Dataline

A look at current financial reporting issues

No. 2013-01
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What's inside:

Credit losses on financial assets

An overview of the FASB's current expected credit loss model

Overview

At a glance

- Impairment is a major component of the FASB and IASB's (the boards') joint project to revisit most aspects of financial instruments accounting. In the aftermath of the recent financial crisis, the current incurred loss approach has been criticized for delaying the recognition of credit losses. As a result, many constituents believe revisions to the current impairment model are necessary.

- The FASB has completed redeliberations on its proposed impairment model, referred to as the "current expected credit loss" (CECL) model. In December 2012, the FASB issued for public comment its proposed Accounting Standards Update (ASU), *Financial Instruments—Credit Losses (Subtopic 825-15)*. The ASU proposes recognition of the full expected credit loss on financial instruments that fall within its scope. The comment period ends on April 30, 2013.

- The IASB has completed redeliberations on its proposed model, previously referred to as the "three bucket" model and now known as the "credit deterioration" model. The IASB's model differs from the FASB's model in several key areas, which are highlighted throughout this Dataline. The IASB is expected to issue its exposure draft in the first quarter of 2013.

The main details

.1 The development of a revised standard on the impairment of financial assets is one part of the boards' joint priority project to address various aspects of financial instruments accounting. This Dataline focuses only on the developments in impairment accounting. Refer to Dataline 2012-21, *Financial instruments classification and measurement — An update on the FASB's tentative approach to be exposed in Q1 2013*, for information on the classification and measurement portion of the financial instruments project.

.2 Various constituents have expressed the need for the accounting standard setters to address the perceived flaws in the current impairment model. For example:

1) In an April 2009 report reflecting on the causes of the global financial crisis, the Group of 20, consisting of the finance ministers and central bank governors of the major economies, made several recommendations. Among other things, the report recommended that accounting principles related to loan loss provisioning be improved to permit consideration of a "broader range of credit information."

2) The Financial Crisis Advisory Group, formed to advise the FASB and IASB, said in its final July 2009 report that the financial crisis exposed weaknesses in financial reporting that included "the delayed recognition of losses associated with loans, structured credit products, and other financial instruments by banks, insurance companies and other financial institutions." They recommended that the boards explore an approach that uses more forward-looking information, such as an expected loss model or fair value model.

3) The Basel Committee on Banking Supervision stated in an August 2009 report that the IASB's new financial instruments standard should "reflect the need for earlier recognition of loan losses to ensure robust provisions."

.3 Both the FASB's CECL model and the IASB's credit deterioration model seek to improve the decision usefulness of the reporting of credit losses by removing the perceived constraints to timely recognition, and allowing entities to consider a broader information set. Both models move away from the incurred loss model that exists in practice today and consider expected losses when determining the amount of credit losses that should be recognized each reporting period.

PwC observation:

Extensive system and process changes may be needed to apply both models and may require a considerable amount of lead time in order to be designed and implemented. Specifically, entities will need to develop the infrastructure to estimate losses over a longer time horizon. If there are concerns about the operationality and system requirements to implement the proposed model, constituents are encouraged to communicate those concerns through the comment letter process.

.4 This Dataline is focused on the FASB's CECL model but draws comparisons to the credit deterioration model throughout the document. In addition, refer to Appendix I of this Dataline for a side-by-side comparison of the boards' respective impairment approaches.

.5 As both boards move away from an incurred loss model and instead look to expected losses, it is likely that levels of allowance for credit losses will change. This could potentially impact regulatory capital requirements and various key financial metrics.

.6 The FASB has not yet determined an effective date for the proposed model. The FASB will discuss an effective date after considering feedback it receives during the comment period. The FASB has indicated that it will consider multiple potential effective dates, and may consider different effective dates for public versus non-public companies and regulated versus non-regulated entities.

PwC observation:

Given the FASB released its proposed CECL model in December 2012, it is unlikely it will issue a final standard before the later part of 2013. Therefore, an effective date earlier than 2015 appears unlikely.

