in the following paragraphs. Paragraphs [310-40-25-1 through 25-2](#); [310-40-35-7](#); [310-40-40-2 through 40-8](#), and [310-40-50-1](#) do not apply to a receivable that the creditor is accounting for at [fair value](#) (for example, a marketable debt security accounted for at fair value by a mutual fund). Estimated cash expected to be received less estimated costs expected to be incurred is not fair value.

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

Editor's Note: Paragraph 310-40-35-2 will be superseded upon transition, together with its heading:

> **Troubled Debt Restructuring**

[Paragraph superseded by Accounting Standards Update No. 2022-02.](#)

310-40-35-3 [Paragraph not used.](#)

310-40-35-4 See Subtopic [470-60](#) concerning the debtor accounting for troubled debt restructurings.

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

[Paragraph superseded by Accounting Standards Update No. 2022-02.](#)

> Modification of Terms

310-40-35-5 A creditor in a troubled debt restructuring involving only a modification of terms of a receivable—that is, not involving receipt of assets (including an equity interest in the debtor)—shall account for the troubled debt restructuring in accordance with the provisions of this Topic.

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

Editor's Note: Paragraph 310-40-35-5 will be superseded upon transition, together with its heading:

> **Modification of Terms**

[Paragraph superseded by Accounting Standards Update No. 2022-02.](#)

> Partial Satisfaction of a Receivable

310-40-35-6 In a partial satisfaction of a receivable (see the following paragraph), the fair value of the assets received shall be used in all cases to avoid the need to allocate the fair value of the receivable between the part satisfied and the part still outstanding.

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

Editor's Note: Paragraph 310-40-35-6 will be superseded upon transition, together with its heading:

> **Partial Satisfaction of a Receivable**

Paragraph superseded by Accounting Standards Update No. 2022-02.

310-40-35-7

A troubled debt restructuring may involve receipt of assets (including an equity interest in the debtor) in partial satisfaction of a receivable and a modification of terms of the remaining receivable. Even if the stated terms of the remaining receivable, for example, the stated interest rate and the maturity date or dates, are not changed in connection with the receipt of assets (including an equity interest in the debtor), the restructuring shall be accounted for as prescribed by this paragraph. A creditor shall account for a troubled debt restructuring involving a partial satisfaction and modification of terms as prescribed in this Topic except that, first, the assets received shall be accounted for as prescribed in paragraphs [310-40-40-2 through 40-4](#) and the [recorded investment in the receivable](#) shall be reduced by the fair value less cost to sell of the assets received. If cash is received in a partial satisfaction of a receivable, the recorded investment in the receivable shall be reduced by the amount of cash received.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

A troubled debt restructuring may involve receipt of assets (including an equity interest in the debtor) in partial satisfaction of a receivable and a modification of terms of the remaining receivable. Even if the stated terms of the remaining receivable, for example, the stated interest rate and the maturity date or dates, are not changed in connection with the receipt of assets (including an equity interest in the debtor), the restructuring shall be accounted for as prescribed by this paragraph. A creditor shall account for a troubled debt restructuring involving a partial satisfaction and modification of terms as prescribed in this Topic except that, first, the assets received shall be accounted for as prescribed in paragraphs [310-40-40-2 through 40-4](#) and the [amortized cost basis](#) shall be reduced by the fair value less cost to sell of the assets received. If cash is received in a partial satisfaction of a receivable, the amortized cost basis shall be reduced by the amount of cash received.

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

Paragraph superseded by Accounting Standards Update No. 2022-02.

> Impairment

310-40-35-8

Paragraph [310-10-35-16](#) explains that a loan is impaired when, based on current information and events, it is **probable** that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. For a loan that has been restructured in a troubled debt restructuring, the contractual terms of the loan agreement refers to the contractual terms specified by the original loan agreement, not the contractual terms specified by the restructuring agreement. That paragraph explains that the related 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. See paragraph [310-10-35-16](#) for guidance concerning the application of Topic [450](#) to contractual terms. See paragraph [310-10-35-17](#) for guidance concerning normal review procedures and insignificant delays and payment shortfalls.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-40-35-9

Usually, a loan whose terms are modified in a troubled debt restructuring already will have been identified as impaired because the condition specified in the preceding paragraph will have existed before a formal restructuring. However, if a loan is excluded from the scope of this Subtopic under paragraph [310-10-35-13\(a\)](#), a creditor may not have accounted for that loan in accordance with this Subtopic before the loan was restructured. The creditor shall apply the provisions of this Subtopic to that loan when it is restructured.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

310-40-35-10

A loan restructured in a troubled debt restructuring is an impaired loan. It should not be accounted for as a new loan because a troubled debt restructuring is part of a creditor's ongoing effort to recover its investment in the original loan. A loan usually will have been identified as impaired because the conditions specified in paragraphs [310-10-35-16 through 35-17](#) will have existed before a formal restructuring.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

A loan restructured in a troubled debt restructuring shall not be accounted for as a new loan because a troubled debt restructuring is part of a creditor's ongoing effort to recover its investment in the original loan. Topic [326](#) provides guidance on measuring credit losses on financial assets and requires credit losses to be recorded through an allowance for credit loss account, including concessions given to the borrower upon a troubled debt restructuring.

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

Editor's Note: Paragraph 310-40-35-10 will be superseded upon transition, together with its heading:

> **Impairment**

[Paragraph superseded by Accounting Standards Update No. 2022-02.](#)

310-40-35-11

The Impairment or Disposal of Long-Lived Assets Subsections of Subtopic [360-10](#) do not allow the lender to look-back to lending impairments measured and recognized under this Topic or Topic [450](#) for purposes of measuring the cumulative loss previously recognized in determining the gain to be recognized on the increase in fair value less cost to sell of a foreclosed property under paragraph [360-10-35-40](#).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

The Impairment or Disposal of Long-Lived Assets Subsections of Subtopic [360-10](#) do not allow the lender to look-back to credit losses measured and recorded under Topic [326](#) for purposes of measuring the cumulative loss previously recognized in determining the gain to be recognized on the increase in fair value less cost to sell of a foreclosed property under paragraph [360-10-35-40](#).

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

[Paragraph superseded by Accounting Standards Update No. 2022-02.](#)

> Effective Interest Rate for a Restructured Loan

310-40-35-12

The [effective interest rate](#) for a loan restructured in a troubled debt restructuring is based on the original contractual rate, not the rate specified in the restructuring agreement. It has been indicated that a troubled debt restructuring does not result in a new loan but rather represents part of a creditor's ongoing effort to recover its investment in the original loan. Therefore, the interest rate used to discount expected future cash flows on a restructured loan shall be the same interest rate used to discount expected future cash flows on an impaired loan.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

The [effective interest rate](#) for a loan restructured in a troubled debt restructuring is based on the original contractual rate, not the rate specified in the restructuring agreement. As indicated in paragraph [310-40-35-10](#), a troubled debt restructuring does not result in a new loan but rather represents part of a creditor's ongoing effort to recover its investment in the original loan. Therefore, the interest rate used to discount expected future cash flows on a restructured loan shall be the same interest rate used to discount expected future cash flows on the original loan.

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2022 | **Transition Guidance:** [326-10-65-5](#)

Editor's Note: Paragraph 310-40-35-12 will be superseded upon transition, together with its heading:

> **Effective Interest Rate for a Restructured Loan**

[Paragraph superseded by Accounting Standards Update No. 2022-02.](#)

Assets → 32X Investments → 320 Investments—Debt Securities → 10 Overall ↴

35 Subsequent Measurement

i General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

320-10-35-1

Investments in [debt securities](#) shall be measured subsequently as follows:

- a. [Trading securities](#). Investments in debt securities that are classified as [trading](#) shall be measured subsequently at [fair value](#) in the statement of financial position. Unrealized [holding gains and losses](#) for trading securities shall be included in earnings.
- b. [Available-for-sale securities](#). Investments in debt securities that are classified as available for sale shall be measured subsequently at fair value in the statement of financial position. Unrealized holding gains and losses for available-for-sale securities (including those classified as current assets) shall be excluded from earnings and reported in other comprehensive income until realized except as indicated in the following sentence. All or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a fair value hedge shall be recognized in earnings during the period of the hedge, pursuant to paragraphs [815-25-35-1](#) and [815-25-35-4](#).
- c. [Held-to-maturity securities](#). Investments in debt securities classified as held to maturity shall be measured subsequently at amortized cost in the statement of financial position. A transaction gain or loss on a held-to-maturity foreign-currency-denominated debt security shall be accounted for pursuant to Subtopic [830-20](#).

 PENDING CONTENT


Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

Investments in [debt securities](#) shall be measured subsequently as follows:

- a. [Trading securities](#). Investments in debt securities that are classified as [trading](#) shall be measured subsequently at [fair value](#) in the statement of financial position. Unrealized [holding gains and losses](#) for trading securities shall be included in earnings.
- b. [Available-for-sale securities](#). Investments in debt securities that are classified as available for sale shall be measured subsequently at fair value in the statement of financial position. Unrealized holding gains and losses for available-for-sale securities (including those classified as current assets) shall be excluded from earnings and reported in other comprehensive income until realized except as indicated in the following sentences. All or a portion of the unrealized holding gain and loss of an available-for-sale security that is designated as being hedged in a fair value hedge that is not a portfolio layer method hedge shall be recognized in earnings during the period of the hedge, pursuant to paragraphs [815-25-35-1\(b\)](#), [815-25-35-4](#), and [815-25-35-6](#). The portion of the unrealized holding gain and loss of a closed portfolio that includes an available-for-sale security or securities that is designated as being hedged in a portfolio layer method hedge pursuant to paragraph [815-20-25-12A](#) shall be recognized in earnings during the period of the hedge pursuant to paragraphs [815-25-35-1\(c\)](#), [815-25-35-4](#), and [815-25-35-6](#).
- c. [Held-to-maturity securities](#). Investments in debt securities classified as held to maturity shall be measured subsequently at amortized cost in the statement of financial position. A transaction gain or loss on a held-to-maturity foreign-currency-denominated debt security shall be accounted for pursuant to Subtopic [830-20](#).

320-10-35-2 [Paragraph superseded by Accounting Standards Update No. 2016-01.](#)

320-10-35-3 Paragraphs [323-10-35-23 through 35-26](#) identify circumstances in which an entity must adjust the basis of its investment in debt securities of an equity method investee for the amount of an equity method loss based on the investment's seniority. For investments accounted for in accordance with this Subtopic, the adjusted basis resulting from the application of paragraphs [323-10-35-23 through 35-26](#) becomes the debt security's basis from which subsequent changes in fair value are measured.

320-10-35-4 Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all three categories of investments in debt securities shall be included in earnings.

> Reassessment of Classification

320-10-35-5 At each reporting date, the appropriateness of the classification of an entity's investments in debt securities shall be reassessed. For example, if an entity no longer has the ability to hold debt securities to maturity, their continued classification as held-to-maturity would not be appropriate.

320-10-35-6 Because an entity is expected not to change its intent about a held-to-maturity security, the requirement to reassess the appropriateness of a security's classification focuses on the entity's ability to hold a

security to maturity. The preceding paragraph acknowledges that facts and circumstances can change; for example, an entity can lose the ability to hold a debt security to maturity. However, that acknowledgment in no way diminishes the restrictive nature of the held-to-maturity category.

320-10-35-7 After securities are reclassified to available-for-sale in response to a taint, judgment is required in determining when circumstances have changed such that management can assert with a greater degree of credibility that it now has the intent and ability to hold debt securities to maturity.

· > Sales and Transfers that Taint the Entity's Held-to-Maturity Intent

320-10-35-8 A sale or transfer of a security classified as held-to-maturity that occurs for a reason other than those specified in paragraphs [320-10-25-6](#), [320-10-25-9](#), and [320-10-25-14](#), calls into question (taints) the entity's intent about all securities that remain in the held-to-maturity category. The entity makes the same assertion about all debt securities in the held-to-maturity category—namely, that it has the positive intent and ability to hold each security to maturity. Only a sale or transfer in response to certain changes in conditions will not call into question an entity's intent to hold other debt securities to maturity in the future.

320-10-35-9 When a sale or transfer of held-to-maturity securities represents a material contradiction with the entity's stated intent to hold those securities to maturity or when a pattern of such sales has occurred, any remaining held-to-maturity securities shall be reclassified to available-for-sale. The reclassification shall be recorded in the reporting period in which the sale or transfer occurred and accounted for as a transfer under the following paragraph.

· > Transfers of Securities between Categories

320-10-35-10 The transfer of a security between categories of investments shall be accounted for at fair value. At the date of the transfer, the security's unrealized [holding gain or loss](#) shall be accounted for as follows:

- a. For a security transferred from the trading category, the unrealized holding gain or loss at the date of the transfer will have already been recognized in earnings and shall not be reversed.
- b. For a security transferred into the trading category, the portion of the unrealized holding gain or loss at the date of the transfer that has not been previously recognized in earnings shall be recognized in earnings immediately.
- c. For a debt security transferred into the available-for-sale category from the held-to-maturity category, the unrealized holding gain or loss at the date of the transfer shall be reported in other comprehensive income.
- d. For a debt security transferred into the held-to-maturity category from the available-for-sale category, the unrealized holding gain or loss at the date of the transfer shall continue to be reported in a separate component of shareholders' equity, such as accumulated other comprehensive income, but shall be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount. The amortization of an unrealized holding gain or loss reported in equity will offset or mitigate the effect on interest income of the amortization of the premium or discount (discussed in the following sentence) for that held-to-maturity security. For a debt security transferred into the held-to-maturity category, the use of fair value may create a premium or discount that, under amortized cost accounting, shall be amortized thereafter as an adjustment of yield pursuant to Subtopic [310-20](#).

 PENDING CONTENT


Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

Transfers of a debt security from or into the trading category shall be accounted for at fair value. At the date of the transfer, the security's unrealized [holding gain or loss](#) shall be accounted for as follows:

- a. For a security transferred from the trading category, the unrealized holding gain or loss at the date of the transfer will have already been recognized in earnings and shall not be reversed.
- b. For a security transferred into the trading category, the portion of the unrealized holding gain or loss at the date of the transfer that has not been previously recognized in earnings shall be recognized in earnings immediately.
- c. [Subparagraph superseded by Accounting Standards Update No. 2019-04.](#)
- d. [Subparagraph superseded by Accounting Standards Update No. 2019-04.](#)

320-10-35-10A
 PENDING CONTENT


Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

For a debt security that is transferred into the available-for-sale category from the held-to-maturity category, an entity shall:

- a. Reverse in earnings any allowance for credit losses previously recorded on the held-to-maturity debt security at the transfer date
- b. Reclassify and transfer the debt security to the available-for-sale category at its [amortized cost basis](#) (which is reduced by any previous writeoffs but excludes any allowance for credit losses)
- c. Determine if an allowance for credit losses is necessary by following the guidance in Subtopic [326-30](#)
- d. Report in other comprehensive income any unrealized gain or loss on the available-for-sale debt security at the date of transfer, excluding the amount recorded in the allowance for credit losses in accordance with paragraph (c)
- e. Consider whether the transfer of a debt security from the held-to-maturity category to the available-for-sale category calls into question the entity's intent and ability to hold securities that remain in the held-to-maturity category to maturity in accordance with paragraphs [320-10-35-8 through 35-9](#).

320-10-35-10B
 PENDING CONTENT


Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

For a debt security that is transferred into the held-to-maturity category from the available-for-sale category, an entity shall:

- a. Reverse in earnings any allowance for credit losses previously recorded on the available-for-sale debt security at the transfer date
- b. Reclassify and transfer the debt security to the held-to-maturity category at its amortized cost basis (which is reduced by any previous writeoffs but excludes any allowance for credit losses) plus or minus the amount of any remaining unrealized holding gain or loss reported in accumulated other comprehensive income
- c. Evaluate the debt security for an allowance for credit losses by following the guidance in Subtopic [326-20](#)
- d. Continue to report the unrealized holding gain or loss at the date of the transfer in a separate component of shareholders' equity, such as accumulated other comprehensive income, but that gain or loss shall be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount. The amortization of an unrealized holding gain or loss reported in equity will offset or mitigate the effect on interest income of the amortization of the premium or discount (discussed in the following sentence) for that held-to-maturity security. For a debt security transferred into the held-to-maturity category, the transfer may create a premium or discount that, under amortized cost accounting, shall be amortized thereafter as an adjustment of yield in accordance with Subtopic [310-20](#) on receivables—nonrefundable fees and other costs.

320-10-35-11 Transfers from the held-to-maturity category should be rare, except for transfers due to the changes in circumstances identified in paragraph [320-10-25-6\(a\) through \(f\)](#).

320-10-35-12 In addition, given the nature of a trading security, transfers into or from the trading category also should be rare.

320-10-35-13 Available-for-sale securities shall not be automatically transferred to the trading category because the passage of time has caused the maturity date to be within one year or because management intends to sell the security within one year. Similarly, if an entity plans to sell a security from the held-to-maturity category in response to one of the conditions in paragraphs [320-10-25-6](#) and [320-10-25-9](#), the security shall not be automatically reclassified to available-for-sale or trading before the sale.

320-10-35-14 Paragraph [860-10-55-75](#) gives an Example addressing whether a transferor has the option to classify debt securities as trading at the time of a transfer.

320-10-35-15 When a security is transferred from held-to-maturity to available-for-sale, the security's [amortized cost basis](#) carries over to the available-for-sale category for all of the following purposes:

- a. The subsequent amortization of the historical premium or discount
- b. The comparisons of fair value and amortized cost for the purpose of determining unrealized holding gains and losses under paragraph [320-10-35-1](#)

- c. The required disclosures of amortized cost.

