

Statutory Issue Paper No. 36

Troubled Debt Restructurings

STATUS

Finalized March 16, 1998

Original SSAP and Current Authoritative Guidance: SSAP No. 36

Type of Issue:

Common Area

SUMMARY OF ISSUE

1. A troubled debt restructuring exists when a creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise grant. A troubled debt restructuring may include, but is not necessarily limited to, one or a combination of the following:

- a. Transfer of assets to the creditor by the debtor, including a transfer resulting from foreclosure or repossession.
- b. Transfer of an equity interest in the debtor to the creditor.
- c. Modification of the terms of the debt, such as a reduction in the principal amount, interest rate or an extension of payment due dates.

Current statutory guidance on troubled debt restructurings is limited to guidance on accounting for loans that are in the process of foreclosure and real estate obtained through foreclosure.

2. GAAP guidance has established more comprehensive accounting principles in *FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings* (FAS 15), as amended by *FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan* (FAS 114), and *FASB Statement No. 118, Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures* (FAS 118).

3. The purpose of this issue paper is to establish statutory accounting principles for troubled debt restructurings that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

SUMMARY CONCLUSION

Definition of Troubled Debt Restructuring

4. A troubled debt restructuring shall be defined as a debt restructuring whereby 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 grant. That concession either stems from an agreement between the creditor and the debtor or is imposed by law or a court. For example, a creditor may restructure the terms of a debt to alleviate the burden of the debtor's near-term cash requirements, and many troubled debt restructurings involve modifying terms to reduce or defer cash payments required of the debtor in the near future to help the debtor attempt to improve its financial condition and eventually be able to pay the creditor. The creditor, for example, may accept cash, other assets, or an equity interest in the debtor in satisfaction of the debt though the value received is less than the amount of the debt because the creditor concludes that

step will maximize recovery of its investment. A troubled debt restructuring shall include debt that is fully satisfied by foreclosure, repossession, or other transfer of assets or by grant of equity securities by the debtor that is, in a technical sense, not restructured. The determination of whether a debt restructuring is considered a troubled debt restructuring, as defined above, shall be made independently for the debtor and the creditor.

5. A debt restructuring shall not necessarily be considered a troubled debt restructuring for purposes of this issue paper even if the debtor is experiencing some financial difficulties. For example, a troubled debt restructuring is not involved if

- a. the fair value of cash, other assets, or an equity interest accepted by a creditor from a debtor in full satisfaction of its receivable at least equals the creditor's recorded investment in the receivable;
- b. the fair value of cash, other assets, or an equity interest transferred by a debtor to a creditor in full settlement of its payable at least equals the debtor's carrying amount of the payable;
- c. the creditor reduces the effective interest rate on the debt primarily to reflect a decrease in market interest rates in general or a decrease in the risk so as to maintain a relationship with a debtor that can readily obtain funds from other sources at the current market interest rate;
- d. the debtor issues in exchange for its debt new marketable debt having an effective interest rate based on its market price that is at or near the current market interest rates of debt with similar maturity dates and stated interest rates issued by nontroubled debtors; or
- e. the debtor, in connection with bankruptcy proceedings, enters into debt restructuring that results in a general restatement of most of the debtor's liabilities.

In general, a debtor that can obtain funds from sources other than the existing creditor at market interest rates at or near those for nontroubled debt is not involved in a troubled debt restructuring. A debtor in a troubled debt restructuring can obtain funds from sources other than the existing creditor, if at all, only at effective interest rates (based on market prices) so high that it cannot afford to pay them. Thus, in an attempt to protect as much of its investment as possible, the creditor in a troubled debt restructuring grants a concession to the debtor that it would not otherwise consider.

Accounting by Debtors

6. A debtor shall account for a troubled debt restructuring according to the type of the restructuring (transfer of assets in full settlement, grant of equity interest in full settlement, modification of terms or combination of types). Generally, troubled debt restructurings involving the transfer of assets or the grant of an equity interest shall be accounted for at the fair value of the assets transferred or the equity interest granted, as outlined in paragraph 20 of this issue paper. Troubled debt restructurings involving a modification of terms shall be accounted for prospectively, as outlined in paragraph 20 of this issue paper.

Accounting by Creditors

7. A creditor shall account for a troubled debt restructuring according to the type of the restructuring (receipt of assets in full satisfaction, modification of terms, combination of types). Generally, troubled debt restructurings involving the transfer of assets shall be accounted for at the fair value of the assets received, as outlined in paragraph 20 of this issue paper. Troubled debt restructurings involving modification of terms shall be accounted for at fair value (as determined by acceptable appraisal methodologies or, if applicable, the value determined in accordance with the *Purposes and Procedures Manual of the NAIC Securities Valuation Office* (SVO Purposes and Procedures). If the restructured loan is collateral dependent, fair value shall be the fair value of the collateral. If the restructured loan is not

collateral dependent, fair value shall be determined in accordance with the SVO Purposes and Procedures, if applicable, or at the present value of expected future cash flows, as discussed in paragraph 21 of this issue paper. If the determined fair value of the loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), a new cost basis shall be established at the fair value with the difference being recorded as a realized loss in the statement of operations.

8. A creditor shall account for assets, including foreclosed property and equity interests in corporations, joint ventures, or partnerships, received in satisfaction of the loan at their fair value (as determined by acceptable appraisal methodologies or, if applicable, the value determined in accordance with the SVO Purposes and Procedures) at the time of restructuring or at the book value of the loan if lower. If the fair value is less than the book value, the required writedown shall be recognized as a realized capital loss. The creditor shall reclassify the asset from loans to the appropriate asset account, such as real estate or other invested assets, at the time that the creditor obtains clear title to the asset except for mortgage loans which shall be reclassified at the beginning of the redemption period unless it is probable that the mortgage loan will be redeemed. After the troubled debt restructuring, a creditor shall account for the assets received in satisfaction of the loan consistent with the statutory guidance for similar assets.

9. A creditor shall account for a modification of terms in accordance with paragraphs 20 and 21 of this issue paper. Any fees received in connection with a modification of terms of a troubled debt restructuring shall be applied as a reduction of the recorded investment in the loan. All costs associated with the restructuring, including direct loan origination costs, shall be charged to expense as incurred.