Key elements of the CECL model

Objective

.7 The objective of recording an allowance for credit losses is to reflect the estimate of the amount of contractual cash flows not expected to be collected. The CECL model provides guidance on how an entity should recognize and measure expected credit losses. The CECL model is intended to simplify current practice by eliminating today's multiple impairment models. It also allows entities to consider a broader information set to determine the amount of credit losses expected to occur.

.8 For debt instruments, there are several different impairment models used today under US GAAP, including the following:

- ASC 310-30, *Receivables — Loans and Securities Acquired with Deteriorated Credit Quality* (formerly SOP 03-3)
- ASC 310-40, *Receivables — Troubled Debt Restructurings by Creditors* (formerly FAS 114)
- ASC 320-10-35, *Investments — Debt and Equity Securities — Recognition of an Other-Than-Temporary Impairment* (formerly FSP FAS 115-2)
- ASC 325-40, *Investments — Beneficial Interests in Securitized Financial Assets* (formerly EITF 99-20)
- ASC 450, *Contingencies* (formerly FAS 5)

The CECL model aims to replace the various impairment models that exist today with a single approach for all debt instruments.

PwC observation:

With respect to interest income recognition, the CECL model only speaks to how to recognize interest income on purchased credit impaired assets, and when to stop accruing interest income altogether. The proposed ASU does not address how a creditor should recognize interest income on the remainder of the portfolio. However, the proposed ASU is intended to supersede ASC 310-30 and ASC 325-40, which currently provide guidance on interest income recognition for certain instruments. We anticipate questions to arise regarding how interest income should be recognized under the CECL model.

Scope

.9 Both the CECL model and the credit deterioration model will apply to financial assets that are subject to losses related to credit risk and are *not* measured at fair value with changes in fair value recognized in net income. Said differently, both models will apply to financial assets that are subject to losses related to credit risk that are carried at amortized cost or fair value with changes in fair value recorded in other comprehensive income (FV-OCI).

.10 The scope of both models includes loans, debt securities, trade receivables, lease receivables, and loan commitments. At this stage, the FASB has also included reinsurance receivables that result from insurance transactions in the scope of its impairment model. The IASB recently made a decision to subject reinsurance receivables to insurance accounting, which under IFRS, results in an expected value measurement. Therefore, the proposed measurement of credit loss associated with a reinsurance receivable will be the same under US GAAP and IFRS despite these arrangements being within the scope of two different areas of the accounting standards.

PwC observation:

Many have questioned whether or not financial guarantees are included in the scope of the FASB's proposed ASU. Many argue that financial guarantee contracts present many of the same credit considerations as loan commitments, which are included in the scope of the proposed guidance. However, others view financial guarantees as insurance contracts and believe they should be accounted for as such.

The FASB has made a tentative decision that the proposed insurance contracts standard should apply to financial guarantee contracts currently accounted for as insurance under existing US GAAP, such as mortgage insurance and financial guarantee contracts sold by insurance enterprises. The FASB has yet to decide whether guarantees issued by banks or other financial institutions will be included in the scope of the insurance standard. In its project on insurance contracts, the FASB has tentatively defined “insurance contracts” broadly. Therefore, absent a specific scope exclusion in the insurance contracts standard, financial guarantee contracts will likely meet the definition of an insurance contract.

The IASB has made a decision to include financial guarantee contracts in the scope of the impairment project. However, if an entity previously asserted explicitly that it regards financial guarantee contracts as insurance contracts and applied insurance accounting, the IASB will permit the entity to elect to continue applying insurance accounting.

Measurement

.11 The CECL model will require an entity to recognize an allowance for all expected credit losses on debt instruments. The FASB defines expected credit losses as "an estimate of all contractual cash flows not expected to be collected from a recognized financial asset (or group of financial assets) or commitment to extend credit." There will be no threshold to meet prior to recognizing a credit loss, and the allowance must reflect the time value of money. Refer to further discussion under “Information set to consider” below regarding consideration of the time value of money in applying the CECL model.