320-10-35-16

When a security is transferred from available-for-sale to held-to-maturity, the difference between the par value of the security and its fair value at the date of transfer is amortized as a yield adjustment in accordance with Subtopic [310-20](#). That fair value amount, adjusted for subsequent amortization, becomes the security's amortized cost basis for the disclosures required by paragraphs [320-10-50-2 through 50-3](#), [320-10-50-5](#), and [320-10-50-10](#).

 PENDING CONTENT


Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

When a security is transferred from available-for-sale to held-to-maturity, the transfer may create a premium or discount that, under amortized cost accounting, shall be amortized as a yield adjustment in accordance with Subtopic [310-20](#). The security's amortized cost basis is determined as the amortized cost basis at the transfer date (which is reduced by any previous writeoffs but excludes any allowance for credit losses) plus or minus the amount of any remaining unrealized holding gain or loss reported in accumulated other comprehensive income.

> Impairment of Individual Available-for-Sale and Held-to-Maturity Debt Securities

· > Scope of Impairment Guidance

320-10-35-17

The guidance that follows on impairment of individual available-for-sale and held-to-maturity debt securities applies for investments in all of the following:

- a. Debt securities that are within the scope of this Subtopic, with the following clarification:
 1. [Subparagraph superseded by Accounting Standards Update No. 2016-01.](#)
 2. [Subparagraph superseded by Accounting Standards Update No. 2016-01.](#)
 3. A bifurcated host instrument under Subtopic [815-15](#) would be evaluated for other-than-temporary impairment in accordance with the guidance in Section [320-10-35](#) if the bifurcated host instrument meets the scope of this guidance.
- b. Debt securities that are within the scope of Subtopic [958-320](#) and that are held by an entity that reports a performance indicator as defined in paragraphs [954-220-45-4 through 45-7](#)
- c. [Subparagraph superseded by Accounting Standards Update No. 2016-01.](#)

Throughout this Section, the term *earnings* shall be read as *performance indicator*, and *other comprehensive income* shall be read as *outside the performance indicator* for debt securities that are within the scope of Subtopic [958-320](#).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 320-10-35-17 will be superseded upon transition, together with its headings.

> **Impairment of Individual Available-for-Sale and Held-to-Maturity Debt Securities**

> > **Scope of Impairment Guidance**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· > Steps for Identifying and Accounting for Impairment

320-10-35-18

For individual securities classified as either available for sale or held to maturity, an entity shall determine whether a decline in fair value below the amortized cost basis is other than temporary. Providing a general allowance for unidentified impairment in a portfolio of securities is not appropriate.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 320-10-35-18 will be superseded upon transition, together with its heading.

> > **Steps for Identifying and Accounting for Impairment**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

320-10-35-18A

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

An entity shall not consider a basis adjustment related to an existing portfolio layer method hedge designated in accordance with paragraph [815-20-25-12A](#) in either of the following situations:

- a. When determining whether a decline in fair value below the amortized cost basis of a security is other than temporary
- b. If measuring impairment of the individual investments or individual beneficial interest included in a closed portfolio hedged using the portfolio layer method.

320-10-35-19

The following are specific steps an entity shall take in identifying and accounting for impairment of individual securities classified as either available for sale or held to maturity.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· · > Step 1: Determine Whether an Investment Is Impaired

320-10-35-20 Impairment shall be assessed at the individual security level (referred to as an investment). Individual security level means the level and method of aggregation used by the reporting entity to measure realized and unrealized gains and losses on its debt securities. (For example, debt securities of an issuer bearing the same Committee on Uniform Security Identification Procedures [CUSIP] number that were purchased in separate trade lots may be aggregated by a reporting entity on an average cost basis if that corresponds to the basis used to measure realized and unrealized gains and losses for the debt securities of the issuer.)

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 320-10-35-20 will be superseded upon transition, together with its heading.

> > > **Step 1: Determine Whether an Investment Is Impaired**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

320-10-35-20A

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

For the individual securities or individual beneficial interest in a closed portfolio hedged using the portfolio layer method, the impairment assessment performed at the individual security level shall not consider the basis adjustment related to an existing portfolio layer method hedge.

320-10-35-21 An investment is impaired if the fair value of the investment is less than its cost.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

320-10-35-22 Except as provided in paragraphs [320-10-35-25 through 35-27](#), an entity shall assess whether an investment is impaired in each reporting period. For entities that issue interim financial statements,

each interim period is a reporting period.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
Paragraph superseded by Accounting Standards Update No. 2016-13.

320-10-35-23

An entity shall not combine separate contracts (a debt security and a guarantee or other credit enhancement) for purposes of determining whether a debt security is impaired or can contractually be prepaid or otherwise settled in such a way that the entity would not recover substantially all of its cost.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
Paragraph superseded by Accounting Standards Update No. 2016-13.

320-10-35-24

If the fair value of the investment is less than its cost, proceed to Step 2.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
Paragraph superseded by Accounting Standards Update No. 2016-13.

320-10-35-25

Paragraph superseded by Accounting Standards Update No. 2016-01.

320-10-35-26

Paragraph superseded by Accounting Standards Update No. 2016-01.

320-10-35-27

Paragraph superseded by Accounting Standards Update No. 2016-01.

320-10-35-28

Paragraph superseded by Accounting Standards Update No. 2016-01.

320-10-35-29

Paragraph superseded by Accounting Standards Update No. 2016-01.

· · > Step 2: Evaluate Whether an Impairment Is Other Than Temporary

320-10-35-30

If the fair value of an investment is less than its amortized cost basis at the balance sheet date of the reporting period for which impairment is assessed, the impairment is either temporary or other than temporary. In addition to the guidance in this Section, an entity shall apply other guidance that is pertinent to the determination of whether an impairment is other than temporary, such as the guidance in Sections [323-10-35](#) and [325-40-35](#), as applicable. *Other than temporary* does not mean permanent.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 320-10-35-30 will be superseded upon transition, together with its heading.

> > > **Step 2: Evaluate Whether an Impairment Is Other Than Temporary**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

320-10-35-31 [Paragraph not used.](#)

320-10-35-32 [Paragraph not used.](#)

320-10-35-32A [Paragraph superseded by Accounting Standards Update No. 2016-01.](#)

320-10-35-33 [Paragraph superseded by Accounting Standards Update No. 2016-01.](#)

... > Debt Securities

320-10-35-33A If an entity intends to sell the debt security (that is, it has decided to sell the security), an other-than-temporary impairment shall be considered to have occurred.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 320-10-35-33A will be superseded upon transition, together with its heading.

> > > > **Debt Securities**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

320-10-35-33B If an entity does not intend to sell the debt security, the entity shall consider available evidence to assess whether it more likely than not will be required to sell the security before the recovery of its amortized cost basis (for example, whether its cash or working capital requirements or contractual or regulatory obligations indicate that the security will be required to be sold before a forecasted recovery occurs). If the entity more likely than not will be required to sell the security before recovery of its amortized cost basis, an other-than-temporary impairment shall be considered to have occurred.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

- 320-10-35-33C** If an entity does not expect to recover the entire amortized cost basis of the security, the entity would be unable to assert that it will recover its amortized cost basis even if it does not intend to sell the security. Therefore, in those situations, an other-than-temporary impairment shall be considered to have occurred. In assessing whether the entire amortized cost basis of the security will be recovered, an entity shall compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, the entire amortized cost basis of the security will not be recovered (that is, a credit loss exists), and an other-than-temporary impairment shall be considered to have occurred.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

- 320-10-35-33D** In determining whether a credit loss exists, an entity shall use its best estimate of the present value of cash flows expected to be collected from the debt security. One way of estimating that amount would be to consider the methodology described in Section [310-10-35](#) for measuring an impairment on the basis of the present value of expected future cash flows. That Section provides guidance on this calculation. Briefly, the entity would discount the expected cash flows at the effective interest rate implicit in the security at the date of acquisition.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

- 320-10-35-33E** For debt securities that are beneficial interests in securitized financial assets within the scope of Subtopic [325-40](#), an entity shall determine the present value of cash flows expected to be collected considering the guidance in paragraphs [325-40-35-4 through 35-9](#) for determining whether there has been a decrease in cash flows expected to be collected from cash flows previously projected. In other words, the cash flows estimated at the current financial reporting date shall be discounted at a rate equal to the current yield used to accrete the beneficial interest. Additionally, for debt securities accounted for in accordance with Subtopic [310-30](#), an entity shall consider the guidance in that Subtopic in estimating the present value of cash flows expected to be collected from the debt security. A decrease in cash flows expected to be collected on an asset-backed security that results from an increase in prepayments on the underlying assets shall be considered in the estimate of the present value of cash flows expected to be collected.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

320-10-35-33F There are numerous factors to be considered when estimating whether a credit loss exists and the period over which the debt security is expected to recover. The following list is not meant to be all inclusive. All of the following factors shall be considered:

- a. The length of time and the extent to which the fair value has been less than the amortized cost basis
- b. Adverse conditions specifically related to the security, an industry, or geographic area; for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors. Examples of those changes include any of the following:
 - 1. Changes in technology
 - 2. The discontinuance of a segment of the business that may affect the future earnings potential of the issuer or underlying loan obligors of the security
 - 3. Changes in the quality of the credit enhancement.
- c. The historical and implied volatility of the fair value of the security
- d. The payment structure of the debt security (for example, nontraditional loan terms as described in paragraphs [825-10-55-1 through 55-2](#) and [310-10-50-25](#)) and the likelihood of the issuer being able to make payments that increase in the future
- e. Failure of the issuer of the security to make scheduled interest or principal payments
- f. Any changes to the rating of the security by a rating agency
- g. Recoveries or additional declines in fair value after the balance sheet date.

 PENDING CONTENT



Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

320-10-35-33G In making its other-than-temporary impairment assessment, an entity shall consider all available information relevant to the collectibility of the security, including information about past events, current conditions, and reasonable and supportable forecasts, when developing the estimate of cash flows expected to be collected. That information shall include all of the following:

- a. The remaining payment terms of the security
- b. Prepayment speeds
- c. The financial condition of the issuer(s)
- d. Expected defaults
- e. The value of any underlying collateral.

 PENDING CONTENT



Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

320-10-35-33H To achieve the objective in the preceding paragraph, the entity shall consider, for example, all of the following:

- a. Industry analyst reports and forecasts
- b. Sector credit ratings
- c. Other market data that are relevant to the collectibility of the security.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
Paragraph superseded by Accounting Standards Update No. 2016-13.

320-10-35-33I An entity also shall consider how other credit enhancements affect the expected performance of the security, including consideration of the current financial condition of the guarantor of a security (if the guarantee is not a separate contract as discussed in paragraph [320-10-35-23](#)) and/or whether any subordinated interests are capable of absorbing estimated losses on the loans underlying the security. The remaining payment terms of the security could be significantly different from the payment terms in prior periods (such as for some securities backed by nontraditional loans; see paragraph [825-10-55-1](#)). Thus, an entity shall consider whether a security backed by currently performing loans will continue to perform when required payments increase in the future (including balloon payments). An entity also shall consider how the value of any collateral would affect the expected performance of the security. If the fair value of the collateral has declined, an entity shall assess the effect of that decline on the ability of the entity to collect the balloon payment.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
Paragraph superseded by Accounting Standards Update No. 2016-13.

320-10-35-34 [Paragraph superseded by Accounting Standards Update No. 2016-01.](#)

· · > Recognition of an Other-Than-Temporary Impairment

· · · > Debt Securities: Determination of the Amount of an Other-Than-Temporary Impairment Recognized in Earnings and Other Comprehensive Income

320-10-35-34A If an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 320-10-35-34A will be superseded upon transition, together with its headings.

> > **Recognition of an Other-Than-Temporary Impairment**

> > > **Debt Securities: Determination of the Amount of an Other-Than-Temporary Impairment Recognized in Earnings and Other Comprehensive Income**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

- 320-10-35-34B** If an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. In assessing whether the entity more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses, the entity shall consider the factors in paragraph [320-10-35-33F](#).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

- 320-10-35-34C** If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary impairment shall be separated into both of the following:
- a. The amount representing the credit loss
 - b. The amount related to all other factors.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

- 320-10-35-34D** The amount of the total other-than-temporary impairment related to the credit loss shall be recognized in earnings. The amount of the total other-than-temporary impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

320-10-35-34E The previous amortized cost basis less the other-than-temporary impairment recognized in earnings shall become the new amortized cost basis of the investment. That new amortized cost basis shall not be adjusted for subsequent recoveries in fair value. However, the amortized cost basis shall be adjusted for accretion and amortization as prescribed in paragraph [320-10-35-35](#).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

> Accounting for Debt Securities After an Other-Than-Temporary Impairment

320-10-35-35 In periods after the recognition of an other-than-temporary impairment loss for debt securities, an entity shall account for the other-than-temporarily impaired debt security as if the debt security had been purchased on the measurement date of the other-than-temporary impairment at an amortized cost basis equal to the previous amortized cost basis less the other-than-temporary impairment recognized in earnings. For debt securities for which other-than-temporary impairments were recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected shall be accreted in accordance with existing applicable guidance as interest income. An entity shall continue to estimate the present value of cash flows expected to be collected over the life of the debt security. For debt securities accounted for in accordance with Subtopic [325-40](#), an entity should look to that Subtopic to account for changes in cash flows expected to be collected. For all other debt securities, if upon subsequent evaluation, there is a significant increase in the cash flows expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, such changes shall be accounted for as a prospective adjustment to the accretable yield in accordance with Subtopic [310-30](#) even if the debt security would not otherwise be within the scope of that Subtopic. Subsequent increases and decreases (if not an other-than-temporary impairment) in the fair value of available-for-sale securities shall be included in other comprehensive income. (This Section does not address when a holder of a debt security would place a debt security on nonaccrual status or how to subsequently report income on a nonaccrual debt security.)

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 320-10-35-35 will be superseded upon transition, together with its heading.

> **Accounting for Debt Securities After an Other-Than-Temporary Impairment**

Paragraph superseded by Accounting Standards Update No. 2016-13.

320-10-35-35A The other-than-temporary impairment recognized in other comprehensive income for debt securities classified as held-to-maturity shall be accreted over the remaining life of the debt security in a prospective manner on the basis of the amount and timing of future estimated cash flows. That accretion shall increase the carrying value of the security and shall continue until the security is sold, the security matures, or there is an additional other-than-temporary impairment that is recognized in earnings. If the security is sold, Section [320-10-25](#) provides guidance on the effect of changes in circumstances that would not call into question the entity's intent to hold other debt securities to maturity in the future.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Paragraph superseded by Accounting Standards Update No. 2016-13.

> Fair Value Changes of Foreign-Currency-Denominated Available-for-Sale Debt Securities

320-10-35-36 The entire change in the fair value of foreign-currency-denominated available-for-sale debt securities shall be reported in other comprehensive income.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

The change in the fair value of foreign-currency-denominated available-for-sale debt securities, excluding the amount recorded in the allowance for credit losses, shall be reported in other comprehensive income. See Subtopic [326-30](#) for measuring credit losses on available-for-sale debt securities. In accordance with the guidance in Subtopic [326-30](#), an entity shall report credit losses on available-for-sale debt securities in the statement of financial performance as credit loss expense.

320-10-35-37 An entity holding a foreign-currency-denominated available-for-sale debt security is required to consider, among other things, changes in market interest rates and foreign exchange rates since acquisition in determining whether an other-than-temporary impairment has occurred.

 PENDING CONTENT



Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

> Income Recognition for Certain Structured Notes

320-10-35-38 This guidance addresses the accounting for certain structured notes that are in the form of debt securities, but does not apply to any of the following:

- a. Mortgage loans or other similar debt instruments that do not meet the definition of a security under this Subtopic
- b. Traditional convertible bonds that are convertible into the stock of the issuer
- c. Multicurrency debt securities
- d. Debt securities classified as trading
- e. [Subparagraph not used.](#)
- f. Debt securities participating directly in the results of an issuer's operations (for example, participating mortgages or similar instruments)
- g. Reverse mortgages
- h. [Structured note](#) securities that, by their terms, suggest that it is reasonably possible that the entity could lose all or substantially all of its original investment amount (for other than failure of the borrower to pay the contractual amounts due). (Such securities shall be subsequently measured at fair value with all changes in fair value reported in earnings.)

Also, this guidance shall be applied to those beneficial interests involving securitized financial assets that do not involve contractual cash flows.

320-10-35-39 This guidance does not address the issuer's accounting for structured note securities.

320-10-35-40 Entities shall use the [retrospective interest method](#) for recognizing income on structured note securities that are classified as available-for-sale or held-to-maturity debt securities and that meet any of the following conditions:

- a. Either the contractual principal amount of the note to be paid at maturity or the original investment amount is at risk (for other than failure of the borrower to pay the contractual amounts due). Examples include principal-indexed notes that base principal repayment on movements in the Standard & Poor's S&P 500 Index or notes that base principal repayment on the occurrence of certain events or circumstances.
- b. The note's return on investment is subject to variability (other than due to credit rating changes of the borrower) because of either of the following:
 1. There is no stated coupon rate or the stated coupon is not fixed or prespecified, and the variation in the return on investment or coupon rate is not a constant percentage of, or in the same direction as, changes in market-based interest rates or interest rate index, for example, the London Interbank Offered Rate (LIBOR) or the U.S. Treasury Bill Index.
 2. The variable or fixed coupon rate is below market rates of interest for traditional notes of comparable maturity and a portion of the potential yield (for example, upside potential for

principal) is based on the occurrence of future events or circumstances. (Examples of instruments that meet this condition include inverse floating-rate notes, dual-index floating notes, and equity-linked bear notes.)

c. The contractual maturity of the bond is based on a specific index or on the occurrence of specific events or circumstances outside the control of the parties to the transaction, excluding the passage of time or events that result in normal covenant violations. Examples of instruments that meet this condition include index amortizing notes and notes that base contractual maturity on the price of oil.