Disclosure

10. A debtor in a troubled debt restructuring shall follow the disclosure requirements described in paragraph 20 of this issue paper. A creditor in a troubled debt restructuring shall follow the disclosure requirements described in paragraph 22 of this issue paper except the requirement to record the activity in an allowance account, which is required in *Issue Paper No. 37—Mortgage Loans*.

DISCUSSION

11. This issue paper adopts FAS 15 with modification to specify that creditors shall reclassify assets obtained in a troubled debt restructuring from loans to the appropriate asset account at the time the creditor obtains clear title to the asset except for mortgage loans which shall be reclassified at the beginning of the redemption period unless it is probable that the mortgage loan will be redeemed (see paragraph 15 below for justification). It also adopts paragraphs 9, 22 and 25 of FAS 114 which require creditors to measure all loans that are restructured in a troubled debt restructuring involving a modification of terms in accordance with FAS 114. FAS 114 requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The values determined in accordance with the SVO Purposes and Procedures are used as a loan's observable market price or fair value. It also adopts FAS 118 (i.e., when the provisions of FAS 114 are applied in accounting for a troubled debt restructuring that involves a modification of terms, the provisions of FAS 118 apply). FAS 118 amends certain income recognition provisions previously required by FAS 114 as well as exempts troubled debt restructurings accounted for under FAS 114 from certain disclosure requirements. It also adopts *FASB Technical Bulletin 81-6, Applicability of Statement 15 to Debtors in Bankruptcy Situations* (FTB 81-6), which states that FAS 15 does not apply to debtors who, in connection with bankruptcy proceedings, enter into a troubled debt restructuring that results in a general restatement of the debtor's liabilities. It also adopts *FASB Technical Bulletin 80-2, Classification of Debt Restructuring by Debtors and Creditors* (FTB 80-2), which states that a debtor may have a troubled debt restructuring under FAS 15 even though the related creditor does not. *FASB Emerging Issue*

Task Force Issue No. 87-18, Use of Zero Coupon Bonds in a Troubled Debt Restructuring (EITF 87-18), *FASB Emerging Issue Task Force Issue No. 87-19, Substituted Debtors in a Troubled Debt Restructuring* (EITF 87-19), and *FASB Emerging Issue Task Force Issue No. 89-15, Accounting for a Modification of Debt Terms When the Debtor is Experiencing Financial Difficulties* (EITF 89-15), provide guidance on the application of FAS 15 and are adopted in this issue paper consistent with the modifications to FAS 15 discussed in this issue paper. This issue paper also adopts *FASB Emerging Issue Task Force Issue No. 96-22, Applicability of the Disclosures Required by FASB Statement No. 114 When a Loan Is Restructured in a Troubled Debt Restructuring into Two (or More) Loans*.

12. This issue paper is consistent with paragraph 14 of *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loan and Initial Direct Costs of Leases* (FAS 91), which requires that fees received in connection with a modification of terms of a troubled debt restructuring be applied as a reduction of the recorded investment in the loan and that all related costs be charged to expense as incurred. FAS 91 was rejected in Issue Paper Nos. 26, 37, and 43.

13. This issue paper rejects the GAAP guidance set forth in *FASB Emerging Issues Task Force Issue No. 94-8, Accounting for Conversion of a Loan into a Security in a Troubled Debt Restructuring* (EITF 94-8), which states that *FASB Statement No. 115, Accounting for Certain Investment in Debt and Equity Securities* (FAS 115), applies to securities received in connection with a loan restructuring. It also rejects the GAAP guidance set forth in *FASB Technical Bulletin 94-1, Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring* (FTB 94-1), which states that FAS 115 applies to any loan that was restructured in a troubled debt restructuring involving a modification of terms that meets the definition of a security (as defined in FAS 115). It also rejects paragraph 6.d. of FAS 114 by requiring that the requirements of FAS 114 be applied to debt securities. This is consistent with the rejection of FAS 115 in *Issue Paper No. 26—Bonds, Excluding Loan-Backed and Structured Securities*, *Issue Paper No. 30—Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated companies)* and *Issue Paper No. 32—Investments in Preferred Stock (excluding investments in preferred stock of subsidiary, controlled, or affiliated companies)*. Paragraph 13 of FAS 114 which requires impairment to be recognized through a valuation allowance is rejected. Paragraph 7 of this issue paper requires the difference between the fair value and the recorded value to be recorded as a realized loss in the statement of operations which is consistent with the rejection of the utilization of valuation allowances in statutory accounting. This issue paper requires assets to be recorded at the lower of fair value or book value. Practically speaking, this is no different from the FAS 114 requirement to record at fair value. In a troubled debt restructuring situation, it will be unusual for the fair value to exceed the book value.

14. The conclusions above are consistent with the accounting for impaired mortgage loans in *Issue Paper No. 37—Mortgage Loans* (Issue Paper No. 37) which adopts FAS 114 for accounting for collateral dependent loans.

15. Current statutory guidance does not specifically address accounting and disclosure by debtors and creditors for troubled debt restructuring. The SVO Purposes and Procedures provides a designation for “Bonds and Counterparties In or Near Default”. The accounting for such bonds is addressed in Issue Paper No. 26 which requires that such bonds be written down to fair market value, is consistent with this issue paper. The statutory literature also provides guidance on the reclassification of foreclosed mortgage loans to real estate. The guidance states that loans for which foreclosure proceedings have been completed, and where there are debtor redemption privileges, may temporarily retain their status as mortgage loans until the insurance company obtains clear title. This issue paper rejects this concept and allows the creditor to reclassify the asset at the beginning of the redemption period unless it is probable that the mortgage loan will be redeemed. This revision to current statutory accounting is justified because the nature of the asset has effectively changed when the foreclosure process has been substantially completed. This is also consistent with current industry practice.

16. The adoption of the statutory accounting principles specified in the conclusion above are consistent with the Statement of Concepts which states “*In order to provide a margin of protection for policyholders, the concept of conservatism should be followed when developing estimates as well as establishing accounting principles for statutory reporting*” and “*Statutory accounting should be reasonably conservative over the span of economic cycles and in recognition of the primary responsibility to regulate for financial solvency*”.

