ACCOUNTING

Narrow-scope amendments to credit losses standard

The Financial Accounting Standards Board recently issued Accounting Standards Update (ASU) 2019-11, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, to address issues raised by stakeholders during the implementation of ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Among other narrow-scope improvements, ASU 2019-11:

- Permits organizations to record negative allowances associated with expected recoveries on assets that already had shown credit deterioration at the time of purchase (PCD assets). The ASU clarifies that the negative allowance for credit losses for PCD assets should not exceed the aggregate of amounts of the amortized cost basis previously written off and expected to be written off by an entity. In addition, the ASU clarifies that when a method other than a discounted cash flow method is used to estimate expected credit losses, expected recoveries should not include any amounts that result in an acceleration of the noncredit discount. An entity may include increases in expected cash flows after acquisition.

- Provides transition relief when adjusting the effective interest rate for troubled debt restructurings (TDRs) that exist as of the adoption date. Entities are permitted an accounting policy election to adjust the effective interest rate on existing TDRs using prepayment assumptions on the date of adoption of Topic 326 rather than the prepayment assumptions in effect immediately before the restructuring.

- Extends the disclosure relief in ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments, to disclose accrued interest receivable balances separately from the amortized cost basis to additional disclosures involving amortized cost basis.

- Provides clarifications regarding application of the guidance in paragraph 326-20-35-6 for financial assets secured by collateral maintenance provisions that provides a practical expedient to measure the estimate of expected credit losses by comparing the amortized cost basis of a financial asset and the fair value of collateral securing the financial asset as of the reporting date.
For entities that have not yet adopted ASU 2016-13 as of November 26, 2019, the effective dates and transition requirements for ASU 2019-11 are the same as the effective dates and transition requirements in ASU 2016-13. For entities that have adopted ASU 2016-13, ASU 2019-11 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of ASU 2019-11 as long as an entity has adopted the amendments in ASU 2016-13.

**SEC Staff Accounting Bulletin No. 119**

On November 19, 2019, the SEC issued Staff Accounting Bulletin (SAB) No. 119 to update the staff’s guidance and formally address the adoption of Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (CECL). SAB No. 119 adds Section M to Topic 6 of the SAB Series, which will replace existing Section L on the date of adoption by the SEC filer.

SAB No. 119 includes staff interpretations regarding considerations, policies and procedures for developing CECL models, the governance structure, documentation requirements, model validation, and internal controls. Although SAB No. 119 applies to registrants that are creditors in loan transactions, the content may be useful to all entities adopting CECL, including nonpublic companies and entities other than financial institutions that have financial assets subject to the provisions of ASU 2016-13.

The statements in SABs are not rules or interpretations of the SEC, nor are they published as bearing the SEC’s official approval. They represent staff interpretations and practices followed by the staff in the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the federal securities laws.

**Proposed Codification improvements**

Periodically, the Financial Accounting Standards Board (FASB) updates the Accounting Standards Codification for minor technical corrections and clarifications that are deemed necessary. Recently the FASB issued a proposed Accounting Standards Update (ASU), *Codification Improvements*, which, if finalized, would make changes to clarify the Codification, correct unintended application of guidance, and make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice. In addition, the proposed ASU would remove references to various Concepts Statements. Further, the proposed ASU would improve the consistency of the Codification by including all disclosure guidance in the appropriate Disclosure Section (Section 50). The proposed ASU is available for comment until December 26, 2019.