320-10-35-41 Under the retrospective interest method, the income recognized for a reporting period would be measured as the difference between the amortized cost of the security at the end of the period and the amortized cost at the beginning of the period, plus any cash received during the period. The amortized cost would be calculated as the present value of estimated future cash flows using an effective yield, which is the yield that equates all past actual and current estimated future cash flow streams to the initial investment. If the effective yield is negative (that is, the sum of the newly estimated undiscounted cash flows is less than the security's amortized cost), the amortized cost would be calculated using a zero percent effective yield. Example 1 (see paragraph [320-10-55-16](#)) illustrates the application of the retrospective interest method.

320-10-35-42 For purposes of determining the effective yield at which income will be recognized, all estimates of future cash flows shall be based on quoted forward market rates or prices in active markets, when available; otherwise, they shall be based on current spot rates or prices as of the reporting date.

320-10-35-43 In accordance with the impairment guidance for structured notes in this Subtopic, an entity shall determine whether an individual structured note security has experienced a decline in value below amortized cost that is other than temporary requiring a write-down of amortized cost, with the amount of the write-down included in earnings. Following the recognition of an other-than-temporary impairment, for purposes of determining the revised effective yield at which income will be subsequently recognized, the entity shall factor collectibility into its determination of estimated future cash flows. Accordingly, immediately following the recognition of an other-than-temporary impairment, it is expected that the entity would not assume full repayment of the contractual interest and principal amounts of the note. For example, if the fair value of a structured note security with an original investment amount of \$100 moves to \$70, prompting the entity to recognize an other-than-temporary impairment of \$30, and the entity does not expect to collect more than \$80 of principal at maturity, the entity shall assume collection of only \$80 of principal in its determination of future cash flows. As noted in the scope discussion for this guidance, structured notes that include embedded features are subject to Subtopic [815-15](#), which requires that certain embedded derivatives be separated from the host contract and accounted for separately as a derivative at fair value.

 PENDING CONTENT



Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

Securities and Exchange Commission (SEC)

General

> Holding Gains and Losses Adjustments to Assets and Liabilities as Related to the Implementation of Topic 320

320-10-S35-1 See paragraph [320-10-S99-2](#), SEC Staff Announcement: Adjustments in Assets and Liabilities for Holding Gains and Losses as Related to the Implementation of Topic [320](#) for SEC Staff views on adjusting certain assets and liabilities upon the implementation of Topic 320 as if unrealized holding gains or losses from securities classified as available for sale had been realized.

Assets → 32X Investments → 323 Investments—Equity Method and Joint Ventures → 10 Overall ↴

35 Subsequent Measurement

i **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

 [Related Proposed ASUs](#)

> Terminology

323-10-35-1 Paragraph [323-10-15-3](#) explains that references in this Subtopic to [common stock](#) refer to both common stock and [in-substance common stock](#) that give the [investor](#) the ability to exercise [significant influence](#) over operating and financial policies of an [investee](#) even though the investor holds 50% or less of the common stock or in-substance common stock (or both common stock or in-substance common stock).

> The Equity Method—Overall Guidance

323-10-35-2 Paragraph [323-10-25-2](#) states that the equity method is not a valid substitute for consolidation. That paragraph also explains that the limitations under which a majority-owned [subsidiary](#) shall not be consolidated (see paragraphs [810-10-15-8 through 15-10](#)) shall also be applied as limitations to the use of the equity method.

323-10-35-3 The procedures set forth in this Subtopic shall be followed by an investor in applying the equity method of accounting to investments in common stock of [corporate joint ventures](#) and other investees that qualify for the equity method (that is, are within the scope of this Subtopic).

323-10-35-4 Under the equity method, an investor shall recognize its share of the [earnings or losses of an investee](#) in the periods for which they are reported by the investee in its financial statements rather than in the period in which an investee declares a dividend. An investor shall adjust the carrying amount of an investment for its share of the earnings or losses of the investee after the date of investment and shall report the recognized earnings or losses in income. An investor's share of the earnings or losses of an investee shall be based on the shares of common stock and in-substance common stock held by that investor. (See paragraphs [323-10-15-13 through 15-19](#) for guidance on identifying in-substance common stock. Subsequent references in this Section to common stock refer to both common stock and in-substance common stock.)

- 323-10-35-5** The amount of the adjustment of the carrying amount shall be included in the determination of net income by the investor, and such amount shall reflect adjustments similar to those made in preparing consolidated statements including the following adjustments:
- Intra-entity profits and losses. Adjustments to eliminate intra-entity profits and losses.
 - Basis differences. Adjustments to amortize, if appropriate, any difference between investor cost and underlying equity in net assets of the investee at the date of investment.
 - Investee capital transactions. Adjustments to reflect the investor's share of changes in the investee's capital.
 - Other comprehensive income.
- 323-10-35-6** If financial statements of an investee are not sufficiently timely for an investor to apply the equity method currently, the investor ordinarily shall record its share of the earnings or losses of an investee from the most recent available financial statements. A lag in reporting shall be consistent from period to period.

· > Intra-Entity Gains and Losses

- 323-10-35-7** Intra-entity profits and losses shall be eliminated until realized by the investor or investee as if the investee were consolidated. Specifically, intra-entity profits or losses on assets still remaining with an investor or investee shall be eliminated, giving effect to any income taxes on the intra-entity transactions, except for any of the following:
- A transaction with an investee (including a joint venture investee) that is accounted for as a deconsolidation of a subsidiary or a derecognition of a group of assets in accordance with paragraphs [810-10-40-3A through 40-5](#)
 - A transaction with an investee (including a joint venture investee) that is accounted for as a change in ownership transaction in accordance with paragraphs [810-10-45-21A through 45-24](#).
 - A transaction with an investee (including a joint venture investee) that is accounted for as the derecognition of an asset in accordance with Subtopic [610-20](#) on gains and losses from the derecognition of nonfinancial assets.
- 323-10-35-8** Because the equity method is a one-line consolidation, the details reported in the investor's financial statements under the equity method will not be the same as would be reported in consolidated financial statements under Subtopic [810-10](#). All intra-entity transactions are eliminated in consolidation under that Subtopic, but under the equity method, intra-entity profits or losses are normally eliminated only on assets still remaining on the books of an investor or an investee.
- 323-10-35-9** Paragraph [810-10-45-18](#) provides for complete elimination of intra-entity income or losses in consolidation and states that the elimination of intra-entity income or loss may be allocated between the [parent](#) and the [noncontrolling interests](#). Whether all or a proportionate part of the intra-entity income or loss shall be eliminated under the equity method depends largely on the relationship between the investor and investee.
- 323-10-35-10** If an investor controls an investee through majority voting interest and enters into a transaction with an investee that is not at arm's length, none of the intra-entity profit or loss from the transaction shall be recognized in income by the investor until it has been realized through transactions with third parties. The same treatment applies also for an investee established with the cooperation of an investor (including an investee established for the financing and operation or leasing of property sold to the

investee by the investor) if control is exercised through guarantees of indebtedness, extension of credit and other special arrangements by the investor for the benefit of the investee, or because of ownership by the investor of warrants, convertible securities, and so forth issued by the investee.

323-10-35-11 In other circumstances, it would be appropriate for the investor to eliminate intra-entity profit in relation to the investor's common stock interest in the investee. In these circumstances, the percentage of intra-entity profit to be eliminated would be the same regardless of whether the transaction is downstream (that is, a sale by the investor to the investee) or upstream (that is, a sale by the investee to the investor).

323-10-35-12 Example 3 (see paragraph [323-10-55-27](#)) illustrates the application of this guidance.

· > Basis Difference

323-10-35-13 A difference between the cost of an investment and the amount of underlying equity in net assets of an investee shall be accounted for as if the investee were a consolidated subsidiary. Paragraph [350-20-35-58](#) requires that the portion of that difference that is recognized as goodwill not be amortized. However, if an entity within the scope of paragraph [350-20-15-4](#) elects the accounting alternative for amortizing goodwill in Subtopic [350-20](#), the portion of that difference that is recognized as goodwill shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. Paragraph [350-20-35-59](#) explains that equity method goodwill shall not be reviewed for impairment in accordance with paragraph [350-20-35-58](#). However, equity method investments shall continue to be reviewed for impairment in accordance with paragraph [323-10-35-32](#).

323-10-35-14 See paragraph [323-10-35-34](#) for related guidance when an investment becomes subject to the equity method.

· > Contingent Consideration

323-10-35-14A If a contingency is resolved relating to a liability recognized in accordance with the guidance in paragraph [323-10-25-2A](#) and the consideration is issued or becomes issuable, any excess of the fair value of the contingent consideration issued or issuable over the amount that was recognized as a liability shall be recognized as an additional cost of the investment. If the amount initially recognized as a liability exceeds the fair value of the consideration issued or issuable, that excess shall reduce the cost of the investment.

· > Investee Capital Transactions

323-10-35-15 A transaction of an investee of a capital nature that affects the investor's share of stockholders' equity of the investee shall be accounted for on a step-by-step basis.

323-10-35-15A For guidance on a share issuance by an investee, see paragraph [323-10-40-1](#).

323-10-35-16 If an investee has outstanding cumulative preferred stock, an investor shall compute its share of earnings (losses) after deducting the investee's preferred [dividends](#), whether or not such dividends are declared.

323-10-35-17 Dividends received from an investee shall reduce the carrying amount of the investment.

· > Other Comprehensive Income

323-10-35-18 An investor shall record its proportionate share of the investee's equity adjustments for other comprehensive income (unrealized gains and losses on available-for-sale securities; foreign currency items; and gains and losses, prior service costs or credits, and transition assets or obligations associated with pension and other postretirement benefits to the extent not yet recognized as components of net periodic benefit cost) as increases or decreases to the investment account with corresponding adjustments in equity. See paragraph [323-10-35-37](#) for related guidance to be applied upon discontinuation of the equity method.

> Equity Method Losses

323-10-35-19 An investor's share of losses of an investee may equal or exceed the carrying amount of an investment accounted for by the equity method plus advances made by the investor. An equity method investor shall continue to report losses up to the investor's investment carrying amount, including any additional financial support made or committed to by the investor. Additional financial support made or committed to by the investor may take the form of any of the following:

- a. Capital contributions to the investee
- b. Investments in additional common stock of the investee
- c. Investments in preferred stock of the investee
- d. Loans to the investee
- e. Investments in debt securities (including mandatorily redeemable preferred stock) of the investee
- f. Advances to the investee.

See paragraphs [323-10-35-24](#) and [323-10-35-28](#) for additional guidance if the investor has other investments in the investee.

323-10-35-20 The investor ordinarily shall discontinue applying the equity method if the investment (and net advances) is reduced to zero and shall not provide for additional losses unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee.

323-10-35-21 An investor shall, however, provide for additional losses if the imminent return to profitable operations by an investee appears to be assured. For example, a material, nonrecurring loss of an isolated nature may reduce an investment below zero even though the underlying profitable operating pattern of an investee is unimpaired.

323-10-35-22 If the investee subsequently reports net income, the investor shall resume applying the equity method only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

· > Investee Losses If the Investor Has Other Investments in the Investee

323-10-35-23 The guidance in the following paragraph applies to situations in which both of the following conditions exist:

- a. An investor is not required to advance additional funds to an investee.
- b. Previous losses have reduced the common stock investment account to zero.

323-10-35-24

In the circumstances described in paragraph [323-10-35-23](#), the investor shall continue to report its share of equity method losses in its statement of operations to the extent of and as an adjustment to the adjusted basis of the other investments in the investee. The order in which those equity method losses should be applied to the other investments shall follow the seniority of the other investments (that is, priority in liquidation). For each period, the adjusted basis of the other investments shall be adjusted for the equity method losses, then the investor shall apply Subtopic [310-10](#), [320-10](#), or [321-10](#) to the other investments, as applicable.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

In the circumstances described in paragraph [323-10-35-23](#), the investor shall continue to report its share of equity method losses in its statement of operations to the extent of and as an adjustment to the adjusted basis of the other investments in the investee. The order in which those equity method losses should be applied to the other investments shall follow the seniority of the other investments (that is, priority in liquidation). For each period, the adjusted basis of the other investments shall be adjusted for the equity method losses, then the investor shall apply Subtopic [310-10](#), [320-10](#), [321-10](#), [326-20](#), or [326-30](#) to the other investments, as applicable.

323-10-35-25

The cost basis of the other investments is the original cost of those investments adjusted for the effects of other-than-temporary write-downs, unrealized holding gains and losses on debt securities classified as trading in accordance with Subtopic [320-10](#) or equity securities accounted for in accordance with Subtopic [321-10](#) and amortization of any discount or premium on debt securities or loans. The adjusted basis is the cost basis adjusted for the valuation allowance account recognized in accordance with Subtopic [310-10](#) for an investee loan and the cumulative equity method losses applied to the other investments. Equity method income subsequently recorded shall be applied to the adjusted basis of the other investments in reverse order of the application of the equity method losses (that is, equity method income is applied to the more senior investments first).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

The cost basis of the other investments is the original cost of those investments adjusted for the effects of write-downs, unrealized holding gains and losses on debt securities classified as trading in accordance with Subtopic [320-10](#) or equity securities accounted for in accordance with Subtopic [321-10](#) and amortization of any discount or premium on debt securities or financing receivables. The adjusted basis is the cost basis adjusted for the allowance for credit losses account recorded in accordance with Topic [326](#) on measurement of credit losses for an investee financing receivable and debt security and the cumulative equity method losses applied to the other investments. Equity method income subsequently recorded shall be applied to the adjusted basis of the other investments in reverse order of the application of the equity method losses (that is, equity method income is applied to the more senior investments first).

323-10-35-26

If the investor has other investments in the investee (including, but not limited to, preferred stock, debt securities, and loans to the investee) that are within the scope of Subtopic [310-10](#), [320-10](#), or [321-10](#), the investor should perform all of the following steps to determine the amount of equity method loss to report at the end of a period:

- a. Apply this Subtopic to determine the maximum amount of equity method losses.
- b. Determine whether the adjusted basis of the other investment(s) in the investee is positive, and do the following:
 1. If the adjusted basis is positive, the adjusted basis of the other investments shall be adjusted for the amount of the equity method loss based on the investments' seniority. Paragraph [320-10-35-3](#) explains that, for investments accounted for in accordance with Subtopic [320-10](#), this adjusted basis becomes the debt security's basis from which subsequent changes in fair value are measured. Paragraph [321-10-35-5](#) explains that for investments accounted for in accordance with Subtopic [321-10](#), this adjusted basis becomes the equity security's basis from which subsequent changes in fair value are measured.
 2. If the adjusted basis reaches zero, equity method losses shall cease being reported; however, the investor shall continue to track the amount of unreported equity method losses for purposes of applying paragraph [323-10-35-20](#). If one of the other investments is sold at a time when its carrying value exceeds its adjusted basis, the difference between the cost basis of that other investment and its adjusted basis at the time of sale represents equity method losses that were originally applied to that other investment but effectively reversed upon its sale. Accordingly, that excess represents unreported equity method losses that shall continue to be tracked before future equity method income can be reported. Example 4 (see paragraph [323-10-55-30](#)) illustrates the application of (b)(2).
- c. After applying this Subtopic, apply Subtopics [310-10](#), [320-10](#), and [321-10](#) to the adjusted basis of the other investments in the investee, as applicable.
- d. Apply appropriate generally accepted accounting principles (GAAP) to other investments that are not within the scope of Subtopics [310-10](#), [320-10](#), or [321-10](#).

Example 4 (see paragraph [323-10-55-30](#)) illustrates the application of this guidance.

 PENDING CONTENT


Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-2](#)

If the investor has other investments in the investee (including, but not limited to, preferred stock, debt securities, and loans to the investee) that are within the scope of Subtopic [310-10](#), [320-10](#), or [321-10](#), the investor should perform all of the following steps to determine the amount of equity method loss to report at the end of a period:

- a. Apply this Subtopic to determine the maximum amount of equity method losses.
- b. Determine whether the adjusted basis of the other investment(s) in the investee is positive, and do the following:
 1. If the adjusted basis is positive, the adjusted basis of the other investments shall be adjusted for the amount of the equity method loss based on the investments' seniority. Paragraph [320-10-35-3](#) explains that, for investments accounted for in accordance with Subtopic [320-10](#), this adjusted basis becomes the debt security's basis from which subsequent changes in fair value are measured. Paragraph [321-10-35-5](#) explains that for investments accounted for in accordance with Subtopic [321-10](#), this adjusted basis becomes the equity security's basis from which subsequent changes in fair value are measured.
 2. If the adjusted basis reaches zero, equity method losses shall cease being reported; however, the investor shall continue to track the amount of unreported equity method losses for purposes of applying paragraph [323-10-35-20](#). If one of the other investments is sold at a time when its carrying value exceeds its adjusted basis, the difference between the cost basis of that other investment and its adjusted basis at the time of sale represents equity method losses that were originally applied to that other investment but effectively reversed upon its sale. Accordingly, that excess represents unreported equity method losses that shall continue to be tracked before future equity method income can be reported. Example 4 (see paragraph [323-10-55-30](#)) illustrates the application of (b)(2).
- c. After applying this Subtopic, apply Subtopics [310-10](#), [320-10](#), [321-10](#), [326-20](#), and [326-30](#) to the adjusted basis of the other investments in the investee, as applicable.
- d. Apply appropriate generally accepted accounting principles (GAAP) to other investments that are not within the scope of Subtopic [310-10](#), [320-10](#), [321-10](#), [326-20](#), or [326-30](#).