Drafting Notes/Comments

- Accounting for mortgage loan impairments is addressed in *Issue Paper No. 37—Mortgage Loans*.
- Accounting for real estate is addressed in *Issue Paper No. 40—Real Estate Investments*.
- Accounting for collateral dependent loans is addressed in *Issue Paper No. 37—Mortgage Loans*.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

17. The Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies (Life/A&H Accounting Practices and Procedures Manual) and the Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies (P & C Accounting Practices and Procedures Manual) each include the following in Chapter 3, Mortgage Loans (only the pertinent excerpts are included below):

Valuation

For loans that are in default, being voluntarily conveyed, or being foreclosed, the carrying value may be adjusted for unpaid interest and additional expenses, such as insurance, taxes and legal fees that have been incurred to protect the investment or to obtain clear title to the property to the extent that such amounts are deemed to be recoverable from the ultimate disposition of the property. However, if such interest and costs cannot reasonably be expected to be recovered, they should not be added to the carrying value, and the cost should be expensed.

If, when reporting mortgage loans in default, the values of real estate have declined to less than the unpaid principal balances, an appropriate valuation reserve should be established to reflect the expected uncollectible amount.

Mortgage loans that are in default, or which are under foreclosure proceedings, continue to be classified as mortgage loans. Loans for which foreclosure proceedings have been completed, even to the extent of the court granting title to the mortgages, may temporarily retain their status as mortgage loans, since in some states the mortgagor still has the privilege of redeeming the mortgage during a stated redemption period. During this period, the loan may remain classified as a mortgage loan until the insurance company obtains clear title. The asset is then transferred to the real estate account.

18. The Life/A&H Accounting Practices and Procedures Manual includes the following in Chapter 4, Real Estate (only the pertinent excerpts are included below):

Cost

The cost of real estate acquired through foreclosure or voluntary conveyance is recorded at the lower of fair market value at acquisition or cost. Cost includes the outstanding principal balance of the mortgage loan at the date of foreclosure or conveyance plus foreclosure costs, real estate taxes, insurance premiums and all other costs necessary to obtain clear title and to place the property in good repair. Uncollected interest or unrecovered advances made before foreclosure should also be included in cost.

Statement Value

Generally, the value of investment real estate and property acquired in satisfaction of debt may not exceed the lower of current market value or cost, plus capitalized improvements, less normal depreciation. In lieu of writing down investment real estate or taking part of the value as nonadmitted when market value is less than book value, an insurer may establish a reserve for specific properties as a liability.

19. The P & C Accounting Practices and Procedures Manual includes the following in Chapter 4, Real Estate (only the pertinent excerpts are included below):

Cost

The cost of real estate acquired through foreclosure generally includes the outstanding principal balance of the mortgage loan at the date of foreclosure, plus foreclosure costs, real estate taxes, insurance premiums, and all other costs necessary to obtain clear title and to place the property in good repair. Unrecovered advances made before foreclosure should also be included in cost. The total cost should not exceed the realizable value.

Statement Value

Generally, the value of investment real estate and property acquired in satisfaction of debt may not exceed the lower of current market value or cost, plus capitalized improvements, less normal depreciation. In lieu of writing down investment real estate or taking part of the value as nonadmitted when market value is less than book value, an insurer may establish a reserve for specific properties as a liability.

Generally Accepted Accounting Principles

20. FAS 15 provides the following definition and guidance for troubled debt restructuring:

INTRODUCTION

2. A restructuring of a 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. That concession either stems from an agreement between the creditor and the debtor or is imposed by law or a court. For example, a creditor may restructure the terms of a debt to alleviate the burden of the debtor's near-term cash requirements, and many troubled debt restructurings involve modifying terms to reduce or defer cash payments required of the debtor in the near future to help the debtor attempt to improve its financial condition and eventually be able to pay the creditor. Or, for example, the creditor may accept cash, other assets, or an equity interest in the debtor in satisfaction of the debt though the value received is less than the amount of the debt because the creditor concludes that step will maximize recovery of its investment.¹

¹ Although troubled debt that is fully satisfied by foreclosure, repossession, or other transfer of assets or by grant of equity securities by the debtor is, in a technical sense, not restructured, that kind of event is included in the term troubled debt restructuring in this Statement.

3. Whatever the form of concession granted by the creditor to the debtor in a troubled debt restructuring, the creditor's objective is to make the best of a difficult situation. That is, the creditor expects to obtain more cash or other value from the debtor, or to increase the probability of receipt, by granting the concession than by not granting it.

4. In this Statement, a receivable or payable (collectively referred to as debt) represents a contractual right to receive money or a contractual obligation to pay money on demand or on fixed or determinable dates that is already included as an asset or liability in the creditor's or debtor's balance sheet at the time of the restructuring. Receivables or payables that may be involved in troubled debt restructuring commonly result from lending or borrowing of cash, investing in debt securities that were previously issued, or selling or purchasing goods or services on credit. Examples are accounts receivable or payable, notes, debentures and bonds (whether those receivables or payables are secured or unsecured and whether they are convertible or nonconvertible), and related accrued interest, if any. Typically, each receivable or payable is negotiated separately, but sometimes two or more receivables or payables are negotiated together. For example, a debtor may negotiate with a group of creditors but sign separate debt instruments with each creditor. For purposes of this Statement, restructuring of each receivable or payable, including those negotiated and restructured jointly, shall be accounted for individually. The substance rather than the form of the receivable or payable shall govern. For example, to a debtor, a bond constitutes one payable even though there are many bondholders.

5. A troubled debt restructuring may include, but is not necessarily limited to, one or a combination of the following:

- a. Transfer from the debtor to the creditor of receivables from third parties, real estate, or other assets to satisfy fully or partially a debt (including a transfer resulting from foreclosure or repossession).
- b. Issuance or other granting of an equity interest to the creditor by the debtor to satisfy fully or partially a debt unless the equity interest is granted pursuant to existing terms for converting the debt into an equity interest.
- c. Modification of terms of a debt, such as one or a combination of:
 1. Reduction (absolute or contingent) of the stated interest rate for the remaining original life of the debt.
 2. Extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk.
 3. Reduction (absolute or contingent) of the face amount or maturity amount of the debt as stated in the instrument or other agreement.
 4. Reduction (absolute or contingent) of accrued interest.