PwC observation:

The CECL model and the credit deterioration model both represent potentially significant changes from current practice, as both models move away from the incurred loss notion and instead focus on expected losses. While both models represent a change from current practice, there are several key differences between the two models.

Perhaps the most significant difference is that the CECL model does not contain a "trigger" to recognizing full expected credit losses, while the credit deterioration model only requires recognition of a full expected credit loss on those assets for which there has been a significant deterioration in credit or there is a probability of loss in the next twelve months.

.12 Both the CECL model and the credit deterioration model require that an entity’s estimate of expected credit losses reflect, at a minimum, two possible outcomes: an outcome in which a credit loss results and an outcome in which no credit loss results. An entity will be prohibited from estimating expected credit losses on the basis of the most likely outcome for an individual financial asset.

PwC observation:

Both the CECL model and the credit deterioration model require consideration of more than one possible scenario in estimating the allowance for credit losses. Because one scenario must reflect the possibility that a credit loss results, there will be some amount of allowance for every financial asset.

The CECL model does not contain a threshold to meet prior to recognizing a full expected credit loss. As all loans have some risk of loss, the CECL model will require day one loss recognition for the credit risk associated with newly originated loans. While application of the IASB's credit deterioration model will also result in day one losses, such losses will likely be smaller than under the CECL model. This is due to the fact that the IASB model only contemplates the probability of loss in the next twelve months for newly originated loans that have not experienced significant credit deterioration.

.13 Both the CECL model and the credit deterioration model apply to financial assets measured at amortized cost and FV-OCI. However, the CECL model contains a practical expedient for financial assets measured at FV-OCI. The practical expedient allows entities not to recognize credit losses when both of the following conditions are present:

- The fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset; and
- The expected credit losses on the individual financial asset are insignificant, which may be determined by considering the general expectation of the range of expected credit losses given the credit-quality indicator(s) for the asset as of the reporting date.

PwC observation:

Debt securities are expected to be one of the more common types of financial assets carried at FV-OCI. In many cases, entities hold large portfolios of debt securities with high credit quality, including U.S. Treasury and other highly rated securities. Often, credit losses will not be significant on an individual asset basis; therefore, these securities will likely meet the second criterion to qualify for the practical expedient.

However, the fair value of such securities is impacted by a variety of factors, including liquidity, interest rates, and credit. As a result, movement in market interest rates that result in a decrease in fair value could lead to these securities no longer qualifying for the practical expedient. Therefore, recognition of expected credit losses will be required even though there was no change in the credit risk of the securities. Although these credit losses may not be significant on an individual asset basis, they could potentially be significant across an entire portfolio.

.14 Consistent with current practice, the CECL model provides a practical expedient when estimating credit losses on collateral-dependent financial assets. The practical expedient allows entities to compare the fair value of the collateral to the amortized cost basis to determine the allowance for credit losses. If an entity elects to apply the practical expedient and repayment or satisfaction of the asset depends on the sale of the collateral, the fair value of the collateral is required to be adjusted to consider estimated costs to sell. If the repayment or satisfaction of the asset depends on the operation of the collateral, but not the sale, the fair value is not adjusted.

PwC observation:

The FASB expanded the current definition of a collateral-dependent financial asset. Under today's guidance, collateral dependent only applies to loans and is defined as "a loan for which repayment is expected to be provided solely by the underlying collateral."

The new definition of collateral-dependent financial asset is revised to "a financial asset for which repayment is expected to be provided primarily or substantially through the operation (by the lender) or sale of the collateral, based on an entity's assessment as of the reporting date."

Today, there is diversity in how entities apply the definition of a collateral-dependent financial asset. While the FASB expanded the scope and definition to accommodate additional financial instruments, they did not provide a significant amount of additional application guidance on collateral-dependent financial assets. Therefore, we expect that there will continue to be diversity in how entities apply the definition in practice.