Example 4 (see paragraph [323-10-55-30](#)) illustrates the application of this guidance.

· · > Percentage Used to Determine the Amount of Equity Method Losses

323-10-35-27 The guidance in the following paragraph applies if all of the following conditions exist:

- a. An investor owns common stock (or in-substance common stock) and other investments in an investee.
- b. The investor has the ability to exercise significant influence over the operating and financial policies of the investee.
- c. The investor is not required to advance additional funds to the investee.
- d. Previous losses have reduced the common stock investment account to zero.

323-10-35-28 In the circumstances described in the preceding paragraph, the investor shall not recognize equity method losses based solely on the percentage of investee common stock held by the investor. Example 5 (see paragraph 323-10-55-48) illustrates two possible approaches for recognizing equity method losses in such circumstances.

· > Additional Investment after Suspension of Loss Recognition

323-10-35-29 If a subsequent investment in an investee does not result in the ownership interest increasing from one of significant influence to one of control and, in whole or in part, represents, in substance, the funding of prior losses, the investor should recognize previously suspended losses only up to the amount of the additional investment determined to represent the funding of prior losses (see (b)). Whether the investment represents the funding of prior losses, however, depends on the facts and circumstances. Judgment is required in determining whether prior losses are being funded and all available information should be considered in performing the related analysis. All of the following factors shall be considered; however, no one factor shall be considered presumptive or determinative:

- a. Whether the additional investment is acquired from a third party or directly from the investee. If the additional investment is purchased from a third party and the investee does not obtain additional funds either from the investor or the third party, it is unlikely that, in the absence of other factors, prior losses are being funded.
- b. The fair value of the consideration received in relation to the value of the consideration paid for the additional investment. For example, if the fair value of the consideration received is less than the fair value of the consideration paid, it may indicate that prior losses are being funded to the extent that there is disparity in the value of the exchange.
- c. Whether the additional investment results in an increase in ownership percentage of the investee. If the investment is made directly with the investee, the investor shall consider the form of the investment and whether other investors are making simultaneous investments proportionate to their interests. Investments made without a corresponding increase in ownership or other interests, or a pro rata equity investment made by all existing investors, may indicate that prior losses are being funded.
- d. The seniority of the additional investment relative to existing equity of the investee. An investment in an instrument that is subordinate to other equity of the investee may indicate that prior losses are being funded.

323-10-35-30 Upon making the additional investment, the investor should evaluate whether it has become otherwise committed to provide financial support to the investee.

> Decrease in Investment Value

323-10-35-31 A series of operating losses of an investee or other factors may indicate that a decrease in value of the investment has occurred that is other than temporary and that shall be recognized even though the decrease in value is in excess of what would otherwise be recognized by application of the equity method.

323-10-35-32 A loss in value of an investment that is other than a temporary decline shall be recognized. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. However, a decline in the

quoted market price below the carrying amount or the existence of operating losses is not necessarily indicative of a loss in value that is other than temporary. All are factors that shall be evaluated.

323-10-35-32A An equity method investor shall not separately test an investee's underlying asset(s) for impairment. However, an equity investor shall recognize its share of any impairment charge recorded by an investee in accordance with the guidance in paragraphs [323-10-35-13](#) and [323-10-45-1](#) and consider the effect, if any, of the impairment on the investor's basis difference in the assets giving rise to the investee's impairment charge.

> Change in Level of Ownership or Degree of Influence

· > Increase in Level of Ownership or Degree of Influence

323-10-35-33 Paragraph [323-10-15-12](#) explains that an investment in common stock of an investee that was previously accounted for on other than the equity method may become qualified for use of the equity method by an increase in the level of ownership described in paragraph [323-10-15-3](#) (that is, acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the investee, or other transactions). If an investment qualifies for use of the equity method (that is, falls within the scope of this Subtopic), the investor shall add the cost of acquiring the additional interest in the investee (if any) to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The current basis of the investor's previously held interest in the investee shall be remeasured in accordance with paragraph [321-10-35-1](#) or [321-10-35-2](#), as applicable, immediately before adopting the equity method of accounting. For purposes of applying paragraph [321-10-35-2](#) to the investor's previously held interest, if the investor identifies observable price changes in orderly transactions for an identical or a similar investment of the same issuer that results in it applying Topic [323](#), the entity shall remeasure its previously held interest at fair value immediately before applying Topic [323](#).

323-10-35-34 The carrying amount of an investment in common stock of an investee that qualifies for the equity method of accounting as described in paragraph [323-10-15-12](#) may differ from the underlying equity in net assets of the investee. The difference shall affect the determination of the amount of the investor's share of earnings or losses of an investee as if the investee were a consolidated subsidiary. However, if the investor is unable to relate the difference to specific accounts of the investee, the difference shall be recognized as goodwill and not be amortized in accordance with Topic [350](#).

· > Decrease in Level of Ownership or Degree of Influence

323-10-35-35 Sales of stock of an investee by an investor shall be accounted for as gains or losses equal to the difference at the time of sale between selling price and carrying amount of the stock sold.

323-10-35-36 An investment in voting stock of an investee may fall below the level of ownership described in paragraph [323-10-15-3](#) from sale of a portion of an investment by the investor, sale of additional stock by an investee, or other transactions and the investor may thereby lose the ability to influence policy, as described in that paragraph. An investor shall discontinue accruing its share of the earnings or losses of the investee for an investment that no longer qualifies for the equity method. The earnings or losses that relate to the stock retained by the investor and that were previously accrued shall remain as a part of the carrying amount of the investment. The investment account shall not be adjusted retroactively under the conditions described in this paragraph. Upon the discontinuance of the equity method, an investor shall remeasure the retained investment in accordance with paragraph [321-10-35-1](#) or [321-10-](#)

35-2, as applicable. For purposes of applying paragraph 321-10-35-2 to the investor's retained investment, if the investor identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer that results in it discontinuing the equity method, the entity shall remeasure its retained investment at fair value immediately after discontinuing the equity method. Topic 321 also addresses the subsequent accounting for investments in equity securities that are not consolidated or accounted for under the equity method.

· · > Other Comprehensive Income upon Discontinuation of the Equity Method

323-10-35-37 Paragraph 323-10-35-39 provides guidance on how an investor shall account for its proportionate share of an investee's equity adjustments for other comprehensive income in all of the following circumstances:

- a. A loss of significant influence
- b. A loss of control that results in accounting for the investment in accordance with Topic 321
- c. Discontinuation of the equity method for an investment in a limited partnership because the conditions in paragraph 970-323-25-6 are met for accounting for the investment in accordance with Topic 321.

323-10-35-38 Paragraph 323-10-35-39 does not provide guidance for entities that historically have not recorded their proportionate share of an investee's equity adjustments for other comprehensive income. That paragraph does not provide guidance on the measurement and recognition of a gain or loss on the sale of all or a portion of the underlying investment.

323-10-35-39 In the circumstances described in paragraph 323-10-35-37, an investor's proportionate share of an investee's equity adjustments for other comprehensive income shall be offset against the carrying value of the investment at the time significant influence is lost. To the extent that the offset results in a carrying value of the investment that is less than zero, an investor shall both:

- a. Reduce the carrying value of the investment to zero
- b. Record the remaining balance in income.

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35 Subsequent Measurement

i **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

[Related Proposed ASUs](#)

> Accretable Yield

325-40-35-1 The holder shall recognize accretable yield as interest income over the life of the [beneficial interest](#) using the effective yield method. The holder of a beneficial interest shall continue to update, over the life of the beneficial interest, the expectation of cash flows to be collected.

325-40-35-2 The method used for recognizing and measuring the amount of interest income on a beneficial interest shall not differ based on whether that beneficial interest is classified as held to maturity, available for sale, or trading debt security. The same amount of interest income shall be recognized each period regardless of whether the beneficial interest is classified as held to maturity, available for sale, or trading debt security.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

325-40-35-3 After the transaction date, cash flows expected to be collected are defined as the holder's estimate of the amount and timing of estimated principal and interest cash flows based on the holder's best estimate of current information and events. In this Subtopic, a change in cash flows expected to be collected is considered in the context of both timing and amount of the cash flows expected to be collected.

 PENDING CONTENT

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

After the transaction date, cash flows expected to be collected are defined as the holder's estimate of the amount and timing of estimated principal and interest cash flows based on the holder's best estimate of current conditions and reasonable and supportable forecasts.

325-40-35-4

If upon evaluation:

- a. Based on current information and events there is a favorable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected, then the investor shall recalculate the amount of accretable yield for the beneficial interest on the date of evaluation as the excess of cash flows expected to be collected over the beneficial interest's reference amount. The reference amount is equal to the initial investment minus cash received to date minus other-than-temporary impairments recognized in earnings to date (as described in paragraph [325-40-35-4\(b\)](#)) plus the yield accreted to date. In this paragraph a favorable (or an adverse) change in cash flows expected to be collected is considered in the context of both timing and amount of the cash flows expected to be collected. Based on cash flows expected to be collected, interest income may be recognized on a beneficial interest even if the net investment in the beneficial interest is accreted to an amount greater than the amount at which the beneficial interest could be settled if prepaid immediately in its entirety. The adjustment shall be accounted for prospectively as a change in estimate in conformity with Topic [250](#), with the amount of periodic accretion adjusted over the remaining life of the beneficial interest.
- b. The fair value of the beneficial interest has declined below its reference amount, the entity shall determine whether the decline is other than temporary. The entity shall apply the impairment of securities guidance beginning in paragraph [320-10-35-18](#). If based on current information and events there has been an adverse change in cash flows expected to be collected (in accordance with paragraph [325-40-35-4\(a\)](#)), then both of the following shall be done:
 1. An other-than-temporary impairment shall be considered to have occurred.
 2. The beneficial interest shall be written down to fair value with the resulting change being recognized in accordance with Section [320-10-35](#).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

If upon evaluation of a held-to-maturity classified beneficial interest there is a favorable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected, the investor shall first apply the guidance in Subtopic [326-20](#) on financial instruments measured at amortized cost to account for that favorable (or adverse) change. After application of the guidance in Subtopic [326-20](#), if the amount of the favorable (or adverse) change in cash flows expected to be collected from the cash flows previously projected is not reflected (either as an increase or as a decrease) in the allowance for credit losses in accordance with Subtopic [326-20](#), the investor shall recalculate the amount of accretable yield for the beneficial interest on the date of evaluation as the excess of cash flows expected to be collected over the beneficial interest's reference amount.

- a. [Subparagraph superseded by Accounting Standards Update No. 2016-13.](#)
- b. [Subparagraph superseded by Accounting Standards Update No. 2016-13.](#)

325-40-35-4A PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

If upon evaluation of an available-for-sale classified beneficial interest there is a favorable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected, the investor shall apply the guidance in Subtopic [326-30](#) on measuring credit losses on available-for-sale debt securities to account for that favorable (or adverse) change. After application of the guidance in Subtopic [326-30](#), if the amount of the favorable (or adverse) change in cash flows expected to be collected from the cash flows previously projected is not reflected (either as an increase or as a decrease) in the allowance for credit losses in accordance with Subtopic [326-30](#), the investor shall recalculate the amount of accretable yield for the beneficial interest on the date of evaluation as the excess of cash flows expected to be collected over the beneficial interest's reference amount.

325-40-35-4B PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

The reference amount in paragraphs [325-40-35-4 through 35-4A](#) is equal to the initial investment (or initial amortized cost basis for beneficial interests that apply the accounting for purchased financial assets with credit deterioration) minus cash received to date minus writeoff of amortized cost basis plus the yield accreted to date.

325-40-35-4C
 PENDING CONTENT


Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

In this Subtopic, a favorable (or an adverse) change in cash flows expected to be collected is considered in the context of both timing and amount of the cash flows expected to be collected. Based on cash flows expected to be collected, interest income may be recognized on a beneficial interest even if the net investment in the beneficial interest is accreted to an amount greater than the amount at which the beneficial interest could be settled if prepaid immediately in its entirety. The adjustment shall be accounted for prospectively as a change in estimate in conformity with Topic 250, with the amount of periodic accretion adjusted over the remaining life of the beneficial interest.

325-40-35-5

Determining whether there has been a favorable (or an adverse) change in cash flows expected to be collected from the cash flows previously projected (taking into consideration both the timing and amount of the cash flows expected to be collected) involves comparing the present value of the remaining cash flows expected to be collected at the initial transaction date (or at the last date previously revised) against the present value of the cash flows expected to be collected at the current financial reporting date.

325-40-35-6

The cash flows shall be discounted at a rate equal to the current yield used to accrete the beneficial interest.

 PENDING CONTENT


Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

The cash flows, including the assessment of expected credit losses, shall be discounted at a rate equal to the current yield used to accrete the beneficial interest.

> Credit Losses**325-40-35-6A**
 PENDING CONTENT


Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

An entity shall account for credit losses on beneficial interests classified as held to maturity and available for sale in accordance with Topic 326.

325-40-35-7

If the present value of the original estimate at the initial transaction date (or the last date previously revised) of cash flows expected to be collected is less than the present value of the current estimate of cash flows expected to be collected, the change is considered favorable (that is, an other-than-temporary impairment shall be considered to have not occurred under the guidance in this Subtopic).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

An entity shall use the present value of expected future cash flows technique to measure credit losses on beneficial interests. If the present value of the original estimate at the initial transaction date (or the last date previously revised) of cash flows expected to be collected is less than the present value of the current estimate of cash flows expected to be collected, the change is considered favorable. If the present value of the original estimate at the initial transaction date (or the last date previously revised) of cash flows expected to be collected is greater than the present value of the current estimate of cash flows expected to be collected, the change is considered adverse.

325-40-35-8

If the present value of the original estimate at the initial transaction date (or the last date previously revised) of cash flows expected to be collected is greater than the present value of the current estimate of cash flows expected to be collected, the change is considered adverse (that is, an other-than-temporary impairment shall be considered to have occurred under the guidance in this Subtopic).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

325-40-35-9

However, absent any other factors that indicate an other-than-temporary impairment has occurred, changes in the interest rate of a plain-vanilla, variable-rate beneficial interest generally should not result in the recognition of an other-than-temporary impairment (see footnote (a) in paragraph [325-40-55-1](#)) (a plain-vanilla, variable-rate beneficial interest does not include those variable-rate beneficial interests with interest rate reset formulas that involve either leverage or an inverse floater).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

However, unless the guidance in Topic [326](#) indicates that a credit loss has occurred, changes in the interest rate of a plain-vanilla, variable-rate beneficial interest generally should not result in the recognition and measurement of a credit loss (a plain-vanilla, variable-rate beneficial interest does not include those variable-rate beneficial interests with interest rate reset formulas that involve either leverage or an inverse floater).

325-40-35-10

See paragraph [325-40-55-1](#) for implementation guidance.

325-40-35-10A

It is inappropriate to automatically conclude that a security is not other-than temporarily impaired because all of the scheduled payments to date have been received. However, it also is inappropriate to automatically conclude that every decline in fair value represents an other-than-temporary impairment. Further analysis and judgment are required to assess whether a decline in fair value indicates that it is

probable that the holder will not collect all of the contractual cash flows or cash flows expected to be collected from the security. The longer and/or the more severe the decline in fair value, the more persuasive the evidence that is needed to overcome the premise that it is probable that the holder will not collect all of the contractual cash flows or cash flows expected to be collected from the issuer of the security.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

It is inappropriate to automatically conclude that no credit loss in a security exists because all of the scheduled payments to date have been received. However, it also is inappropriate to automatically conclude that every decline in fair value represents a credit loss. Further analysis and judgment are required to assess whether a decline in fair value is an indicator that the holder will not collect all of the contractual cash flows or cash flows expected to be collected from the security. The more severe the decline in fair value, the more persuasive the evidence that is needed to overcome the premise that the holder will not collect all of the contractual cash flows or cash flows expected to be collected from the issuer of the security.

325-40-35-10B In making its other-than-temporary impairment assessment, the holder shall also apply the guidance in paragraphs [320-10-35-33G](#) through [35-33I](#).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

325-40-35-10C [Paragraph not used.](#)

325-40-35-10D [Paragraph not used.](#)

325-40-35-11 [Paragraph superseded by Accounting Standards Update No. 2009-16.](#)

325-40-35-12 [Paragraph superseded by Accounting Standards Update No. 2009-16.](#)

> Other-Than-Temporary Impairment

325-40-35-13 When an entity intends to sell a specifically identified beneficial interest classified as available for sale for which fair value is less than the amortized cost basis, a write-down for other-than-temporary impairment shall be recognized in earnings. Topic [320](#) provides additional guidance to consider when determining whether an other-than-temporary impairment exists.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 325-40-35-10B will be superseded upon transition, together with its heading.

> **Other-Than-Temporary Impairment**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

325-40-35-14

For guidance on accounting for a transfer of a financial asset classified under Topic [320](#) as available for sale before the transfer, see paragraph [860-20-40-1B](#).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

325-40-35-15

[Paragraph superseded by Accounting Standards Update No. 2009-16.](#)

> Nonaccrual Status—Cash Flows Not Reliably Estimable

325-40-35-16

This Subtopic does not address when a holder of a beneficial interest would place that interest on nonaccrual status or when a holder cannot reliably estimate cash flows. However, for beneficial interests placed on nonaccrual status or when a holder cannot reliably estimate cash flows, the cost recovery method shall be used.