6. Troubled debt restructuring may occur before, at, or after the stated maturity of debt, and time may elapse between the agreement, court order, etc. and the transfer of assets or equity interest, the effective date of new terms, or the occurrence of another event that constitutes consummation of the restructuring. The date of consummation is the time of the restructuring in this Statement.

7. A debt restructuring is not necessarily a troubled debt restructuring for purposes of this Statement even if the debtor is experiencing some financial difficulties. For example, a troubled debt restructuring is not involved if (a) the fair value² of cash, other assets, or an equity interest accepted by a creditor from a debtor in full satisfaction of its receivable at least equals the creditor's recorded investment in the receivable;³ (b) the fair value of cash, other assets, or an equity interest transferred by a debtor to a creditor in full settlement of its payable at least equals the debtor's carrying amount of the payable; (c) the creditor reduces the effective interest rate on the debt primarily to reflect a decrease in market interest rates in general or a decrease in the risk so as to maintain a relationship with a debtor that can readily obtain funds from other sources at

the current market interest rate; or (d) the debtor issues in exchange for its debt new marketable debt having an effective interest rate based on its market price that is at or near the current market interest rates of debt with similar maturity dates and stated interest rates issued by nontroubled debtors. In general, a debtor that can obtain funds from sources other than the existing creditor at market interest rates at or near those for nontroubled debt is not involved in a troubled debt restructuring. A debtor in a troubled debt restructuring can obtain funds from sources other than the existing creditor in the troubled debt restructuring, if at all, only at effective interest rates (based on market prices) so high that it cannot afford to pay them. Thus, in an attempt to protect as much of its investment as possible, the creditor in a troubled debt restructuring grants a concession to the debtor that it would not otherwise consider.

² Defined in paragraph 13.

³ Defined in footnote 17.

8. For purposes of this Statement, troubled debt restructurings do not include changes in lease agreements (the accounting is prescribed by *FASB Statement No. 13, Accounting for Leases*) or employment-related agreements (for example, pension plans and deferred compensation contracts). Nor do troubled debt restructuring include debtors' failures to pay trade accounts according to their terms or creditors' delays in taking legal action to collect overdue amounts of interest and principal, unless they involve an agreement between debtor and creditor to restructure.

(Note: Paragraph 9 not included as deleted or superseded)

10. This Statement supersedes *FASB Interpretation No. 2, Imputing Interest on Debt Arrangements Made under the Federal Bankruptcy Act*, and shall be applied to the types of situations that were covered by that Interpretation. Thus, it shall be applied to troubled debt restructuring consummated under reorganization, arrangement, or other provisions of the Federal Bankruptcy Act or other Federal statutes related thereto.⁴ It also amends *APB Opinion No. 26, Early Extinguishment of Debt*, to the extent needed to exclude from that Opinion's scope early extinguishments of debt through troubled debt restructuring.

⁴ This Statement does not apply, however, if under provisions of those Federal statutes or in a quasi-reorganization or corporate readjustment (*ARB No. 43, Chapter 7, Section A, Quasi-Reorganization or Corporate Readjustment...*) with which a troubled debt restructuring coincides, the debtor restates its liabilities generally.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Accounting by Debtors

12. A debtor shall account for a troubled debt restructuring according to the type of the restructuring as prescribed in the following paragraphs.

Transfer of Assets in Full Settlement

13. A debtor that transfers its receivables from third parties, real estate, or other assets to a creditor to settle fully a payable shall recognize a gain on restructuring of payables (see paragraph 21). The gain shall be measured by the excess of (i) the carrying amount of the payable settled (the face amount increased or decreased by applicable accrued interest and

applicable unamortized premium, discount, finance charges, or issue costs) over (ii) the fair value of the assets transferred to the creditor.⁵ The fair value of the assets transferred is the amount that the debtor could reasonably expect to receive for them in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value of assets shall be measured by their market value if an active market for them exists. If no active market exists for the assets transferred but exists for similar assets, the selling prices in that market may be helpful in estimating the fair value of the assets transferred. If no market price is available, a forecast of expected cash flows may aid in estimating the fair value of assets transferred, provided the expected cash flows are discounted at a rate commensurate with the risk involved.⁶

⁵ Paragraphs 13, 15, and 19 indicate that the fair value of assets transferred or the fair value of an equity interest granted shall be used in accounting for a settlement of a payable in a troubled debt restructuring. That guidance is not intended to preclude using the fair value of the payable settled if more clearly evident than the fair value of the assets transferred or of the equity interest granted in a full settlement of a payable (paragraphs 13 and 15). (See paragraph 67 of *APB Opinion No. 16, Business Combinations*.) However, in a partial settlement of a payable (paragraph 19), the fair value of the assets transferred or of the equity interest granted shall be used in all cases to avoid the need to allocate the fair value of the payable between the part settled and the part still outstanding.

⁶ Some factors that may be relevant in estimating the fair value of various kinds of assets are described in paragraphs 88 and 89 of *APB Opinion No. 16*, paragraphs 12-14 of *APB Opinion No. 21, Interest on Receivables and Payables*, and paragraph 25 of *APB Opinion No. 29, Accounting for Nonmonetary Transactions*.

14. A difference between the fair value and the carrying amount of assets transferred to a creditor to settle a payable is a gain or loss on transfer of assets.⁷ The debtor shall include that gain or loss in measuring net income for the period of transfer, reported as provided in *APB Opinion No. 30, Reporting the Results of Operations*.

⁷ The carrying amount of a receivable encompasses not only unamortized premium, discount, acquisition costs, and the like but also an allowance for uncollectible amounts and other “valuation” accounts, if any. A loss on transferring receivables to creditors may therefore have been wholly or partially recognized in measuring net income before the transfer and be wholly or partly a reduction of a valuation account rather than a gain or loss in measuring net income for the period of the transfer.