.15 For loan commitments not measured at fair value through net income, the CECL model requires entities to estimate credit losses over the full contractual period over which the entity is exposed to credit risk via an unconditional legal obligation to extend credit. The estimate of credit losses on loan commitments will consider the likelihood of funding and the extent of credit losses expected to occur on such funded amounts.

Subsequent measurement

.16 At each reporting period, entities will recognize, as a provision for credit loss, the amount of credit loss (or reversal), required to adjust the allowance to reflect the updated expectation of contractual cash flows not expected to be collected.

.17 An entity will be required to write-off a financial asset (or portion thereof) in the period in which a determination is made that the entity has no reasonable expectation of future recovery.

PwC observation:

The guidance in the proposed ASU on write-offs represents a significant change from current practice. With respect to securities, there will no longer be a "write-down" of the cost basis to reflect other-than-temporary impairment. Rather, entities will record an allowance for credit losses, which could decrease in subsequent periods.

With respect to loans, current practice varies as to when a loan is written-off. Although practice is mixed, a level of consistency has been achieved in certain industries where a common approach has been established by regulators or others. For example, banks typically write-off a loan when it becomes 180 days past due.

The CECL model establishes a single approach to recognizing write-offs. That approach requires write-off when there is no reasonable expectation of recovery. While the CECL model attempts to bring consistency, we anticipate that regulators will continue to express a point of view about how to interpret the guidance, as a "no reasonable expectation of recovery" principle leaves room for interpretation. Additionally, the FASB will require entities to disclose their write-off policy.

Information set to consider

.18 Both the CECL model and the credit deterioration model require estimates of expected credit losses to be based on internally and externally available information considered relevant in making the estimate. This includes information about past events, current conditions, and reasonable and supportable forecasts. Entities will be able to consider both qualitative and quantitative factors specific to borrowers and the economic environment in which the reporting entity operates.

PwC observation:

One of the goals of both the CECL and the credit deterioration models is to allow entities to consider a broader information set when estimating the allowance for credit losses. During the financial crisis of 2008, entities were restricted by the incurred loss model. Despite having information available that suggested further credit losses would eventually occur, entities could only record credit losses when those losses had been incurred. In establishing the information set to consider, both boards were focused on ensuring that entities could consider all relevant information, including forecasts about macroeconomic and borrower-specific conditions.

.19 The CECL model recognizes the inherent judgment involved in estimating credit losses and also recognizes that the most appropriate method to do so will vary depending on the asset and the information available that is relevant to the process. Therefore, the CECL model does not mandate specific approaches or policy elections to determine an expected credit loss. The proposed ASU includes examples of various methodologies that could be used to estimate expected credit losses under the CECL model.

PwC observation:

The FASB has given constituents latitude to determine the most appropriate method to satisfy the principles of estimating an expected credit loss. This will represent a change from today's guidance, which requires entities to use discounted cash flow calculations in certain situations. No such mandates will exist in the CECL model.

.20 Both the CECL and credit deterioration models require the allowance to consider time value of money. However, the CECL model allows for that consideration to be either implicit or explicit. The FASB believes that an example of a method that considers time value of money explicitly is a discounted cash flow calculation, and examples of methods that consider time value of money implicitly are historical loss ratios and probabilities of default.

PwC observation:

The FASB spent considerable time discussing the need for the CECL model to consider time value of money. Constituents had expressed concern about whether incorporating the time value of money effectively required entities to use discounted cash flow calculations. The FASB believes that many commonly used methods for estimating credit losses; including probability of default/loss given default (PD/LGD) and historical loss rates, inherently capture the time value of money.

The FASB's conclusions are based on the premise that the amortized cost recorded on the balance sheet at a point in time reflects the present value of all expected future cash flows, discounted at the effective interest rate. If an entity has historically measured losses against the amortized cost basis, such historical loss information inherently captures the time value of money. Therefore, historical loss rates and loss given default rates that incorporate this information would satisfy the objectives of the model.