Broad Transactions → 805 Business Combinations → 20 Identifiable Assets and Liabilities, and Any Noncontrolling Interest ↴

35 Subsequent Measurement

i **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

 [Related Proposed ASUs](#)

> Guidance on Specific Business-Combination-Related Items

805-20-35-1 This Topic directly establishes generally accepted accounting principles (GAAP) for [business combinations](#) related to recognition and initial measurement. Paragraph [805-10-35-1](#) cites the general requirement for an [acquirer](#) to subsequently measure and account for assets acquired, liabilities assumed or incurred, and equity instruments issued in a [business combination](#) in accordance with other applicable generally accepted accounting principles (GAAP). However, that paragraph also identifies specific items for which this Topic provides guidance. This Subtopic provides guidance on several of those specific items as follows.

· > Reacquired Rights

805-20-35-2 A reacquired right recognized as an [intangible asset](#) in accordance with paragraph [805-20-25-14](#) shall be amortized over the remaining contractual period of the contract in which the right was granted. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

· > Assets and Liabilities Arising from Contingencies Recognized as of the Acquisition Date

805-20-35-3 An acquirer shall develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from [contingencies](#) depending on their nature.

· > Indemnification Assets

805-20-35-4 At each subsequent reporting date, the acquirer shall measure an indemnification asset that was recognized in accordance with paragraphs [805-20-25-27 through 25-28](#) at the [acquisition date](#) on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount, except as noted in paragraph [805-20-35-4B](#), and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectibility of the indemnification asset.

805-20-35-4A Paragraph superseded by Accounting Standards Update No. 2012-06.

· · > Indemnification Assets Arising from Government-Assisted Acquisitions of a Financial Institution

805-20-35-4B An indemnification asset recognized at the acquisition date in accordance with paragraphs [805-20-25-27 through 25-28](#) as a result of a government-assisted acquisition of a financial institution involving an indemnification agreement shall be subsequently measured on the same basis as the indemnified item. In certain circumstances, the effect of the change in expected cash flows of the indemnification agreement shall be amortized. Any amortization of changes in value shall be limited to the lesser of the contractual term of the indemnification agreement and the remaining life of the indemnified assets. For example, for indemnified assets accounted for under paragraph [310-30-35-10](#), if the expected cash flows on the indemnified assets increase (and there is no previously recorded valuation allowance), an entity shall account for the associated decrease in the indemnification asset by amortizing the change over the lesser of the contractual term of the indemnification agreement and the remaining life of the indemnified assets. Alternatively, if the expected cash flows on the indemnified assets increase such that a previously recorded valuation allowance is reversed, an entity shall account for the associated decrease in the indemnification asset immediately in earnings. Any remaining decrease in the indemnification asset shall be amortized over the lesser of the contractual term of the indemnification agreement and the remaining life of the indemnified assets.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

An indemnification asset recognized at the acquisition date in accordance with paragraphs [805-20-25-27 through 25-28](#) as a result of a government-assisted acquisition of a financial institution involving an indemnification agreement shall be subsequently measured on the same basis as the indemnified item. For example, if the expected cash flows on indemnified assets increase such that a previously recorded valuation allowance is reversed, an entity shall account for the associated decrease in the indemnification assets immediately in earnings.

· > Contingent Consideration Arrangements of an Acquiree Assumed by the Acquirer

805-20-35-4C Contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination shall be measured subsequently in accordance with the guidance for contingent consideration arrangements in paragraph [805-30-35-1](#).

> Additional Guidance on Subsequent Measurement of Assets Acquired, Liabilities Assumed or Incurred, and Any Noncontrolling Interests in a Business Combination

805-20-35-5 Additional guidance on subsequently measuring and accounting for assets acquired in a business combination is addressed in Subtopic [350-30](#), which prescribes the accounting for [identifiable intangible assets](#) acquired in a business combination, including recognition of intangible assets used in research and development activities, regardless of whether those assets have an

alternative future use, and their classification as indefinite-lived until the completion or abandonment of the associated research and development efforts.

805-20-35-6 Leasehold improvements acquired in a business combination shall be amortized over the shorter of the useful life of the assets and the remaining [lease term](#) at the date of acquisition. However, if the lease transfers ownership of the underlying asset to the lessee, or the lessee is reasonably certain to exercise an option to purchase the underlying asset, the lessee shall amortize the leasehold improvements to the end of their useful life.

805-20-35-7 Topic [944](#) on insurance provides guidance on the subsequent accounting for an insurance or [reinsurance](#) contract acquired in a business combination.

805-20-35-8 Additional guidance on accounting for changes in a parent's ownership interest in a subsidiary after [control](#) is obtained is provided in paragraphs [810-10-45-22 through 45-24](#) and Example 1 (see paragraph [810-10-55-4B](#)).

Broad Transactions → 815 Derivatives and Hedging → 10 Overall ↓

35 Subsequent Measurement

(i) General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

- 815-10-35-1** All derivative instruments shall be measured subsequently at [fair value](#).
- 815-10-35-1A** As a practical expedient, a receive-variable, pay-fixed interest rate swap for which the simplified hedge accounting approach (see paragraphs [815-20-25-133 through 25-138](#) for scope) is applied may be measured subsequently at settlement value instead of fair value.
- 815-10-35-1B** The primary difference between settlement value and fair value is that [nonperformance risk](#) is not considered in determining settlement value. One approach for estimating the receive-variable, pay-fixed interest rate swap's settlement value is to perform a present value calculation of the swap's remaining estimated cash flows using a valuation technique that is not adjusted for nonperformance risk.
- 815-10-35-1C** If any of the conditions in paragraph [815-20-25-131D](#) for applying the simplified hedge accounting approach subsequently cease to be met or the relationship otherwise ceases to qualify for hedge accounting, the General Subsections of this Topic shall apply at the date of change and on a prospective basis. For example, if the related variable-rate borrowing is prepaid without terminating the receive-variable, pay-fixed interest rate swap, the gain or loss on the swap in accumulated other comprehensive income shall be reclassified to earnings in accordance with paragraphs [815-30-40-1 through 40-6](#) with the swap measured at fair value on the date of change and subsequent changes in fair value reported in earnings in accordance with paragraph [815-10-35-2](#). Similarly, if the receive-variable, pay-fixed interest rate swap is terminated early without the related variable-rate borrowing being prepaid, the gain or loss on the swap in accumulated other comprehensive income shall be reclassified to earnings in accordance with paragraphs [815-30-40-1 through 40-6](#).
- 815-10-35-2** The accounting for changes in the fair value (that is, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. Subtopic [815-20](#) discusses the accounting for the gain or loss on a derivative instrument that is designated as a hedging instrument. Except as noted in the following paragraph, the gain or loss on a derivative instrument not designated as a hedging instrument shall be recognized currently in earnings.
- 815-10-35-3** An entity that does not report earnings as a separate caption in a statement of financial performance (for example, a not-for-profit entity [NFP] or a defined benefit pension plan) shall recognize the gain or loss on a nonhedging derivative instrument as a change in net assets in the period of change.

> Forward Commitment Dollar Rolls

815-10-35-4 A [forward commitment dollar roll](#) that is not subject otherwise to this Subtopic's provisions shall be measured subsequently at fair value.

Certain Contracts on Debt and Equity Securities

815-10-35-5 Forward contracts and purchased options on debt securities within the scope of this Subsection shall be measured subsequently according to their initial classification as follows:

a. Held to maturity:

1. Changes in the [fair value](#) of the forward contract or purchased option shall not be recognized unless a decline in the fair value of the underlying securities is other than temporary, in which case a loss shall be recognized in earnings.
2. Debt securities purchased under a forward contract shall be recorded at the forward contract price at the settlement date.
3. Debt securities purchased by exercising an option shall be recorded at the option strike price plus any remaining carrying amount for the option premium at the exercise date.
4. If an option expires worthless and the same debt security is purchased in the market, the security shall be recorded at its market price plus any remaining carrying amount for the option premium.
5. If an entity does not take delivery under the forward contract or purchase the same security in the market if the option expires worthless, the entity's intent to hold other debt securities to maturity will be called into question.

b. Available for sale:

1. Changes in the fair value of the forward contract or purchased option shall be recognized as part of the separate component of shareholders' equity under Topic [320](#) as they occur unless a decline in the fair value of the underlying securities is other than temporary.
2. Debt securities purchased under a forward contract shall be recorded at their fair values at the settlement date.
3. Debt securities purchased by exercising an option shall be recorded at the option strike price plus the fair value of the option at the exercise date.
4. If the option expires worthless and the same debt security is purchased in the market, the security shall be recorded at its market price plus any remaining carrying amount for the option premium.

c. [Trading](#):

1. Changes in the fair value of the forward contract or purchased option shall be recognized in earnings as they occur.
2. Debt securities purchased under a forward contract or by exercising an option shall be recorded at their fair values at the settlement date.

 PENDING CONTENT


Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Forward contracts and purchased options on debt securities within the scope of this Subsection shall be measured subsequently according to their initial classification as follows:

a. Held to maturity:

1. Changes in the [fair value](#) of the forward contract or purchased option shall not be recognized. Credit losses on the underlying securities in a forward contract shall be recorded through an allowance for credit losses in accordance with Subtopic [326-20](#) on financial instruments measured at amortized cost. Credit losses on the underlying securities in a purchased option shall be recorded through an allowance for credit losses in accordance with Subtopic [326-20](#) and shall be limited by the amount of the option premium.
2. Debt securities purchased under a forward contract shall be recorded at the forward contract price at the settlement date.
3. Debt securities purchased by exercising an option shall be recorded at the option strike price plus any remaining carrying amount for the option premium at the exercise date.
4. If an option expires worthless and the same debt security is purchased in the market, the security shall be recorded at its market price plus any remaining carrying amount for the option premium.
5. If an entity does not take delivery under the forward contract or purchase the same security in the market if the option expires worthless, the entity's intent to hold other debt securities to maturity will be called into question.

b. Available for sale:

1. Changes in the fair value of the forward contract or purchased option shall be recognized as part of the separate component of shareholders' equity under Topic [320](#) as they occur. Credit losses on the underlying securities in a forward contract shall be recorded through an allowance for credit losses in accordance with Subtopic [326-30](#) on measuring credit losses on available-for-sale debt securities. Credit losses on the underlying securities in a purchased option shall be recorded through an allowance for credit losses in accordance with Subtopic [326-30](#) and shall be limited by the amount of the option premium.
2. Debt securities purchased under a forward contract shall be recorded at their fair values at the settlement date.
3. Debt securities purchased by exercising an option shall be recorded at the option strike price plus the fair value of the option at the exercise date.
4. If the option expires worthless and the same debt security is purchased in the market, the security shall be recorded at its market price plus any remaining carrying amount for the option premium.

c. [Trading](#):

1. Changes in the fair value of the forward contract or purchased option shall be recognized in earnings as they occur.
2. Debt securities purchased under a forward contract or by exercising an option shall be recorded at their fair values at the settlement date.

815-10-35-6 Changes in the fair value of forward contracts and purchased options on equity securities within the scope of this Subsection shall be recognized in earnings as they occur. Changes in observable price or impairment of forward contracts and purchased options on equity securities without readily determinable fair value within the scope of this Subsection measured in accordance with paragraph [321-10-35-2](#) shall be recognized in earnings as they occur. A change in observable price or impairment of the underlying securities of forward contracts and purchased options on equity securities shall result in a remeasurement of the entire fair value of the forward contracts and purchased options as of the date that the observable transaction took place. Equity securities within the scope of this Subsection purchased under a forward contract or by exercising an option shall be recorded at their fair values at the settlement date.

Securities and Exchange Commission (SEC)

General

> Accounting for Written Options

815-10-S35-1 See paragraph [815-10-S99-4](#), SEC Observer Comment: Accounting for Written Options.

Broad Transactions → 815 Derivatives and Hedging → 25 Fair Value Hedges ↴

35 Subsequent Measurement

(i) General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

> Changes in Fair Value in General

815-25-35-1 Gains and losses on a qualifying [fair value hedge](#) shall be accounted for as follows:

- a. The gain or loss on the hedging instrument shall be recognized currently in earnings, except for amounts excluded from the assessment of effectiveness that are recognized in earnings through an amortization approach in accordance with paragraph [815-20-25-83A](#). All amounts recognized in earnings shall be presented in the same income statement line item as the earnings effect of the hedged item.
- b. The gain or loss (that is, the change in [fair value](#)) on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized currently in earnings.

 PENDING CONTENT

Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

Gains and losses on a qualifying [fair value hedge](#) shall be accounted for as follows:

- a. The gain or loss on the hedging instrument shall be recognized currently in earnings, except for amounts excluded from the assessment of effectiveness that are recognized in earnings through an amortization approach in accordance with paragraph [815-20-25-83A](#). All amounts recognized in earnings shall be presented in the same income statement line item as the earnings effect of the hedged item.
- b. The gain or loss (that is, the change in [fair value](#)) on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized currently in earnings except as described in (c).
- c. For one or more existing [hedged layer](#) or layers that are designated under the portfolio layer method in accordance with paragraph [815-20-25-12A](#), the gain or loss (that is, the change in fair value) on the hedged item attributable to the hedged risk shall not adjust the carrying value of the individual beneficial interest or individual assets in or removed from the closed portfolio. Instead, that amount shall be maintained on a closed portfolio basis and recognized currently in earnings.

815-25-35-2 [Paragraph superseded by Accounting Standards Update No. 2017-12.](#)

815-25-35-3 [Paragraph superseded by Accounting Standards Update No. 2017-12.](#)

815-25-35-4 Although a hedging relationship must comply with an entity's established policy range of what is considered highly effective pursuant to paragraphs [815-20-25-75 through 25-85](#) for that relationship to qualify for hedge accounting, that compliance does not assure perfect offset between the gain or loss on the hedging instrument and the hedged item attributable to the hedged risk. Any gain or loss on the hedging instrument that does not offset the gain or loss on the hedged item attributable to the hedged risk is recognized in earnings in the same income statement line item as the earnings effect of the hedged item in accordance with paragraph [815-20-45-1A](#).

815-25-35-5 [Paragraph superseded by Accounting Standards Update No. 2017-12.](#)

815-25-35-6 If a hedged item is otherwise measured at fair value with changes in fair value reported in [other comprehensive income](#) (such as an available-for-sale debt security), the adjustment of the hedged item's carrying amount discussed in paragraph [815-25-35-1\(b\)](#) shall be recognized in earnings rather than in other comprehensive income to offset the gain or loss on the hedging instrument.

 PENDING CONTENT

Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

If a hedged item is otherwise measured at fair value with changes in fair value reported in [other comprehensive income](#) (such as an available-for-sale debt security), the adjustment of the hedged item's carrying amount discussed in paragraph [815-25-35-1\(b\)](#) shall be recognized in earnings rather than in other comprehensive income to offset the gain or loss on the hedging instrument. If the hedged item is a hedged layer designated in a portfolio layer method hedge on a closed portfolio in accordance with paragraph [815-20-25-12A](#) and the closed portfolio includes only available-for-sale debt securities, the entire gain or loss (that is, the change in fair value) on the hedged item attributable to the hedged risk shall be recognized in earnings rather than in other comprehensive income to offset the gain or loss on the hedging instrument. If the closed portfolio includes available-for-sale debt securities and assets that are not available-for-sale debt securities, an entity shall determine the portion of the change in fair value on the hedged item attributable to the hedged risk associated with the available-for-sale debt securities using a systematic and rational method. That amount shall be recognized in earnings rather than in other comprehensive income. However, an entity shall not adjust the carrying amount of the individual available-for-sale debt securities included in the closed portfolio in accordance with paragraph [815-25-35-1\(c\)](#).

815-25-35-7 If an entity has designated and documented that it will assess effectiveness and measure hedge results on an after-tax basis as permitted by paragraph [815-20-25-3\(b\)\(2\)\(vi\)](#), the portion of the gain or loss on the hedging instrument that exceeded the loss or gain on the hedged item shall be included as an offset to the related tax effects in the period in which those tax effects are recognized.

> Estimating the Remaining Balance under the Last-of-Layer Method

815-25-35-7A When the hedged item is designated and accounted for under the last-of-layer method in accordance with paragraph [815-20-25-12A](#), an entity shall perform and document at each effectiveness assessment date an analysis that supports the entity's expectation that the hedged item (that is, the designated last of layer) is still anticipated to be outstanding as of the hedged item's assumed maturity date. That analysis shall incorporate the entity's current expectations of prepayments, defaults, and other events affecting the timing and amount of cash flows using a method consistent with the method used to perform the analysis in paragraph [815-20-25-12A\(a\)](#).

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

Editor's Note: *The content of paragraph 815-25-35-7A will change upon transition, together with a change in the heading noted below.*

> **Existing Portfolio Layer Method Hedges**

For each closed portfolio with one or more hedging relationships designated and accounted for under the portfolio layer method in accordance with paragraph [815-20-25-12A](#), an entity shall perform and document at each effectiveness assessment date an analysis that supports the entity's expectation that the hedged layer or layers in aggregate is still anticipated to be outstanding for the designated hedge period. That analysis shall incorporate the entity's current expectations of prepayments, defaults, and other factors affecting the timing and amount of cash flows associated with the closed portfolio using a method consistent with the method used to perform the analysis in paragraph [815-20-25-12A\(a\) and \(b\)](#).

> Changes in Fair Value of Hedged Item

815-25-35-8 The adjustment of the carrying amount of a hedged asset or liability required by paragraph [815-25-35-1\(b\)](#) shall be accounted for in the same manner as other components of the carrying amount of that asset or liability. For example, an adjustment of the carrying amount of a hedged asset held for sale (such as inventory) would remain part of the carrying amount of that asset until the asset is sold, at which point the entire carrying amount of the hedged asset would be recognized as the cost of the item sold in determining earnings.