Grant of Equity Interest in Full Settlement

15. A debtor that issues or otherwise grants an equity interest to a creditor to settle fully a payable shall account for the equity interest at its fair value.⁸ The difference between the fair value of the equity interest granted and the carrying amount of the payable settled shall be recognized as a gain on restructuring of payables (see paragraph 21).

⁸ See footnote 5.

Modification of Terms

16. A debtor in a troubled debt restructuring involving only modification of terms of a payable—that is, not involving a transfer of assets or grant of an equity interest—shall account for the

effects of the restructuring prospectively from the time of restructuring, and shall not change the carrying amount of the payable at the time of the restructuring unless the carrying amount exceeds the total future cash payments specified by the new terms.⁹ That is, the effects of changes in the amounts or timing (or both) of future cash payments designated as either interest or face amount shall be reflected in future periods.¹⁰ Interest expense shall be computed in a way that a constant effective interest rate is applied to the carrying amount of the payable at the beginning of each period between restructuring and maturity (in substance the “interest” method prescribed by paragraph 15 of APB Opinion No. 21). The new effective interest rate shall be the discount rate that equates the present value of the future cash payments specified by the new terms (excluding amounts contingently payable) with the carrying amount of the payable.

⁹ In this Statement, total future cash payments includes related accrued interest, if any, at the time of the restructuring that continues to be payable under the new terms.

¹⁰ All or a portion of the carrying amount of the payable at the time of the restructuring may need to be reclassified in the balance sheet because of changes in the terms, for example, a change in the amount of the payable due within one year after the date of the debtor's balance sheet. A troubled debt restructuring of a short-term obligation after the date of a debtor's balance sheet but before that balance sheet is issued may affect the classification of that obligation in accordance with *FASB Statement No. 6, Classification of Short-Term Obligations Expected to Be Refinanced*.

17. If, however, the total future cash payments specified by the new terms of a payable, including both payments designated as interest and those designated as face amount, are less than the carrying amount of the payable, the debtor shall reduce the carrying amount to an amount equal to the total future cash payments specified by the new terms and shall recognize a gain on restructuring of payables equal to the amount of the reduction (see paragraph 21).¹¹ Thereafter, all cash payments under the terms of the payable shall be accounted for as reductions of the carrying amount of the payable, and no interest expense shall be recognized on the payable for any period between the restructuring and maturity of the payable.¹²

¹¹ If the carrying amount of the payable comprises several accounts (for example, face amount, accrued interest, and unamortized premium, discount, finance charges, and issue costs) that are to be continued after the restructuring, some possibly being combined, the reduction in carrying amount may need to be allocated among the remaining accounts in proportion to the previous balances. However, the debtor may choose to carry the amount designated as face amount by the new terms in a separate account and adjust another account accordingly.

¹² The only exception is to recognize interest expense according to paragraph 22.

18. A debtor shall not recognize a gain on a restructured payable involving indeterminate future cash payments as long as the maximum total future cash payments may exceed the carrying amount of the payable. Amounts designated either as interest or as face amount by the new terms may be payable contingent on a specified event or circumstance (for example, the debtor may be required to pay specified amounts if its financial condition improves to a specified degree within a specified period). To determine whether the debtor shall recognize a gain according to the provisions of paragraphs 16 and 17, those contingent amounts shall be included in the “total future cash payments specified by the new terms” to the extent necessary to prevent recognizing a gain at the time of restructuring that may be offset by future interest expense. Thus, the debtor shall apply paragraph 17 of *FASB Statement No. 5, Accounting for Contingencies*, in which probability of occurrence of a gain contingency is not a factor, and shall assume that

contingent future payments will have to be paid. The same principle applies to amounts of future cash payments that must sometimes be estimated to apply the provisions of paragraphs 16 and 17. For example, if the number of future interest payments is flexible because the face amount and accrued interest is payable on demand or becomes payable on demand, estimates of total future cash payments shall be based on the maximum number of periods possible under the restructured terms.

Combination of Types

19. A troubled debt restructuring may involve partial settlement of a payable by the debtor's transferring assets or granting an equity interest (or both) to the creditor and modification of terms of the remaining payable.¹³ A debtor shall account for a troubled debt restructuring involving a partial settlement and a modification of terms as prescribed in paragraphs 16-18 except that, first, assets transferred or an equity interest granted in that partial settlement shall be measured as prescribed in paragraphs 13 and 15, respectively, and the carrying amount of the payable shall be reduced by the total fair value of those assets or equity interest.¹⁴ A difference between the fair value and the carrying amount of assets transferred to the creditor shall be recognized as a gain or loss on transfer of assets. No gain on restructuring of payables shall be recognized unless the remaining carrying amount of the payable exceeds the total future cash payments (including amounts contingently payable) specified by the terms of the debt remaining unsettled after the restructuring. Future interest expense, if any, shall be determined according to the provisions of paragraphs 16-18.

¹³ Even if the stated terms of the remaining payable, for example, the stated interest rate and the maturity date or dates, are not changed in connection with the transfer of assets or grant of an equity interest, the restructuring shall be accounted for as prescribed by paragraph 19.

¹⁴ If cash is paid in a partial settlement of a payable in a troubled debt restructuring, the carrying amount of the payable shall be reduced by the amount of cash paid.

Related Matters

20. A troubled debt restructuring that is in substance a repossession or foreclosure by the creditor or other transfer of assets to the creditor shall be accounted for according to the provisions of paragraphs 13, 14, and 19.

21. Gains on restructuring of payables determined by applying the provisions of paragraphs 13-20 of this Statement shall be aggregated, included in measuring net income for the period of restructuring, and, if material, classified as an extraordinary item, net of related income tax effect, in accordance with paragraph 8 of *FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt*.

22. If a troubled debt restructuring involves amounts contingently payable, those contingent amounts shall be recognized as a payable and as interest expense in future periods in accordance with paragraph 8 of FASB Statement No. 5. Thus, in general, interest expense for contingent payments shall be recognized in each period in which (a) it is probable that a liability has been incurred and (b) the amount of that liability can be reasonably estimated. Before recognizing a payable and interest expense for amounts contingently payable, however, accrual or payment of those amounts shall be deducted from the carrying amount of the restructured payable to the extent that contingent payments included in "total future cash payments specified by the new terms" prevented recognition of a gain at the time of restructuring (paragraph 18).

