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No. US2015-36
November 18, 2015

FASB finalizes effective date for the proposed impairment standard

At a glance

The FASB has determined the effective date for the new impairment standard and made decisions on two other aspects: troubled debt restructurings and the available-for-sale credit loss model.

What happened?

On November 11, the FASB discussed the effective date for the proposed new impairment standard. Expected to be issued early next year, the impairment standard will be effective for:

- Public business entities (PBEs) that meet the definition of an SEC filer in fiscal years beginning after December 15, 2018 including interim periods within those fiscal years;
- PBEs that do not meet the definition of an SEC filer in fiscal years beginning after December 15, 2019 including interim periods within those fiscal years; and
- Non-PBEs (including certain not-for-profit entities and employee benefit plans) in fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020.

Early application of the guidance will be permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

Other provisions

At the same meeting, the FASB also discussed two issues: the accounting for Troubled Debt Restructuring (TDRs) by creditors and one aspect of the available-for-sale (AFS) securities credit loss model.

Troubled debt restructurings

The impairment standard will require use of the current expected credit loss (CECL) model for financial assets measured at amortized cost. The FASB decided that credit losses for TDRs should be measured using the same CECL model that will be applied to other financial assets measured at amortized cost. This would be a change from the current US GAAP model and the previous proposal, which, under certain circumstances, would require use of a discounted cashflow approach.

This represents a significant change from the proposed model and is responsive to feedback the FASB received during the external review process.

Available-for-sale securities

The Board deliberated and decided on the following:

- A fair value floor will be incorporated into the credit loss model for available-for-sale (AFS) debt securities. Specifically, credit losses on AFS debt securities will be limited to the difference between its amortized cost and fair value.
- Consistent with current guidance, an AFS debt security will be written down to fair value if it is more likely than not that an entity will be required to sell it prior to the fair value recovering to or above its amortized cost basis.
- The historical or implied volatility is not a required factor to consider when estimating whether a credit loss exists, however, an entity will not be prohibited from considering it.

Why is this important?

Companies with portfolios of financial assets subject to the scope of the proposed standard are likely to see an increase in credit reserves given the proposed standard's departure from the current US GAAP "incurred loss" concept. The proposed standard will likely require system and process changes to apply the new model and may require a considerable amount of time to implement. Specifically, entities will need to develop the infrastructure to estimate losses over a longer time horizon.

With the expected issuance of the standard in early 2016, companies that are SEC filers will have only three years before they begin reporting under the new guidance. With uncertainty as to the effective date now resolved, preparers can begin to develop a plan for an orderly and smooth transition.

What's next?

Another FASB meeting to discuss impairment is scheduled for November 23, 2015 and a final standard is expected to be issued in the first quarter of 2016.

Questions?

PwC clients who have questions about this *In brief* should contact their engagement partner. Engagement teams who have questions should contact the Financial Instruments team in the National Professional Services Group (973-236-7803).

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