815-25-35-9 An adjustment of the carrying amount of a hedged interest-bearing [financial instrument](#) shall be amortized to earnings. Amortization shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

 PENDING CONTENT 

Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

An adjustment of the carrying amount of a hedged interest-bearing [financial instrument](#) that is required by paragraph [815-25-35-1\(b\)](#) and an adjustment that is maintained on a closed portfolio basis in a portfolio layer method hedge in accordance with paragraph [815-25-35-1\(c\)](#) shall be amortized to earnings. Amortization shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

815-25-35-9A If, as permitted by paragraph [815-25-35-9](#), an entity amortizes the adjustment to the carrying amount of the hedged item during an outstanding partial-term hedge of an interest-bearing financial instrument, the entity shall fully amortize that adjustment by the hedged item's assumed maturity date in accordance with paragraph [815-25-35-13B](#). For a discontinued hedging relationship, all remaining adjustments to the carrying amount of the hedged item shall be amortized over a period that is consistent with the amortization of other discounts or premiums associated with the hedged item in

accordance with other Topics (for example, Subtopic [310-20](#) on receivables—nonrefundable fees and other costs).

PENDING CONTENT

Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

If, as permitted by paragraph [815-25-35-9](#), an entity amortizes the adjustment to the carrying amount of the hedged item during an existing partial-term hedge of an interest-bearing financial instrument or amortizes the basis adjustment in an existing portfolio layer method hedge, the entity shall fully amortize that adjustment by the hedged item's assumed maturity date in accordance with paragraph [815-25-35-13B](#). For a discontinued hedging relationship, all remaining adjustments to the carrying amount of the hedged item shall be amortized over a period that is consistent with the amortization of other discounts or premiums associated with the hedged item in accordance with other Topics (for example, Subtopic [310-20](#) on receivables—nonrefundable fees and other costs). See paragraphs [815-25-40-9](#) through [40-9A](#) for further guidance on accounting for a basis adjustment attributable to a discontinued portfolio layer method hedge.

· > Impairment of Hedged Item

815-25-35-10

An asset or liability that has been designated as being hedged and accounted for pursuant to this Section remains subject to the applicable requirements in generally accepted accounting principles (GAAP) for assessing impairment for that type of asset or for recognizing an increased obligation for that type of liability. Those impairment requirements shall be applied after hedge accounting has been applied for the period and the carrying amount of the hedged asset or liability has been adjusted pursuant to paragraph [815-25-35-1\(b\)](#). Because the hedging instrument is recognized separately as an asset or liability, its fair value or expected cash flows shall not be considered in applying those impairment requirements to the hedged asset or liability.

 PENDING CONTENT


Transition Date: **P** December 16, 2022; **N** December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

An asset or liability that has been designated as being hedged and accounted for pursuant to this Section remains subject to the applicable requirements in generally accepted accounting principles (GAAP) for assessing impairment for that type of asset or for recognizing an increased obligation for that type of liability. Those impairment requirements shall be applied after hedge accounting has been applied for the period and the carrying amount of the hedged asset or liability has been adjusted pursuant to paragraph [815-25-35-1\(b\)](#). A portfolio layer method basis adjustment that is maintained on a closed portfolio basis for an existing hedge in accordance with paragraph [815-25-35-1\(c\)](#) shall not be considered when assessing the individual assets or individual beneficial interest included in the closed portfolio for impairment or when assessing a portfolio of assets for impairment. An entity may not apply this guidance by analogy to other components of the [recorded investment](#). Because the hedging instrument is recognized separately as an asset or liability, its fair value or expected cash flows shall not be considered in applying those impairment requirements to the hedged asset or liability.

 PENDING CONTENT


Transition Date: **P** December 16, 2019; **N** December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: *The content of paragraph 815-25-35-10 will be amended upon transition, together with a change in the heading noted below.*

> > **Impairment or Credit Losses of Hedged Item**

An asset or liability that has been designated as being hedged and accounted for pursuant to this Section remains subject to the applicable requirements in generally accepted accounting principles (GAAP) for assessing impairment or credit losses for that type of asset or for recognizing an increased obligation for that type of liability. Those impairment or credit loss requirements shall be applied after hedge accounting has been applied for the period and the carrying amount of the hedged asset or liability has been adjusted pursuant to paragraph [815-25-35-1\(b\)](#). Because the hedging instrument is recognized separately as an asset or liability, its fair value or expected cash flows shall not be considered in applying those impairment or credit loss requirements to the hedged asset or liability.

 PENDING CONTENT

Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

An asset or liability that has been designated as being hedged and accounted for pursuant to this Section remains subject to the applicable requirements in generally accepted accounting principles (GAAP) for assessing impairment or credit losses for that type of asset or for recognizing an increased obligation for that type of liability. Those impairment or credit loss requirements shall be applied after hedge accounting has been applied for the period and the carrying amount of the hedged asset or liability has been adjusted pursuant to paragraph [815-25-35-1\(b\)](#). A portfolio layer method basis adjustment that is maintained on a closed portfolio basis for an existing hedge in accordance with paragraph [815-25-35-1\(c\)](#) shall not be considered when assessing the individual assets or individual beneficial interest included in the closed portfolio for impairment or when assessing a portfolio of assets for impairment. An entity may not apply this guidance by analogy to other components of amortized cost basis. Because the hedging instrument is recognized separately as an asset or liability, its fair value or expected cash flows shall not be considered in applying those impairment or credit loss requirements to the hedged asset or liability.

· · > Interaction with Loan Impairment

815-25-35-11 This Subtopic implicitly affects the measurement of impairment under Section [310-10-35](#) by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted [recorded investment](#) in a hedged loan. Paragraph [310-10-35-31](#) requires that, when the recorded investment of a loan has been adjusted under fair value hedge accounting, the effective rate is the discount rate that equates the present value of the loan's future cash flows with that adjusted recorded investment. That paragraph states that the adjustment under fair value hedge accounting of the loan's carrying amount for changes in fair value attributable to the hedged risk under this Subtopic shall be considered to be an adjustment of the loan's recorded investment. As discussed in that paragraph, the loan's original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value. Because paragraph [815-25-35-10](#) requires that the loan's carrying amount be adjusted for hedge accounting before the impairment requirements of Subtopic [310-10](#) are applied, this Subtopic implicitly supports using the new effective rate and the adjusted recorded investment.

 PENDING CONTENT


Transition Date: P December 16, 2022; N December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

This Subtopic implicitly affects the measurement of impairment under Section [310-10-35](#) by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted [recorded investment](#) in a hedged loan. Paragraph [310-10-35-31](#) requires that, when the recorded investment of a loan has been adjusted under fair value hedge accounting, the effective rate is the discount rate that equates the present value of the loan's future cash flows with that adjusted recorded investment. That paragraph states that the adjustment under fair value hedge accounting of the loan's carrying amount for changes in fair value attributable to the hedged risk under this Subtopic shall be considered to be an adjustment of the loan's recorded investment. As discussed in that paragraph, the loan's original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value. Because paragraph [815-25-35-10](#) requires that the loan's carrying amount be adjusted for hedge accounting before the impairment requirements of Subtopic [310-10](#) are applied, this Subtopic implicitly supports using the new effective rate and the adjusted recorded investment. A portfolio layer method basis adjustment that is maintained on a closed portfolio basis for an existing hedge in accordance with paragraph [815-25-35-1\(c\)](#) shall not adjust the recorded investment of the individual assets or individual beneficial interest included in the closed portfolio. An entity may not apply this guidance by analogy to other components of the recorded investment.

 PENDING CONTENT


Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

***Editor's Note:** The content of paragraph 815-25-35-11 will be amended upon transition, together with a change in the heading noted below.*

> > > **Interaction with Measurement of Credit Losses**

This Subtopic implicitly affects the measurement of credit losses under Subtopic [326-20](#) on financial instruments measured at amortized cost by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted amortized cost basis in a hedged loan. Paragraph [326-20-55-9](#) requires that, when the amortized cost basis of a loan has been adjusted under fair value hedge accounting, the effective rate is the discount rate that equates the present value of the loan's future cash flows with that adjusted amortized cost basis. That paragraph states that the adjustment under fair value hedge accounting for changes in fair value attributable to the hedged risk under this Subtopic shall be considered to be an adjustment of the loan's amortized cost basis. As discussed in that paragraph, the loan's original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value. Because paragraph [815-25-35-10](#) requires that the loan's amortized cost basis be adjusted for hedge accounting before the requirements of Subtopic [326-20](#) are applied, this Subtopic implicitly supports using the new effective rate and the adjusted amortized cost basis.

 PENDING CONTENT

Transition Date:  December 16, 2022;  December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

This Subtopic implicitly affects the measurement of credit losses under Subtopic [326-20](#) on financial instruments measured at amortized cost by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted amortized cost basis in a hedged loan. Paragraph [326-20-55-9](#) requires that, when the amortized cost basis of a loan has been adjusted under fair value hedge accounting, the effective rate is the discount rate that equates the present value of the loan's future cash flows with that adjusted amortized cost basis. That paragraph states that the adjustment under fair value hedge accounting for changes in fair value attributable to the hedged risk under this Subtopic shall be considered to be an adjustment of the loan's amortized cost basis. As discussed in that paragraph, the loan's original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value. Because paragraph [815-25-35-10](#) requires that the loan's amortized cost basis be adjusted for hedge accounting before the requirements of Subtopic [326-20](#) are applied, this Subtopic implicitly supports using the new effective rate and the adjusted amortized cost basis. A portfolio layer method basis adjustment that is maintained on a closed portfolio basis for an existing hedge in accordance with paragraph [815-25-35-1\(c\)](#) shall not adjust the amortized cost basis of the individual assets or individual beneficial interest included in the closed portfolio. An entity may not apply this guidance by analogy to other components of amortized cost basis.

815-25-35-12

This guidance applies to all entities applying Subtopic [310-10](#) to financial assets that are hedged items in a fair value hedge, regardless whether those entities have delayed amortizing to earnings the adjustments of the loan's carrying amount arising from fair value hedge accounting until the hedging relationship is dedesignated. The guidance on recalculating the effective rate is not intended to be applied to all other circumstances that result in an adjustment of a loan's carrying amount.

 PENDING CONTENT


Transition Date: P December 16, 2022; N December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

This guidance applies to all entities applying Subtopic [310-10](#) to financial assets that are hedged items in a fair value hedge, regardless whether those entities have delayed amortizing to earnings the adjustments of the loan's carrying amount arising from fair value hedge accounting until the hedging relationship is dedesignated. The guidance on recalculating the effective rate is not intended to be applied to all other circumstances that result in an adjustment of a loan's carrying amount and is not intended to be applied to the individual assets or individual beneficial interest in an existing portfolio layer method hedge closed portfolio.

 PENDING CONTENT


Transition Date: P December 16, 2019; N December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

This guidance applies to all entities applying Subtopic [326-20](#) to financial assets that are hedged items in a fair value hedge, regardless of whether those entities have delayed amortizing to earnings the adjustments of the loan's amortized cost basis arising from fair value hedge accounting until the hedging relationship is dedesignated. The guidance on recalculating the effective rate is not intended to be applied to all other circumstances that result in an adjustment of a loan's amortized cost basis.

 PENDING CONTENT


Transition Date: P December 16, 2022; N December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

This guidance applies to all entities applying Subtopic [326-20](#) to financial assets that are hedged items in a fair value hedge, regardless of whether those entities have delayed amortizing to earnings the adjustments of the loan's amortized cost basis arising from fair value hedge accounting until the hedging relationship is dedesignated. The guidance on recalculating the effective rate is not intended to be applied to all other circumstances that result in an adjustment of a loan's amortized cost basis and is not intended to be applied to the individual assets or individual beneficial interest in an existing portfolio layer method hedge closed portfolio.

· > Changes Involving Interest Rate Risk

815-25-35-13 In calculating the change in the hedged item's fair value attributable to changes in the [benchmark interest rate](#) (see paragraph [815-20-25-12\(f\)\(2\)](#)), the estimated coupon cash flows used in calculating fair value shall be based on either the full contractual coupon cash flows or the benchmark rate component of the contractual coupon cash flows of the hedged item determined at hedge inception.

· · > Measuring the Fair Value of a Prepayable Instrument in Hedges of Interest Rate Risk

815-25-35-13A In a hedge of interest rate risk in which the hedged item is a [prepayable](#) instrument in accordance with paragraph [815-20-25-6](#), the factors incorporated for the purpose of adjusting the carrying amount of the hedged item shall be the same factors that the entity incorporated for the purpose of assessing hedge effectiveness in accordance with paragraph [815-20-25-6B](#). For example, if an entity considers only how changes in the benchmark interest rate affect an obligor's decision to prepay a debt instrument when assessing hedge effectiveness, it shall consider only that factor when adjusting the carrying amount of the hedged item. The election to consider only how changes in the benchmark interest rate affect an obligor's decision to prepay a debt instrument does not affect an entity's election to use either the full contractual coupon cash flows or the benchmark rate component of the contractual coupon cash flows determined at hedge inception for purposes of measuring the change in fair value of the hedged item in accordance with paragraph [815-25-35-13](#).

· · > Measuring the Change in Fair Value of the Hedged Item in Partial-Term Hedges of Interest Rate Risk
Using an Assumed Term

815-25-35-13B For a fair value hedge of interest rate risk in which the hedged item is designated as selected contractual cash flows in accordance with paragraph [815-20-25-12\(b\)\(2\)\(ii\)](#), an entity may measure the change in the fair value of the hedged item attributable to interest rate risk using an assumed term that begins when the first hedged cash flow begins to accrue and ends when the last hedged cash flow is due and payable. The assumed issuance of the hedged item occurs on the date that the first hedged cash flow begins to accrue. The assumed maturity of the hedged item occurs on the date in which the last hedged cash flow is due and payable. An entity may measure the change in fair value of the hedged item attributable to interest rate risk in accordance with this paragraph when the entity is designating the hedged item in a hedge of both interest rate risk and foreign exchange risk. In that hedging relationship, the change in carrying value of the hedged item attributable to foreign exchange risk shall be measured on the basis of changes in the foreign currency spot rate in accordance with paragraph [815-25-35-18](#). Additionally, an entity may have one or more separately designated partial-term hedging relationships outstanding at the same time for the same debt instrument (for example, 2 outstanding hedging relationships for consecutive interest cash flows in Years 1-3 and consecutive interest cash flows in Years 5-7 of a 10-year debt instrument).

 PENDING CONTENT


Transition Date: P December 16, 2022; N December 16, 2023 | **Transition Guidance:** [815-20-65-6](#)

For a fair value hedge of interest rate risk in which the hedged item is designated for a partial term in accordance with paragraph [815-20-25-12\(b\)\(2\)\(ii\)](#), an entity may measure the change in the fair value of the hedged item attributable to interest rate risk using an assumed term that begins when the first hedged cash flow begins to accrue and ends at the end of the designated hedge period. The assumed issuance of the hedged item occurs on the date that the first hedged cash flow begins to accrue. The assumed maturity of the hedged item occurs at the end of the designated hedge period. An entity may measure the change in fair value of the hedged item attributable to interest rate risk in accordance with this paragraph when the entity is designating the hedged item in a hedge of both interest rate risk and foreign exchange risk. In that hedging relationship, the change in carrying value of the hedged item attributable to foreign exchange risk shall be measured on the basis of changes in the foreign currency spot rate in accordance with paragraph [815-25-35-18](#). Additionally, an entity may have one or more separately designated partial-term hedging relationships outstanding at the same time for the same debt instrument (for example, 2 outstanding hedging relationships for consecutive interest cash flows in Years 1-3 and consecutive interest cash flows in Years 5-7 of a 10-year debt instrument).

· > Interaction with Capitalization Rate for Assets under Construction

815-25-35-14 Amounts recorded in an entity's income statement as interest costs shall be reflected in the capitalization rate under Subtopic [835-20](#). Those amounts could include amortization of the adjustments of the carrying amount of the hedged liability, under paragraphs [815-25-35-9 through 35-9A](#), if an entity elects to begin amortization of those adjustments during the period in which interest is eligible for capitalization.

· > Changes Involving Foreign Exchange Risk

815-25-35-15 Gains and losses on a qualifying foreign currency fair value hedge shall be accounted for as specified in Section [815-25-40](#) and paragraphs [815-25-35-1 through 35-10](#).

815-25-35-16 If a nonderivative instrument qualifies as a hedging instrument under paragraph [815-20-25-58](#), the gain or loss on the nonderivative hedging instrument attributable to foreign currency risk shall be the foreign currency transaction gain or loss as determined under Subtopic [830-20](#). The foreign currency transaction gain or loss on a hedging instrument shall be determined, consistent with paragraph [830-20-35-1](#), as the increase or decrease in functional currency cash flows attributable to the change in spot exchange rates between the functional currency and the currency in which the hedging instrument is denominated. That foreign currency transaction gain or loss shall be recognized currently in earnings along with the change in the carrying amount of the hedged firm commitment.

815-25-35-17 [Paragraph not used.](#)

815-25-35-18 Remeasurement of hedged foreign-currency-denominated assets and liabilities is based on the guidance in Subtopic [830-20](#), which requires remeasurement based on spot exchange rates, regardless of whether a fair value hedging relationship exists.