23. If amounts of future cash payments must be estimated to apply the provisions of paragraphs 16-18 because future interest payments are expected to fluctuate—for example, the restructured terms may specify the stated interest rate to be the prime interest rate increased by a specified amount or proportion—estimates of maximum total future payments shall be based on the interest rate in effect at the time of the restructuring. Fluctuations in the effective interest rate after the restructuring from changes in the prime rate or other causes shall be accounted for as changes in estimates in the periods the changes occur. However, the accounting for those fluctuations shall not result in recognizing a gain on restructuring that may be offset by future cash payments (paragraphs 18 and 22). Rather, the carrying amount of the restructured payable shall remain unchanged, and future cash payments shall reduce the carrying amount until the time that any gain recognized cannot be offset by future cash payments.

24. Legal fees and other direct costs that a debtor incurs in granting an equity interest to a creditor in a troubled debt restructuring shall reduce the amount otherwise recorded for that equity interest according to paragraphs 15 and 19. All other direct costs that a debtor incurs to effect a troubled debt restructuring shall be deducted in measuring gain on restructuring of payables or shall be included in expense for the period if no gain on restructuring is recognized.

Disclosure by Debtors

25. A debtor shall disclose, either in the body of the financial statements or in the accompanying notes, the following information about troubled debt restructurings that have occurred during a period for which financial statements are presented:

- a. For each restructuring: ¹⁵ a description of the principal changes in terms, the major features of settlement, or both.

¹⁵ Separate restructurings within a fiscal period for the same category of payables (for example, accounts payable or subordinated debentures) may be grouped for disclosure purposes.

- b. Aggregate gain on restructuring of payables and the related income tax effect (paragraph 21).
- c. Aggregate net gain or loss on transfers of assets recognized during the period (paragraphs 14 and 19).
- d. Per share amount of the aggregate gain on restructuring of payables, net of related income tax effect.

26. A debtor shall disclose in financial statements for periods after a troubled debt restructuring the extent to which amounts contingently payable are included in the carrying amount of restructured payables pursuant to the provisions of paragraph 18. If required by paragraphs 9-13 of FASB Statement No. 5, a debtor shall also disclose in those financial statements total amounts that are contingently payable on restructured payables and the conditions under which those amounts would become payable or would be forgiven.

Accounting by Creditors

27. A creditor shall account for a troubled debt restructuring according to the type of the restructuring as prescribed in the following paragraphs. Paragraphs 28-42 do not apply to a receivable that the creditor is accounting for at market value in accordance with the specialized industry practice (for example, a marketable debt security accounted for at market value by a mutual fund). Estimated cash expected to be received less estimated costs expected to be

incurred is not market value in accordance with specialized industry practice as that term is used in this paragraph.

Receipt of Assets in Full Satisfaction

28. A creditor that receives from a debtor in full satisfaction of a receivable either (i) receivables from third parties, real estate, or other assets or (ii) shares of stock or other evidence of an equity interest in the debtor, or both, shall account for those assets (including an equity interest) at their fair value at the time of the restructuring (see paragraph 13 for how to measure fair value).¹⁶ The excess of (i) the recorded investment in the receivable¹⁷ satisfied over (ii) the fair value of assets received is a loss to be recognized according to paragraph 35.

¹⁶ Paragraphs 28 and 33 indicate that the fair value of assets received shall be used in accounting for satisfaction of a receivable in a troubled debt restructuring. That guidance is not intended to preclude using the fair value of the receivable satisfied if more clearly evident than the fair value of the assets received in full satisfaction of a receivable (paragraph 28). (See paragraph 67 of APB Opinion No. 16.) However, in a partial satisfaction of a receivable (paragraph 33), 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.

¹⁷ Recorded investment in the receivable is used in paragraphs 28-41 instead of carrying amount of the receivable because the latter is net of an allowance for estimated uncollectible amounts or other "valuation" account, if any, while the former is not. The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

29. After a troubled debt restructuring, a creditor shall account for assets received in satisfaction of a receivable the same as if the assets had been acquired for cash.

Modification of Terms

(Note: Paragraphs 30-32 not included as superseded by FAS 114)

Combination of Types

33. 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.²² A creditor shall account for a troubled debt restructuring involving a partial satisfaction and modification of terms as prescribed in paragraphs 30-32 (note: paragraphs 30-32 superseded by FAS 114) except that, first, the assets received shall be accounted for at their fair values as prescribed in paragraph 28 and the recorded investment in the receivable shall be reduced by the fair value of the assets received.²³

²²Even 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 paragraph 33.

²³If 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.

Related Matters

34. A troubled debt restructuring that is in substance a repossession or foreclosure by the creditor, or in which the creditor otherwise obtains one or more of the debtor's assets in place of all or part of the receivable, shall be accounted for according to the provisions of paragraphs 28 and 33 and, if appropriate, 39.

(Note: Paragraphs 35-37 not included as superseded by FAS 114)

38. Legal fees and other direct costs incurred by a creditor to effect a troubled debt restructuring shall be included in expense when incurred.

39. A receivable from the sale of assets previously obtained in a troubled debt restructuring shall be accounted for according to APB Opinion No. 21 regardless of whether the assets were obtained in satisfaction (full or partial) of a receivable to which that Opinion was not intended to apply. A difference, if any, between the amount of the new receivable and the carrying amount of the assets sold is a gain or loss on sale of assets.

Disclosure by Creditors

40. A creditor shall disclose, either in the body of the financial statements or in the accompanying notes, the following information about troubled debt restructuring as of the date of each balance sheet presented:

- a. (Note: not included as superseded by FAS 114)
- b. The amount of commitments, if any, to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructuring.

