

Interpretation of the Emerging Accounting Issues (E) Working Group**INT 03-12: EITF 02-4: Determining Whether a Debtor's Modification or Exchange of Debt Instruments is within the Scope of FASB Statement No. 15****ISSUE NULLIFIED BY SSAP NO. 36****INT 03-12 Dates Discussed**

September 14, 2003; December 7, 2003

INT 03-12 References**Current:**

SSAP No. 36—Troubled Debt Restructuring (SSAP No. 36)

INT 03-12 Issue

1. *FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings* is (FAS 15) adopted with modification in SSAP No. 36. EITF 02-4: *Determining Whether a Debtor's Modification or Exchange of Debt Instruments is within the Scope of FASB Statement No. 15* (EITF 02-4) interprets FAS 15.

2. EITF 02-4:

Paragraph 2 of Statement 15 states that "a restructuring of debt constitutes a troubled debt restructuring for purposes of this Statement if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider." Paragraph 61 of Statement 15 further explains that the determination of whether a debt restructuring is a troubled debt restructuring should focus on whether those economic and legal considerations "in effect compel the creditor to restructure a receivable in ways more favorable to the debtor than the creditor would otherwise consider."

Statement 15 provides a list of characteristics or factors that may be present in a troubled debt restructuring (paragraph 5). That Statement also includes a list of characteristics or factors that, if present, indicate that a modification or exchange of debt should not necessarily be considered a troubled debt restructuring even if the debtor is experiencing financial difficulty (paragraph 7). Paragraphs 61 and 62 of the basis for conclusions of Statement 15 provide additional guidance further clarifying the meaning of troubled debt restructuring for purposes of that Statement.

Some have raised questions about whether certain modifications or exchanges of debt instruments should be accounted for by the debtor as troubled debt restructurings in accordance with Statement 15. For example, some have questioned whether, based on the guidance in paragraph 5.c.(3) of Statement 15, a transaction involving a reduction in the face amount of a debt instrument should always be considered a troubled debt restructuring. Others have questioned whether a transaction meeting the criterion in paragraph 7.d., in which the debtor issues new marketable debt with an effective interest rate based on its market price that is at or near current market rates for nontroubled debt, should always be considered a nontroubled debt restructuring. A working group was formed to address this Issue.

3. The accounting issue is whether any single characteristic or factor, taken alone, is determinative of whether a modification or exchange is a troubled debt restructuring under FAS 15 for a debtor.

INT 03-12 Discussion

4. The working group reached a consensus to adopt the consensus position of EITF 02-4 as an interpretation of SSAP No. 36.

INT 03-12 Status

5. No further discussion is planned.