> Entities That Do Not Report Earnings

815-25-35-19 An entity that does not report earnings as a separate caption in a statement of financial performance (for example, a not-for-profit entity [NFP] or a defined benefit pension plan) shall recognize the gain or loss on a hedging instrument as a change in net assets in the period of change unless the hedging instrument is designated as a hedge of the foreign currency exposure of a net investment in a foreign operation. In that circumstance, the provisions of paragraphs [815-20-25-66](#) and [815-35-35-1 through 35-2](#) shall be applied. Entities that do not report earnings shall recognize the changes in the carrying amount of the hedged item pursuant to paragraphs [815-25-35-1](#) and [815-25-35-4](#) in a fair value hedge as a change in net assets in the period of change.

Broad Transactions → 815 Derivatives and Hedging → 30 Cash Flow Hedges ↴

35 Subsequent Measurement

i General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

[Related Proposed ASUs](#)

815-30-35-1

The guidance in this Section is organized as follows:

- a. Subsequent recognition and measurement of gains and losses on hedging instrument
- b. Reclassifications from accumulated other comprehensive income into earnings
- c. Hedging relationship's timing that involves uncertainty within a range
- d. [Subparagraph superseded by Accounting Standards Update No. 2017-12.](#)

> Subsequent Recognition and Measurement of Gains and Losses on Hedging Instrument

815-30-35-2

[Paragraph superseded by Accounting Standards Update No. 2017-12.](#)

815-30-35-3

When the relationship between the hedged item and hedging instrument is highly effective at achieving offsetting changes in cash flows attributable to the hedged risk, an entity shall record in [other comprehensive income](#) the entire change in the fair value of the designated hedging instrument that is included in the assessment of hedge effectiveness. More specifically, a qualifying [cash flow hedge](#) shall be accounted for as follows:

- a. An entity's defined risk management strategy for a particular hedging relationship may exclude a specific component of the gain or loss, or related cash flows, on the hedging derivative from the assessment of hedge effectiveness (as discussed in paragraphs [815-20-25-81 through 25-83B](#)). That excluded component of the gain or loss shall be recognized in earnings either through an amortization approach in accordance with paragraph [815-20-25-83A](#) or through a mark-to-market approach in accordance with paragraph [815-20-25-83B](#). Under either approach, the amount recognized in earnings for an excluded component shall be presented in the same income statement line item as the earnings effect of the hedged item in accordance with paragraph [815-20-45-1A](#). For example, if the effectiveness of a hedging relationship with an option is assessed based on changes in the option's [intrinsic value](#), the changes in the option's [time value](#) would be excluded from the assessment of hedge effectiveness and either may be recognized in earnings

through an amortization approach in accordance with paragraph [815-20-25-83A](#) or currently in earnings in accordance with paragraph [815-20-25-83B](#).

b. Amounts in accumulated other comprehensive income related to the derivative designated as a hedging instrument included in the assessment of hedge effectiveness are reclassified to earnings in the same period or periods during which the hedged forecasted transaction affects earnings in accordance with paragraphs [815-30-35-38 through 35-41](#) and presented in the same income statement line item as the earnings effect of the hedged item in accordance with paragraph [815-20-45-1A](#). The balance in accumulated other comprehensive income associated with the hedged transaction shall be the cumulative gain or loss on the derivative instrument from inception of the hedge less all of the following:

1. [Subparagraph superseded by Accounting Standards Update No. 2017-12.](#)

1a. The derivative instrument's gains or losses previously reclassified from accumulated other comprehensive income into earnings pursuant to paragraphs [815-30-35-38 through 35-41](#).

1b. The cumulative amount amortized to earnings related to excluded components accounted for through an amortization approach in accordance with paragraph [815-20-25-83A](#).

1c. The cumulative change in fair value of an excluded component for which changes in fair value are recorded currently in earnings in accordance with paragraph [815-20-25-83B](#).

2. [Subparagraph superseded by Accounting Standards Update No. 2017-12.](#)

If hedge accounting has not been applied to a cash flow hedging relationship in a previous effectiveness assessment period because the entity's retrospective evaluation indicated that the relationship had not been highly effective in achieving offsetting changes in cash flows in that period, the cumulative gain or loss on the derivative referenced in (b) would exclude the gains or losses occurring during that period. That situation may arise if the entity had previously determined, for example, under a regression analysis or other appropriate statistical analysis approach used for prospective assessments of hedge effectiveness, that there was an expectation in which the hedging relationship would be highly effective in future periods. Consequently, the hedging relationship continued even though hedge accounting was not permitted for a specific previous effectiveness assessment period.

c. [Subparagraph superseded by Accounting Standards Update No. 2017-12.](#)

d. If a non-option-based contract is the hedging instrument in a cash flow hedge of the variability of the functional-currency-equivalent cash flows for a recognized foreign-currency-denominated asset or liability that is remeasured at spot exchange rates under paragraph [830-20-35-1](#), an amount that will both offset the related transaction gain or loss arising from that remeasurement and adjust earnings for that period's allocable portion of the initial spot-forward difference associated with the hedging instrument (cost to the purchaser or income to the seller of the hedging instrument) shall be reclassified each period from other comprehensive income to earnings if the assessment of effectiveness is based on total changes in the non-option-based instrument's cash flows. If an option contract is used as the hedging instrument in a cash flow hedge of the variability of the functional-currency-equivalent cash flows for a recognized foreign-currency-denominated asset or liability that is remeasured at spot exchange rates under paragraph [830-20-35-1](#) to provide only one-sided offset against the hedged foreign exchange risk, an amount shall be reclassified each period to or from other comprehensive income with respect to the changes in the underlying that result in a change in the hedging option's intrinsic value. In addition, if the assessment of effectiveness is based on total changes in the option's cash flows (that is, the assessment will include the hedging instrument's entire change in fair value—its entire gain or

loss), an amount that adjusts earnings for the amortization of the cost of the option on a rational basis shall be reclassified each period from other comprehensive income to earnings. This guidance is limited to foreign currency hedging relationships because of their unique attributes and is an exception for foreign currency hedging relationships.

e. [Subparagraph superseded by Accounting Standards Update No. 2017-12.](#)

f. [Subparagraph superseded by Accounting Standards Update No. 2017-12.](#)

815-30-35-4 [Paragraph superseded by Accounting Standards Update No. 2017-12.](#)

815-30-35-5 If an entity has designated and documented that it will assess effectiveness and measure hedge results of a cash flow hedge of foreign currency risk on an after-tax basis as permitted by paragraph [815-20-25-3\(b\)\(2\)\(vi\)](#), the portion of the gain or loss on the hedging instrument that exceeded the loss or gain on the hedged item shall be included as an offset to the related tax effects in the period in which those tax effects are recognized.

815-30-35-6 Remeasurement of the hedged foreign-currency-denominated assets and liabilities is based on the guidance in Topic [830](#), which requires remeasurement based on spot exchange rates, regardless of whether a cash flow hedging relationship exists.

815-30-35-7 Examples 1 through 4 (see paragraphs [815-30-55-1A through 55-19](#)) illustrate assessing hedge effectiveness. Example 10 (see paragraph [815-30-55-63](#)) illustrates the application of paragraph [815-30-35-3](#).

815-30-35-8 The remainder of this guidance addresses the following matters:

- a. Application to single cash flow hedge of a forecasted sale or purchase on credit for foreign exchange risk
- b. Assessing hedge effectiveness in certain cash flow hedges involving [interest rate risk](#) when effectiveness is assessed on a quantitative basis
- c. Hedging relationship in which hedge effectiveness is based on an option's terminal value.
- d. Change in the designated hedged risk.

· > Application to Single Cash Flow Hedge of a Forecasted Sale or Purchase on Credit for Foreign Exchange Risk

815-30-35-9 For a single cash flow hedge that encompasses the variability of functional-currency-equivalent cash flows attributable to foreign exchange risk related to the settlement of a foreign-currency-denominated receivable or payable resulting from a forecasted sale or purchase on credit, the guidance in paragraph [815-30-35-3](#) is applied as follows:

- a. The gain or loss on the derivative instrument that is included in the assessment of hedge effectiveness is reported in other comprehensive income during the period before the forecasted purchase or sale.
- b. The functional currency interest rate implicit in the hedging relationship as a result of entering into the forward contract is used to determine the amount of cost or income to be ascribed to each period of the hedging relationship. The cash flow hedging model for recognized foreign-currency-denominated assets and liabilities requires use of the interest method at the inception of the hedging relationship to determine the amount of cost or income to be ascribed to each relevant period of the hedging relationship. However, for simplicity, in hedging relationships in which the

hedged item is a short-term non-interest-bearing account receivable or account payable, the amount of cost or income to be ascribed each period can also be determined using a pro rata method based on the number of days or months of the hedging relationship. In addition, in a short-term single cash flow hedging relationship that encompasses the variability of functional-currency-equivalent cash flows attributable to foreign exchange risk related to the settlement of a foreign-currency-denominated receivable or payable resulting from a forecasted sale or purchase on credit, the amount of cost or income to be ascribed each period can also be determined using a pro rata method or a method that uses two foreign currency forward exchange rates. The first foreign currency forward exchange rate would be based on the maturity date of the forecasted purchase or sale transaction. The second foreign currency forward exchange rate would be based on the settlement date of the resulting account receivable or account payable.

c. For forecasted sales on credit, the amount of cost or income ascribed to each forecasted period is reclassified from other comprehensive income to earnings on the date of the sale. For forecasted purchases on credit, the amount of cost or income ascribed to each forecasted period is reclassified from other comprehensive income to earnings in the same period or periods during which the asset acquired affects earnings. The reclassification from other comprehensive income to earnings of the amount of cost or income ascribed to each forecasted period is based on the guidance in paragraphs [815-30-35-38 through 35-41](#).

d. The income or cost ascribed to each period encompassed within the periods of the recognized foreign-currency-denominated receivable or payable is reclassified from other comprehensive income to earnings at the end of each reporting period.

Example 18 (see paragraph [815-30-55-106](#)) illustrates such a transaction.

· > Assessing Hedge Effectiveness in Certain Cash Flow Hedges Involving Interest Rate Risk When Effectiveness Is Assessed on a Quantitative Basis

815-30-35-10 This guidance addresses the following three methods of assessing effectiveness of certain cash flow hedges when hedge effectiveness is assessed on a quantitative basis in accordance with paragraphs [815-20-25-3\(b\)\(2\)\(iv\)\(01\)](#) and [815-20-35-2 through 35-2F](#):

- a. Change-in-variable-cash-flows method
- b. Hypothetical-derivative method
- c. Change-in-fair-value method.

815-30-35-11 Those three methods relate to assessing the effectiveness of a cash flow hedge that involves any of the following:

- a. A receive-variable, pay-fixed interest rate swap designated as a hedge of the variable interest payments on an existing floating-rate liability
- b. A receive-fixed, pay-variable interest rate swap designated as a hedge of the variable interest receipts on an existing variable-rate asset
- c. Cash flow hedges of the variability of future interest payments on interest-bearing assets to be acquired or interest-bearing liabilities to be incurred (such as the rollover of an entity's short-term debt as described in Example 9 [see paragraph [815-30-55-52](#)]).

815-30-35-12 The hedging relationships covered by this guidance encompass either of the following:

- a. Hedges of interest rate risk (pursuant to paragraph [815-20-25-15\(j\)\(2\)](#)) that do not qualify for the shortcut method

b. Hedges of the risk of overall changes in the hedged cash flows related to the asset or liability (pursuant to paragraph 815-20-25-15(j)(1)).

815-30-35-13 If, at the inception of the hedge, the fair value of the interest rate swap designated as the hedging instrument is zero or is somewhat near zero, any of the three methods in paragraph 815-30-35-10 may be applied to assess hedge effectiveness.

815-30-35-14 In contrast, if, at the inception of the hedge, the fair value of the interest rate swap is not somewhat near zero, the change-in-variable-cash-flows method shall not be applied to assess hedge effectiveness because that method does not require entities to consider the interest element of the change in fair value of a hedging instrument that incorporates a financing element; instead, either the hypothetical-derivative method or the change-in-fair-value method shall be applied. Those latter two methods require entities to consider the interest element of the change in fair value of a hedging instrument that incorporates a financing element that is not somewhat near zero, such as if the interest rate swap has been structured to be significantly in the money at the inception of the hedging relationship.

815-30-35-15 Under all three methods, an entity shall consider the risk of default by counterparties that are obligors with respect to the hedging instrument (the interest rate swap) or hedged transaction, pursuant to the guidance in paragraphs 815-20-25-122 and 815-20-25-16(a), respectively. An underlying assumption in this guidance is that the likelihood of the obligor not defaulting is assessed as being probable.

815-30-35-15A When assessing hedge effectiveness using any of the three methods specified in paragraph 815-30-35-10, in addition to the guidance specific to each method, an entity also shall apply the general guidance in paragraph 815-20-25-79 on prospective considerations and retrospective evaluations of hedge effectiveness.

· · > Change-in-Variable-Cash-Flows Method

815-30-35-16 An entity shall assess hedge effectiveness under the change-in-variable-cash-flows method by comparing the following items:

- a. The variable leg of the interest rate swap
- b. The hedged variable-rate cash flows on the asset or liability.

815-30-35-17 As noted in paragraph 815-30-35-14, the change-in-variable-cash-flows method shall not be used in certain circumstances.

815-30-35-18 The change-in-variable-cash-flows method is consistent with the cash flow hedge objective of effectively offsetting the changes in the hedged cash flows attributable to the hedged risk. The method is based on the premise that only the floating-rate component of the interest rate swap provides the cash flow hedge, and any change in the interest rate swap's fair value attributable to the fixed-rate leg is not relevant to the variability of the hedged interest payments (receipts) on the floating-rate liability (asset).

815-30-35-19 An entity shall assess hedge effectiveness under this method by comparing the following amounts:

- a. The present value of the cumulative change in the expected future cash flows on the variable leg of the interest rate swap
- b. The present value of the cumulative change in the expected future interest cash flows on the variable-rate asset or liability.

815-30-35-20 Because the focus of a cash flow hedge is on whether the hedging relationship achieves offsetting changes in cash flows, if the variability of the hedged cash flows of the variable-rate asset or liability is based solely on changes in a variable-rate index, the present value of the cumulative changes in expected future cash flows on both the variable-rate leg of the interest rate swap and the variable-rate asset or liability shall be calculated using the discount rates applicable to determining the fair value of the interest rate swap.

815-30-35-21 Paragraph superseded by Accounting Standards Update No. 2017-12.

815-30-35-22 The change-in-variable-cash-flows method will result in a perfectly effective hedge if all of the following conditions are met:

- a. The variable-rate leg of the interest rate swap and the hedged variable cash flows of the asset or liability are based on the same interest rate index (for example, three-month [London Interbank Offered Rate \(LIBOR\) swap rate](#)).
- b. The interest rate reset dates applicable to the variable-rate leg of the interest rate swap and to the hedged variable cash flows of the asset or liability are the same.
- c. The hedging relationship does not contain any other basis differences (for example, if the variable leg of the interest rate swap contains a cap and the variable-rate asset or liability does not).
- d. The likelihood of the obligor not defaulting is assessed as being probable.

815-30-35-23 However, a hedge would not be perfectly effective if any basis differences existed. For example, this would be expected to result from either of the following conditions, among others:

- a. A difference in the indexes used to determine cash flows on the variable leg of the interest rate swap (for example, the three-month U.S. Treasury rate) and the hedged variable cash flows of the asset or liability (for example, three-month LIBOR)
- b. A mismatch between the interest rate reset dates applicable to the variable leg of the interest rate swap and the hedged variable cash flows of the hedged asset or liability.

815-30-35-24 Example 15 (see paragraph [815-30-55-91](#)) illustrates the application of the change-in-variable-cash-flows method.

· · > Hypothetical-Derivative Method

815-30-35-25 An entity shall assess hedge effectiveness under the hypothetical-derivative method by comparing the following amounts:

- a. The change in fair value of the actual interest rate swap designated as the hedging instrument
- b. The change in fair value of a hypothetical interest rate swap having terms that identically match the critical terms of the floating-rate asset or liability, including all of the following:
 1. The same [notional amount](#)
 2. The same repricing dates
 3. The same index (that is, the index on which the hypothetical interest rate swap's variable rate is based matches the index on which the asset or liability's variable rate is based)
 4. Mirror image caps and floors
 5. A zero fair value at the inception of the hedging relationship.

- 815-30-35-26** Essentially, the hypothetical derivative would need to satisfy all of the applicable conditions in paragraphs [815-20-25-104](#) and [815-20-25-106](#) necessary to qualify for use of the shortcut method except the criterion in paragraph [815-20-25-104\(e\)](#). Thus, the hypothetical interest rate swap would be expected to perfectly offset the hedged cash flows. Because the requirements of paragraph [815-20-25-104\(e\)](#) were developed with an emphasis on fair value hedging relationships, they do not fit the more general principle that the hypothetical derivative in a cash flow hedging relationship should be expected to perfectly offset the hedged cash flows.
- 815-30-35-27** The change in the fair value of the perfect hypothetical interest rate swap can be regarded as a proxy for the present value of the cumulative change in expected future cash flows on the hedged transaction.
- 815-30-35-28** [Paragraph superseded by Accounting Standards Update No. 2017-12.](#)
- 815-30-35-29** The determination of the fair value of both the perfect hypothetical interest rate swap and the actual interest rate swap shall use discount rates based on the relevant interest rate swap curves.
- 815-30-35-30** [Paragraph superseded by Accounting Standards Update No. 2017-12.](#)

· · > Change-in-Fair-Value Method

- 815-30-35-31** An entity shall assess hedge effectiveness under the change-in-fair-value method by comparing the following amounts:
- The present value of the cumulative change in expected variable future interest cash flows that are designated as the hedged transactions
 - The cumulative change in the fair value of the interest rate swap designated as the hedging instrument.
- 815-30-35-32** The discount rates applicable to determining the fair value of the interest rate swap designated as the hedging instrument shall also be applied to the computation of present values of the cumulative changes in the hedged cash flows.