(Note: Paragraph 41 not included as superseded by FAS 114)

Substitution or Addition of Debtors

42. A troubled debt restructuring may involve substituting debt of another business enterprise, individual, or government unit²⁶ for that of the troubled debtor or adding another debtor (for example, as a joint debtor). 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, or is under common control²⁷ with the original debtor is an example of one that shall be accounted for by the creditor according to the provisions of paragraphs 30-32 (note: paragraphs 30-32 superseded by FAS 114). Those paragraphs shall also apply to 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. 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 28 and 33.

²⁶ Government units include, but are not limited to, states, counties, townships, municipalities, school districts, authorities, and commissions.

²⁷ "Control" in this paragraph has the meaning described in paragraph 3 (c) of *APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock*, "The usual condition for control is ownership of a majority (over 50%) of the outstanding voting stock. The power to control may also exist with a lesser

percentage of ownership, for example, by contract, lease, agreement with other stockholders or by court decree.”

21. FAS 114 modified certain provisions of FAS 15 to require creditors to measure all loans that are restructured in a troubled debt restructuring involving a modification of terms in accordance with FAS 114 which requires that impaired loans be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. FAS 114 provides the following guidance:

Definitions and Scope

4. For purposes of this Statement, a loan is a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the creditor's statement of financial position. Examples include but are not limited to accounts receivable (with terms exceeding one year) and notes receivable.

5. This Statement 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 should be determined. This Statement also addresses the accounting by creditors for all loans that are restructured in a troubled debt restructuring involving a modification of terms of a receivable, except restructuring of loans excluded from the scope of this Statement in paragraph 6.b.-6.d., including those involving a receipt of assets in partial satisfaction of a receivable. The term troubled debt restructuring is used in this Statement consistent with its use in Statement 15.

6. This Statement applies to all loans that are identified for evaluation, uncollateralized as well as collateralized, except:

- 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.
- b. Loans that are measured at fair value or at the lower of cost or fair value, for example, in accordance with *FASB Statement No. 65, Accounting for Certain Mortgage Banking Activities*, or other specialized industry practice.
- c. Leases as defined in *FASB Statement No. 13, Accounting for Leases*.
- d. Debt securities as defined in *FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities*.

7. This Statement does not specify how a creditor should identify loans that are to be evaluated for collectibility.¹ A creditor should apply its normal loan review procedures in making that judgment. This Statement 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. In addition to the allowance calculated in accordance with this Statement, a creditor should continue to recognize an allowance for credit losses necessary to comply with Statement 5.

¹ Sources of information useful in identifying loans for evaluation that are listed in the AICPA's Auditing Procedure Study, Auditing the Allowance for Credit Losses of Banks, include a specific materiality criterion; regulatory reports of examination; internally generated listings such as "watch lists," past due reports, overdraft

listings, and listings of loans to insiders; management reports of total loan amounts by borrower; historical loss experience by type of loan; loan files lacking current financial data related to borrowers and guarantors; borrowers experiencing problems such as operating losses, marginal working capital, inadequate cash flow, or business interruptions; loans secured by collateral that is not readily marketable or that is susceptible to deterioration in realizable value; loans to borrowers in industries or countries experiencing economic instability; and loan documentation and compliance exception reports.

Recognition of Impairment

8. 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. As used in this Statement and in Statement 5, as amended, 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. This Statement 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. A creditor should apply its normal loan review procedures in making that judgment. An insignificant delay or insignificant shortfall in amount of payments does not require application of this Statement. 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. 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.

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 paragraph 8 will have existed before a formal restructuring. However, if a loan is excluded from the scope of this Statement under paragraph 6.a., a creditor may not have accounted for that loan in accordance with this Statement before the loan was restructured. The creditor shall apply the provisions of this Statement to that loan when it is restructured.

10. The term probable is used in this Statement consistent with its use in Statement 5, 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:

Probable. The future event or events are likely to occur.

Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.

Remote. The chance of the future event or events occurring is slight.

The term probable is further described in paragraph 84 of Statement 5, which states:

The conditions for accrual in paragraph 8 [of Statement 5] are not inconsistent with the accounting concept of conservatism. Those conditions 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.

Measurement of Impairment

11. Measuring impaired loans requires judgment and estimates, and the eventual outcomes may differ from those estimates. Creditors should have latitude to develop measurement

methods that are practical in their circumstances. Paragraphs 12-16 address those measurement methods.

12. Some impaired loans have risk characteristics that are unique to an individual borrower, and the creditor will apply the measurement methods described in paragraphs 13-16 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 those impaired loans.

13. When a loan is impaired as defined in paragraph 8 of this Statement, 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 collateral dependent. 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. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. 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 measure of the impaired loan is less than the recorded investment in the loan² (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.

² 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.

14. If a creditor measures an impaired loan using 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. The effective interest rate of a loan is the rate of return implicit in the loan (that is, the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan).³ 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. 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, 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 paragraph 8. 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 should not be made for purposes of determining the effective interest rate or estimating expected future cash flows.

³ A loan may be acquired at a discount because of a change in credit quality or rate or both. When a loan is acquired at a discount that relates, at least in part, to the loan's credit quality, the effective interest rate is the

discount rate that equates the present value of the investor's estimate of the loan's future cash flows with the purchase price of the loan.

15. If a creditor measures an impaired loan using 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, should be considered in developing the estimate of expected future cash flows. The weight given to the evidence should 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.

16. Subsequent to 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 12-15 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.

(Note: Paragraphs 17-19 are not included as they are superseded or deleted by FAS 118)

Disclosures

20. A creditor shall disclose, either in the body of the financial statements or in the accompanying notes, the following information:

- a. As of the date of each statement of financial position presented, the recorded investment in the loans for which impairment has been recognized in accordance with this Statement and the total allowance for credit losses related to those impaired loans
- b. For each period for which results of operations are presented, the activity in the allowance for credit losses account, including the balance in the allowance for credit losses account at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off
- c. The creditor's income recognition policy (paragraph 17.a. or 17.b.). A creditor that recognizes income in accordance with paragraph 17.a. also shall disclose the amount of interest income recognized in accordance with that paragraph.

Amendments to Existing Pronouncements

21. The first sentence of paragraph 23 of Statement 5 is replaced by the following:

If, based on current information and events, it is probable that the enterprise will be unable to collect all amounts due according to the contractual terms of the receivable, the condition in paragraph 8.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 8.a.