.21 The CECL model allows entities to consider how credit enhancements mitigate expected credit losses on financial assets when estimating the allowance for credit losses, provided such credit enhancements are not separate freestanding instruments. As a result, the estimate of expected credit losses on a financial asset should not be offset by a legally detachable and separately exercisable contract that may mitigate expected credit losses on the financial asset.

PwC observation:

The proposed ASU cites a purchased credit default swap as an example of a freestanding contract that cannot be considered when establishing an estimate of expected credit losses. While a credit default swap is clearly a freestanding contract, it is not clear whether other common credit enhancements would be considered freestanding contracts.

For example, standard representations and warranties, while not a "separately exercisable" contract, do not necessarily travel with a loan upon subsequent sale. As a result, it is unclear whether standard representations and warranties will be considered freestanding. Based on the wording in the proposed ASU, we anticipate questions to arise regarding how various types of credit enhancements like representations and warranties should or should not be factored into an entity's estimate of credit losses.

Interest income

.22 The CECL model only addresses two areas related to interest income recognition: (1) interest income recognition on purchased credit-impaired (PCI) financial assets, and (2) when to cease the accrual of interest income on financial assets. Otherwise, the CECL model does not address how a creditor should recognize, measure, or display interest income on financial assets.

.23 The CECL model defines PCI assets as "acquired individual financial assets (or acquired groups of financial assets with shared risk characteristics at the date of acquisition) that have experienced a significant deterioration in credit quality since origination, based on the assessment of the acquirer."

PwC observation:

The definition of purchased credit-impaired financial assets represents a change from current practice. Under ASC 310-30, purchased assets are deemed to be impaired (and therefore in the scope of that section) if there is evidence of credit deterioration since origination and it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable.

The definition used in the CECL model eliminates the second criterion in existing guidance. As a result, there may be a change in the scope of assets that qualify as PCI under the proposed model.

.24 For PCI assets, the CECL model requires buyers to assess the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition. This amount is not recognized as interest income.

PwC observation:

Under the CECL model, PCI assets will continue to be subject to specific guidance on day one. Upon acquisition, an entity will be required to record an allowance to represent the amount of contractual cash flows not expected to be collected. Each component of the original purchase price will be "grossed up" to reflect the day one allowance.

For example, assume an entity purchases an asset with a par value of $100 for $85. At the acquisition date, the entity estimates it will not collect $10 of the contractual cash flows. The $85 cost basis of the asset will be “grossed up” to $95 to reflect the $10 embedded allowance. The remaining $5 of purchase discount attributed to factors other than credit is accreted in interest income over the remaining life of the asset.

The credit deterioration model differs from the CECL model with respect to PCI assets. Under the credit deterioration model, there is no concept of “grossing up” the basis of the loan to reflect the embedded allowance. The IASB’s model does not require an allowance to be recorded on day one, but instead limits the accrual of interest income to the expected cash flows as opposed to the contractual cash flows. This is consistent with current US GAAP treatment of PCI assets under ASC 310-30.

.25 On day two, the allowance for expected credit losses for PCI assets will follow the same approach as other debt instruments in the scope of the model. Changes in the allowance for expected credit losses will be recognized as an adjustment to the provision for credit losses in the current period.

PwC observation:

The CECL model attempts to address concerns raised about the complexity of today's accounting for purchased credit-impaired assets. Under today's guidance in ASC 310-30, deteriorations in expected cash flows on purchased credit impaired assets are reflected as additional provision expense, while improvements in cash flow expectations are generally reflected as prospective yield adjustments.

Under the CECL model, this "asymmetry" is eliminated. Any changes in expected cash flows, positive or negative, will be reflected through an adjustment of provision expense in the current period. As a result, if credit expectations significantly improve, gains could be recorded on assets for which the initial credit losses were never recorded in income due to the entity purchasing the asset at a discount.