· > Hedging Relationship in Which Hedge Effectiveness Is Based on an Option's Terminal Value

- 815-30-35-33** If an entity concludes under paragraphs [815-20-25-129 through 25-129A](#) that the hedging relationship may not be considered to be perfectly effective, the entity shall assess hedge effectiveness by comparing the following amounts:
- The change in fair value of the actual hedging instrument
 - The change in fair value of a perfectly effective hypothetical hedging instrument. That hypothetical hedging instrument shall have terms that meet the four conditions listed in paragraphs [815-20-25-129 through 25-129A](#).
- 815-30-35-34** The change in fair value of the hypothetical hedging instrument can be regarded as a proxy for the present value of the cumulative change in expected future cash flows on the hedged transaction(s).
- 815-30-35-35** [Paragraph superseded by Accounting Standards Update No. 2017-12.](#)

815-30-35-36 Paragraph superseded by Accounting Standards Update No. 2017-12.

815-30-35-37 Paragraph superseded by Accounting Standards Update No. 2017-12.

· > Change in Designated Hedged Risk

815-30-35-37A If the designated hedged risk changes during the life of a hedging relationship, an entity may continue to apply hedge accounting if the hedging instrument is highly effective at achieving offsetting cash flows attributable to the revised hedged risk. The guidance in paragraph [815-20-55-56](#) does not apply to changes in the hedged risk for a cash flow hedge of a forecasted transaction.

> Reclassifications from Accumulated Other Comprehensive Income into Earnings

815-30-35-38 Amounts in accumulated other comprehensive income that are included in the assessment of effectiveness shall be reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings (for example, when a forecasted sale actually occurs) and shall be presented in the same income statement line item as the earnings effect of the hedged item in accordance with paragraph [815-20-45-1A](#). If an entity excludes a component of a hedging instrument from the assessment of effectiveness, an entity shall apply the guidance in paragraphs [815-20-25-83A through 25-83B](#).

815-30-35-39 If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gains and losses in accumulated other comprehensive income that are included in the assessment of effectiveness shall be reclassified into earnings in the same period or periods during which the asset acquired or liability incurred affects earnings (such as in the periods that depreciation expense, interest expense, or cost of sales is recognized).

815-30-35-40 However, if an entity expects at any time that continued reporting of a loss in accumulated other comprehensive income would lead to recognizing a net loss on the combination of the hedging instrument and the hedged transaction (and related asset acquired or liability incurred) in one or more future periods, a loss shall be reclassified immediately into earnings for the amount that is not expected to be recovered.

815-30-35-41 For example, a loss shall be reported in earnings for a derivative instrument that is designated as hedging the forecasted purchase of inventory to the extent that the cost basis of the inventory plus the related amount reported in accumulated other comprehensive income exceeds the amount expected to be recovered through sales of that inventory. (Impairment guidance is provided in paragraphs [815-30-35-42 through 35-43](#).)

· > Non-Zero Fair Value of Hedging Derivative at Hedge Inception

815-30-35-41A An entity may designate a hedging derivative with periodic cash settlements and a non-zero fair value at hedge inception as the hedging instrument in a qualifying cash flow hedging relationship. In this situation, amounts related to the initial fair value that are recorded in other comprehensive income during the hedging relationship shall be reclassified from accumulated other comprehensive income to earnings on a systematic and rational basis over the periods during which the hedged forecasted

transactions affect earnings. Amounts reclassified to earnings shall be presented in the same income statement line item as the earnings effect of the hedged item. This guidance applies to both option-based and non-option-based derivatives designated as hedging instruments in a cash flow hedge.

815-30-35-41B This paragraph illustrates a method of reclassifying amounts from accumulated other comprehensive income to earnings when an option-based derivative is designated as a hedging instrument and the assessment of effectiveness is based on total changes in the derivative's cash flows. Those amounts include changes in fair value related to the derivative's initial intrinsic value in accordance with paragraph [815-30-35-41A](#). For example, the fair value of a single cap at the inception of a hedging relationship of interest rate risk on variable-rate debt with quarterly interest payments over the next two years should be allocated to the respective caplets within the single cap on a fair value basis at the inception of the hedging relationship. The change in each respective allocated fair value amount should be reclassified out of accumulated other comprehensive income into earnings when each of the hedged [forecasted transactions](#) (the eight interest payments) affects earnings. Because the amount in accumulated other comprehensive income is a net amount composed of both derivative instrument gains and derivative instrument losses, the change in the respective allocated fair value amount for an individual caplet that is reclassified out of accumulated other comprehensive income into earnings may possibly be greater than the net amount in accumulated other comprehensive income.

815-30-35-41C This guidance has no effect on the accounting for fair value hedging relationships. In addition, in determining the accounting for seemingly similar cash flow hedging relationships, it would be inappropriate to analogize to this guidance.

· > Interaction with Impairment Principles

815-30-35-42 Existing requirements in generally accepted accounting principles (GAAP) for assessing asset impairment or recognizing an increased obligation apply to an asset or liability that gives rise to variable cash flows (such as a variable-rate [financial instrument](#)) for which the variable cash flows (the forecasted transactions) have been designated as being hedged and accounted for pursuant to paragraphs [815-30-35-3](#) and [815-30-35-38 through 35-41](#). Those impairment requirements shall be applied each period after hedge accounting has been applied for the period, pursuant to those paragraphs. The fair value or expected cash flows of a hedging instrument shall not be considered in applying those requirements. The gain or loss on the hedging instrument in accumulated other comprehensive income shall, however, be accounted for as discussed in paragraphs [815-30-35-38 through 35-41](#).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

***Editor's Note:** The content of paragraph 815-30-35-42 will be amended upon transition, together with a change in the heading noted below.*

> > Interaction with Impairment and Credit Loss Principles

Existing requirements in generally accepted accounting principles (GAAP) for assessing asset impairment or credit losses or recognizing an increased obligation apply to an asset or liability that gives rise to variable cash flows (such as a variable-rate [financial instrument](#)) for which the variable cash flows (the forecasted transactions) have been designated as being hedged and accounted for pursuant to paragraphs [815-30-35-3](#) and [815-30-35-38 through 35-41](#). Those impairment or credit loss requirements shall be applied each period after hedge accounting has been applied for the period, pursuant to those paragraphs. The fair value or expected cash flows of a hedging instrument shall not be considered in applying those requirements. The gain or loss on the hedging instrument in accumulated other comprehensive income shall, however, be accounted for as discussed in paragraphs [815-30-35-38 through 35-41](#).

815-30-35-43

If, under existing requirements in GAAP, an impairment loss is recognized on an asset or an additional obligation is recognized on a liability to which a hedged forecasted transaction relates, any offsetting net gain related to that transaction in accumulated other comprehensive income shall be reclassified immediately into earnings. Similarly, if a recovery is recognized on the asset or liability to which the forecasted transaction relates, any offsetting net loss that has been accumulated in other comprehensive income shall be reclassified immediately into earnings.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

If, under existing requirements in GAAP, an asset impairment loss or writeoff due to credit losses is recognized on an asset or an additional obligation is recognized on a liability to which a hedged forecasted transaction relates, any offsetting or corresponding net gain related to that transaction in accumulated other comprehensive income shall be reclassified immediately into earnings. Similarly, if a recovery is recognized on the asset or liability to which the forecasted transaction relates, any offsetting net loss that has been accumulated in other comprehensive income shall be reclassified immediately into earnings.

· > Gains or Losses from Cash Flow Hedges of Debt That Is Extinguished

815-30-35-44

If the reclassification to earnings of the amount in accumulated comprehensive income resulting from a cash flow hedge of debt is required under this Subsection when that debt is extinguished, the amount reclassified from accumulated comprehensive income to earnings shall be excluded from extinguishment gain or loss.

· > Forecasted Interest Payment Capitalized as a Cost of an Asset under Construction

815-30-35-45 If the variable-rate interest on a specific borrowing is associated with an asset under construction and capitalized as a cost of that asset, the amounts in accumulated other comprehensive income related to a cash flow hedge of the variability of that interest shall be reclassified into earnings over the depreciable life of the constructed asset, because that depreciable life coincides with the amortization period for the capitalized interest cost on the debt.

> Hedging Relationship's Timing Involves Uncertainty within a Range

815-30-35-46 For forecasted transactions whose timing involves some uncertainty within a range, paragraph [815-20-25-16\(c\)](#) states that, as long as it remains probable that the forecasted transaction will occur by the end of the originally specified time period, cash flow hedge accounting for that hedging relationship shall continue.

815-30-35-47 [Paragraph not used.](#)

Broad Transactions → 825 Financial Instruments → 10 Overall ↓

35 Subsequent Measurement

i General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

i Note on Subsection Fair Value Option: Following the effective date of Accounting Standards Update No. 2016-01, the Subsection below, Fair Value Option, has been superseded.

General

> Credit Losses on Financial Instruments with Off-Balance-Sheet Credit Risk

825-10-35-1 An accrual for credit loss on a [financial instrument](#) with off-balance-sheet risk shall be recorded separate from a valuation account related to a recognized financial instrument.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Editor's Note: Paragraph 825-10-35-1 will be superseded upon transition, together with its heading.

> **Credit Losses on Financial Instruments with Off-Balance-Sheet Credit Risk**

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

825-10-35-2 Credit losses for off-balance-sheet financial instruments shall be deducted from the liability for credit losses in the period in which the liability is settled.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

825-10-35-3

Off-balance-sheet financial instruments refers to off-balance-sheet loan commitments, standby letters of credit, financial guarantees, and other similar instruments with off-balance-sheet credit risk except for instruments within the scope of Subtopic [815-10](#).

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)
[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

Fair Value Option

825-10-35-4

[Paragraph superseded by Accounting Standards Update No. 2016-01.](#)

Broad Transactions → 830 Foreign Currency Matters → 20 Foreign Currency Transactions ↴

35 Subsequent Measurement

i **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

> Transaction Gains and Losses

830-20-35-1 A change in exchange rates between the [functional currency](#) and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of the transaction. That increase or decrease in expected functional currency cash flows is a foreign currency [transaction gain or loss](#) that generally shall be included in determining net income for the period in which the [exchange rate](#) changes.

830-20-35-2 At each balance sheet date, recorded balances that are denominated in a currency other than the functional currency of the recording entity shall be adjusted to reflect the current exchange rate. At a subsequent balance sheet date, the current rate is that rate at which the related receivable or payable could be settled at that date. Paragraphs [830-20-30-2 through 30-3](#) provide more information about exchange rates.

· > Transaction Gains and Losses to Be Excluded from Net Income

830-20-35-3 Gains and losses on the following [foreign currency transactions](#) shall not be included in determining net income but shall be reported in the same manner as [translation adjustments](#):

- a. Foreign currency transactions that are designated as, and are effective as, economic hedges of a net investment in a foreign entity, commencing as of the designation date (see Subtopic [815-35](#))
- b. Intra-entity foreign currency transactions that are of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future), when the entities to the transaction are consolidated, combined, or accounted for by the equity method in the reporting entity's financial statements.

830-20-35-4 Intra-entity transactions and balances for which settlement is not planned or anticipated in the foreseeable future are considered to be part of the net investment. This might include balances that take the form of an advance or a demand note payable provided that payment is not planned or anticipated in the foreseeable future.

830-20-35-5 The accounting for a gain or loss on a foreign currency transaction that is intended to hedge an identifiable foreign currency commitment (for example, an agreement to purchase or sell equipment) is addressed by paragraph [815-20-25-58](#).

· > Available-for-Sale Debt Securities

830-20-35-6 Paragraph [320-10-35-36](#) requires that the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities be reported in other comprehensive income.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Paragraph [320-10-35-36](#) requires that the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities not related to the allowance for credit losses be reported in other comprehensive income. See Subtopic [326-30](#) for guidance on measuring credit losses for available-for-sale debt securities.

830-20-35-7 Paragraph [320-10-35-37](#) explains that an entity holding a foreign-currency-denominated available-for-sale debt security is required to consider, among other things, changes in market interest rates and foreign exchange rates since acquisition in determining whether an other-than-temporary impairment has occurred.

 PENDING CONTENT 

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

[Paragraph superseded by Accounting Standards Update No. 2016-13.](#)

· > Financial Liabilities for Which the Fair Value Option Is Elected

830-20-35-7A Paragraph [825-10-45-5A](#) requires that for a financial liability for which the fair value option is elected, the change in the liability's fair value resulting from changes in instrument-specific credit risk shall be presented separately in other comprehensive income from other changes in the liability's fair value presented in current earnings. The component of the change in fair value of the liability resulting from changes in instrument-specific credit risk shall first be measured in the liability's currency of denomination, and then the cumulative amount shall be adjusted to reflect the current exchange rate in accordance with paragraph [830-20-35-2](#). The remeasurement of the component of the change in fair value of the liability resulting from the cumulative changes in instrument-specific credit risk shall be presented in accumulated other comprehensive income.

· > Subsequent Rate Changes

830-20-35-8 A reporting entity's financial statements shall not be adjusted for a rate change that occurs after the date of the reporting entity's financial statements.

Broad Transactions → 860 Transfers and Servicing → 20 Sales of Financial Assets ↓

35 Subsequent Measurement

i General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

- 860-20-35-1** This Section is organized as follows:
- [Financial assets](#) subject to prepayment
 - [Subparagraph superseded by Accounting Standards Update No. 2009-16.](#)
 - Credit enhancements
 - [Beneficial interests](#)
 - Transaction costs.

> Financial Assets Subject to Prepayment

860-20-35-2 Financial assets, except for instruments that are within the scope of Subtopic [815-10](#), that can contractually be prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment shall be subsequently measured like investments in debt securities classified as available for sale or trading under Topic [320](#). Examples of such financial assets include, but are not limited to, [interest-only strips](#), other beneficial interests, loans, or other receivables. Interest-only strips and similar interests that meet the definition of [securities](#) are included in the scope of that Topic. Therefore, all relevant provisions of that Topic (including the disclosure requirements) shall be applied. See related implementation guidance beginning in paragraph [860-20-55-33](#).

860-20-35-3 Interest-only strips and similar interests that are not in the form of securities are not within the scope of Topic [320](#) but shall be measured like investments in debt securities classified as available for sale or trading. In that circumstance, all of the measurement provisions of that Topic, including those addressing recognition and measurement of impairment, shall be followed. However, other provisions of that Topic, such as those addressing disclosures, are not required to be applied. Paragraph [320-10-15-9](#) explains that, for debt securities within its scope, Subtopic [325-40](#) provides incremental guidance on accounting for and reporting discount and impairment.

 PENDING CONTENT


Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Interest-only strips and similar interests that are not in the form of securities are not within the scope of Topic [320](#) but shall be measured like investments in debt securities classified as available for sale or trading. In that circumstance, all of the measurement provisions of that Topic, as well as the provisions of Topic [326](#) on measurement of credit losses, shall be followed. However, other provisions of Topics [320](#) and [326](#), such as those addressing disclosures, are not required to be applied. Paragraph [320-10-15-9](#) explains that, for debt securities within its scope, Subtopic [325-40](#) provides incremental guidance on accounting for and reporting discount and credit losses.

- 860-20-35-4** The requirement in paragraph [860-20-35-2](#) does not apply to situations in which events that are not the result of contractual provisions, for example, borrower default or changes in the value of an instrument's denominated currency relative to the entity's functional currency, cause the holder not to recover substantially all of its recorded investment.
- 860-20-35-5** A financial asset that can be contractually prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment shall not be classified as held-to-maturity even if the investor concludes that prepayment or other forms of settlement are remote. The probability of prepayment or other forms of settlement that would result in the holder's not recovering substantially all of its recorded investment is not relevant in deciding whether the provisions of paragraph [860-20-35-2](#) apply to those financial assets.
- 860-20-35-6** The guidance in this Subtopic does not specifically address the subsequent measurement of a transferor's beneficial interests that cannot be contractually prepaid or settled in such a way that the owner would not recover substantially all of its recorded investment.
- 860-20-35-7** [Paragraph superseded by Accounting Standards Update No. 2009-16.](#)

> Credit Enhancements

- 860-20-35-8** While this Subtopic does not specifically address the subsequent measurement of credit enhancements, there are some factors to consider. Factors such as how much cash the transferor will receive from, for example, a cash reserve account, and when it will receive cash inflows depend on the performance of the transferred financial assets. Entities shall regularly review those assets for impairment because of their nature. Entities shall look to other guidance for subsequent measurement including guidance for impairment based on the nature of the credit enhancement.

> Beneficial Interests

- 860-20-35-9** Beneficial interests shall be evaluated periodically for possible impairment, including at the time paragraphs [860-20-25-8 through 25-10](#) are applied. See Section [325-40-35](#) for impairment guidance applicable to beneficial interests in securitized financial assets.

 PENDING CONTENT

Transition Date:  December 16, 2019;  December 16, 2022 | **Transition Guidance:** [326-10-65-1](#)

Beneficial interests shall be evaluated for credit losses, including at the time paragraphs [860-20-25-8 through 25-10](#) are applied. See Section [325-40-35](#) for guidance on credit losses applicable to beneficial interests in securitized financial assets.

> Transaction Costs

860-20-35-10 Transaction costs relating to a sale of the receivables may be recognized over the initial and reinvestment periods in a rational and systematic manner unless the transaction results in a loss. Transaction costs for a past sale are not an asset and thus are part of the gain or loss on sale. In a credit card [securitization](#), however, some of the transaction costs incurred at the outset relate to the future sales that are to occur during the revolving period, and thus can qualify as an asset.