.26 The CECL model requires entities to recognize contractual interest income unless it is not probable that the entity will collect all contractual cash flows. An entity will cease its accrual of interest income when it is not probable it will receive substantially all of the principal or substantially all of the interest.

.27 If it is not probable the entity will receive payment of substantially all of the principal, the entity will recognize all future cash receipts as a reduction in the carrying amount of the asset. When the carrying amount has been reduced to zero, additional payments are recognized as recoveries of amounts previously written off (that is, recorded as an adjustment to the allowance for expected credit losses) with any excess recognized as interest income.

.28 If it is probable the entity will receive payment of substantially all of the principal, but it is not probable the entity will receive substantially all of the interest, the entity will recognize interest income on the debt instrument when cash payments are received. Cash receipts that exceed the amount of interest income that would have been recognized had the asset not been placed on non-accrual status will be applied to reduce the carrying amount of the asset.

PwC observation:

Current practice varies in terms of when entities stop recognizing interest income, although in certain industries a consistent approach has evolved or has been established by regulators or others. For example, in the banking industry, interest is typically no longer recognized for loans that are more than 90 days past due. During its deliberations of this project, the FASB conducted outreach with various constituents, including the banking regulators. The FASB considered the banking regulators' feedback on current "non-accrual" practices in the banking industry when drafting the guidance in the proposed ASU. Therefore, constituents outside of the banking industry may see changes to their current practices.

Modifications

.29 For modifications that are not troubled debt restructurings (TDRs), there is no change to current guidance with respect to evaluating whether the modification results in a new loan or a continuation of the old loan. Creditors will be required to evaluate whether the modification is "more than minor" as outlined in ASC 310-20-35-9 (formerly EITF 01-7). If the modification is deemed more than minor, the loan is accounted for as a new loan and the effective interest rate is based on the terms of the new loan and current market conditions.

.30 The CECL model carries forward the definition of a TDR from current US GAAP. The FASB concluded that that the economic concession granted by the lender to the borrower in a TDR reflects the lender attempting to maximize its recovery of the original contractual cash flows. Therefore, a TDR will be viewed as a continuation of the original debt instrument and the effective interest rate will be the "pre-modification" effective interest rate.

.31 For TDRs, the CECL model will require an adjustment to the cost basis of the modified asset (with a corresponding adjustment to the allowance for expected credit losses) so that the effective interest rate on the modified asset continues to be the original effective interest rate, given the new series of cash flows. The basis adjustment will be calculated as the amortized cost basis before modification less the present value of the new series of contractual cash flows (discounted at the original effective interest rate).

Disclosures

.32 The ASU requires various disclosures. The proposed disclosures are summarized in Appendix II to this Dataline. The disclosures are intended to enable users of the financial statements to understand (1) the credit risk inherent in the portfolio and how management monitors the credit quality of the portfolio, (2) management's estimate of expected credit losses, and (3) changes in the estimate of expected credit losses that have taken place during the period. The ASU includes examples of the required disclosures.

.33 Several of the disclosures require entities to provide information either by portfolio segment or class of financial asset. Portfolio segment is defined in the ASU as "the level at which an entity develops and documents a systematic methodology to determine its allowance for expected credit losses." For example, this may be by type of receivable, industry, or risk. Class of financial asset is defined as "a group of financial assets determined on the basis of all of the following: (1) measurement attribute, (2) risk characteristics of the financial asset, and (3) an entity's method for monitoring and assessing credit risk." For example, this may be by measurement attribute, product, and risk rating.

.34 Entities will be required to determine, in light of their specific facts and circumstances, how much detail they must provide to meet the objectives of the disclosures outlined in the ASU. An entity must strike a balance between obscuring important information as a result of too much aggregation and providing excessive detail that may not be beneficial to financial statement users.

Transition

.35 The FASB has not yet determined an effective date for the new guidance. However, once an effective date is established, the guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning on or after the effective date.

.36 Entities will apply the guidance by recording a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective. For example, for calendar year-end companies with quarterly reporting requirements, if the effective date is determined to be January 1, 2015, a cumulative-effect adjustment will be recorded as of January 1, 2015, and the first reporting period that the guidance will be effective is the quarter ending March 31, 2015. Early adoption will not be permitted.

Questions

.37 PwC clients who have questions about this Dataline should contact their engagement partner. Engagement teams that have questions should contact a member of the Financial Instruments team in the National Professional Services Group (1-973-236-7803).

Appendix I — Comparison between the FASB's and IASB's models

Description	CECL model (FASB)	Credit deterioration model (IASB)
Scope	The CECL model will apply to loans, debt securities, loan commitments, trade receivables, reinsurance receivables, and lease receivables that are not measured at FV-NI.	Generally, the scope of the credit deterioration model is consistent with that of the CECL model. However, there are a few differences: • The credit deterioration model does not apply to reinsurance receivables. • Financial guarantee contracts are included in the scope of the credit deterioration model. If an entity has previously asserted explicitly that it regards financial guarantees contracts as insurance contracts and applied insurance accounting, it can elect to continue applying insurance accounting.
Information considered when estimating credit losses	The CECL model will require entities to consider all internally and externally available information relevant to the estimate. This includes information about past events, current conditions, and reasonable and supportable forecasts and their implications for expected credit losses.	Same
Definition of expected credit losses	The CECL model defines expected credit losses as an estimate of all contractual cash flows not expected to be collected from a recognized financial asset (or group of financial assets) or commitment to extend credit.	Same
Measurement objective for the allowance for credit losses	Under the CECL model, an entity recognizes an allowance for all expected credit losses for all debt instruments at each reporting date.	Under the credit deterioration model, recognition of full expected credit losses is required only when there has been a significant deterioration in credit or there is a probability of loss in the next twelve months.

Description	CECL model (FASB)	Credit deterioration model (IASB)
Recognition of changes in the allowance for credit losses	Under the CECL model, changes in the allowance for credit losses are recognized immediately in net income.	As a result of utilizing a dual measurement approach, the amount recognized through net income also includes (1) the effect of a change in the credit loss measurement objective from “12-months of expected losses” to “lifetime expected losses” for assets that have experienced significant credit deterioration and (2) the effect of a changes in the credit loss measurement objective from “lifetime expected losses” to “12-months of expected losses” for assets that have no longer experienced a significant deterioration in credit.
Purchased credit-impaired financial assets	Under the CECL model, purchased credit-impaired assets are subject to specific guidance on day one. The basis of the asset is "grossed up" to reflect the embedded allowance. The remaining portion of the original purchase discount not attributed to credit is accreted in interest income over the life of the asset.	The credit deterioration model does not have the concept of "grossing up" the basis of the loan to reflect the embedded allowance. Instead, the asset is recorded at its initial fair value and accreted to the level of cash flows expected to be collected.
Principles for measuring expected credit losses	Under the CECL model, the estimate of expected credit losses reflects the time value of money and, at a minimum, reflects both the possibility that a credit loss results and the possibility that no credit loss results. An entity is prohibited from estimating expected credit losses based solely on the most likely outcome.	Same
Principle for writing off financial assets	Under the CECL model, An entity will write-off a financial asset in the period in which it has no reasonable expectation of recovery.	Same

Appendix II – Disclosure requirements

	Required disclosure
Credit quality information	• Quantitative and qualitative information by class of financial asset about the credit quality, including (1) a description of the credit-quality indicator, (2) the amortized cost (by credit-quality indicator), and (3) for each credit-quality indicator, the date or range of dates in which the information was last updated • If an entity disclosures internal risk ratings, qualitative information on how those internal risk ratings relate to the likelihood of loss
Allowance for expected credit losses	• Information that enables financial statement users to understand (1) management's process for developing its allowance for expected credit losses, (2) the information that management has used in developing its current estimate of expected credit losses, and (3) the economic circumstances that caused changes to the allowance for expected credit losses • By portfolio segment, a description of the entity's accounting policies and methodology used to estimate the allowance for expected credit losses, including: (1) a description of how expected loss estimates are developed, (2) a description and discussion of the factors that influenced management's current estimate of expected credit losses, including past events, current conditions, and reasonable and supportable forecasts about the future, (3) a discussion of risk characteristics relevant to each portfolio segment, (4) a discussion of the changes in the factors that influenced management’s current estimate of expected credit losses and the reasons for those changes (for example, changes in loss severity, change in portfolio composition, change in volume of assets whether purchased or originated, significant events or conditions that affect the current estimate but were not contemplated during the previous period), (5) identification of any changes to the entity’s accounting policies or methodology from the prior period and the entity’s rationale for the change, if applicable, (6) a discussion of any significant changes in estimation techniques used and reasons for the changes, if applicable, and (7) reasons for significant changes in the amount of write-offs, if applicable • For assets classified at amortized cost and FV-OCI, a roll forward of activity in the allowance for expected credit losses that includes: beginning balance in the allowance, current period provision for credit losses, write-offs charged against the allowance, recoveries of amounts previously written off, ending balance in the allowance • If an entity has utilized the practical expedient in paragraph 825-15-25-2 not to measure expected credit losses for certain financial assets classified at FV-OCI, the amortized cost balance of those assets at the portfolio segment level
Roll forward for certain debt instruments	• A roll forward, by portfolio segment, for a portfolio of debt instruments measured at FV-OCI or amortized cost that includes beginning amortized cost, originations, purchases, sales, repayments, write-offs, and ending amortized cost • The roll forward disclosures identified above do not apply to the following: (1) receivables that result from revenue transactions within the scope of Topic 605, (2) reinsurance receivables that result from insurance transactions within the scope of Topic 944, and (3) loan commitments that are not measured at fair value with changes in fair value recognized in net income.

	Required disclosure
Reconciliation between fair value and amortized cost for debt instruments classified at FV-OCI	• If not already presented on the balance sheet, a reconciliation of the difference between the fair value and amortized cost for assets measured at FV-OCI, including amortized cost, the allowance for expected credit losses, the accumulated amount needed to reconcile amortized cost less the allowance for expected credit losses to fair value, and fair value
Past due status	• An aging analysis of the amortized cost for debt instruments that are past due as of the reporting date disaggregated at the portfolio segment level, and disclosure of when the entity considers a debt instrument to be past due
Non-accrual status	Disaggregated at the portfolio segment level: • The amortized cost of debt instruments on non-accrual status as of the beginning of the reporting period and the end of the reporting period • The amount of interest income recognized during the period on nonaccrual debt instruments in accordance with paragraph 825-15-25-10 • The amortized cost of debt instruments that are 90 days or more past due, but not on nonaccrual status as of the reporting date • The amortized cost of debt instruments on nonaccrual status for which there are no related expected credit losses as of the reporting date because the debt instrument is a fully collateralized collateral-dependent financial asset
Purchased credit-impaired financial assets	• To the extent an entity purchased credit-impaired financial assets during the period, a reconciliation of the difference between the purchase price of the assets and the par value of the assets, including: (1) the purchase price, (2) discount attributable to expected credit losses based on the buyer's assessment, (3) the discount (or premium) attributable to other factors, and (4) the par value
Collateralized financial assets	• By class of financial asset, a description of the type of collateral and the extent to which collateral secures an entity's financial assets • By class of financial asset, an explanation of significant changes in the extent to which collateral secures an entity's financial assets, whether because of a general deterioration or some other reason
Transition	In the period an entity adopts the ASU: • The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle • The method of applying the change • The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the guidance is effective. Presentation of the effect on financial statement subtotals is not required. • The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which the guidance is effective An entity that issues interim financial statements will provide the disclosures above in each interim financial statement of the year of change and the annual financial statement of the period of the change.

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