22. Statement 15 is amended prospectively as follows:

a. The second sentence in paragraph 1 is replaced by:

A creditor in a troubled debt restructuring involving a modification of terms shall account for the restructured loan in accordance with the provisions of *FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan*, except that a troubled debt restructuring involving a modification of terms before the effective date of Statement 114 may continue to be accounted for and disclosed in accordance with this Statement as long as the restructured loan is not impaired based on the terms of the restructuring agreement.

b. Paragraph 30 is replaced by the following:

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 Statement 114.

c. In the second sentence of paragraph 33, paragraphs 30-32 is deleted and replaced by Statement 114. The third and fourth sentences are deleted.

d. In paragraph 34, the following is added after “foreclosure by the creditor,”: that is, the creditor receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place,

e. In the third sentence of paragraph 42, according to the provisions of paragraphs 30-32 is replaced by as prescribed in Statement 114. In the fourth sentence, those paragraphs are replaced by that Statement.

f. Paragraphs 31, 32, 35-37, 40.a., 41, and footnotes 18, 19, 21, 24, and 25 are superseded prospectively. (Refer to paragraph 27 of this Statement.)

23. In the last sentence of paragraph 47 of *FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises*, the phrase realized gains and losses is replaced by income as prescribed in *FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan*.

24. In the first sentence of paragraph 14 of *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, the phrase for purposes of applying paragraph 30 of that Statement is deleted.

25. *FASB Technical Bulletins No. 79-6, Valuation Allowances Following Debt Restructuring, and No. 79-7, Recoveries of a Previous Writedown under a Troubled Debt Restructuring Involving a Modification of Terms*, are superseded by this Statement.

Effective Date and Transition

26. This Statement shall be effective for financial statements for fiscal years beginning after December 15, 1994. Earlier application is encouraged. Previously issued annual financial statements shall not be restated. Initial application of this Statement shall be as of the beginning of an enterprise's fiscal year (that is, if the Statement is adopted prior to the effective date and during an interim period other than the first interim period, all prior interim periods of that fiscal year shall be restated).

27. This Statement applies to all troubled debt restructurings involving a modification of terms. However, if a loan that was restructured in a troubled debt restructuring involving a modification of terms before the effective date of this Statement is not impaired based on the terms specified by the restructuring agreement, a creditor may continue to account for the loan in accordance with the provisions of Statement 15 prior to its amendment by this Statement.

22. FAS 118 provides the following guidance:

Introduction and Background

1. *FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan*, was issued in May 1993 and addresses the accounting by creditors for impairment of certain loans. Statement 114 is effective for financial statements for fiscal years beginning after December 15, 1994.

2. The Board received several requests to delay the effective date of Statement 114 and to clarify how that Statement should be implemented. A delay was requested to allow more time to resolve implementation questions about the application of the income recognition provisions in paragraphs 17-19 of Statement 114 and to make the necessary changes to accounting systems.

3. This Statement amends Statement 114 to allow a creditor to use existing methods for recognizing interest income on impaired loans. To accomplish this, it eliminates the income recognition provisions in paragraphs 17-19 of Statement 114. As amended, Statement 114 does not address how a creditor should recognize, measure, or display interest income on an impaired loan. This Statement amends the disclosure requirements in Statement 114 to require information about the recorded investment in certain impaired loans and about how a creditor recognizes interest income related to those impaired loans.

4. Prior to the issuance of this Statement, Statement 114 provided for two alternative income recognition methods to be used to account for changes in the net carrying amount of an impaired loan subsequent to the initial measure of impairment. Under the first income recognition method, a creditor would 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. Under the second income recognition method, a creditor would recognize all changes in the net carrying amount of the loan as an adjustment to bad-debt expense. While those income recognition methods are no longer required, this Statement does not preclude a creditor from using either of those methods.

5. Statement 114 requires that a creditor recognize impairment of a loan if the present value of expected future cash flows discounted at the loan's effective interest rate (or, alternatively, the observable market price of the loan or the fair value of the collateral) is less than the recorded investment in the impaired 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 equal to or greater than the recorded investment in the impaired loan, no impairment is recognized. This Statement does not change those requirements. When the net carrying amount of an impaired loan equals the present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral), this Statement will affect only the classification of income (or expense) that results from changes in the measure of an impaired loan, not the total amount of income (or expense) recognized within a given reporting period. However, when a creditor's policies for recognizing interest income and for charging off loans result in a recorded investment in an impaired loan that is less than the present value of expected future cash flows discounted at the loan's effective interest rate (or, alternatively, the observable market price of the loan or the fair value of the collateral), this Statement will cause both the classification and the total amount of income (or expense) recognized within a given reporting period to be different from that which would have been determined in accordance with paragraphs 17-19 of Statement 114.

Standards of Financial Accounting and Reporting

Amendments to Statement 114

6. Statement 114 is amended as follows:

- a. The following sentence is added after the second sentence of paragraph 8:

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.

- b. In the first sentence of paragraph 11, impaired loans is replaced by impairment of a loan.
- c. In the last sentence of paragraph 12, those impaired loans is replaced by impairment of those loans.
- d. In the last sentence of paragraph 13, measure of the impaired loan is replaced by present value of expected future cash flows (or, alternatively, the observable market price of the loan or the fair value of the collateral).
- e. In the first sentence of paragraph 14, measures an impaired loan using is replaced by bases its measure of loan impairment on.
- f. In the first sentence of paragraph 15, measures an impaired loan using is replaced by bases its measure of loan impairment on.
- g. Paragraph 17 is replaced by the following:

This Statement 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 paragraph 8, 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.

- h. Paragraphs 18 and 19 are deleted.
- i. Paragraph 20 is replaced by the following paragraphs:

A creditor shall disclose, either in the body of the financial statements or in the accompanying notes, the following information about loans that meet the definition of an impaired loan in paragraph 8 of this Statement:

- a. As of the date of each statement of financial position presented, the total recorded investment in the impaired loans at the end of each period and (1) the amount of that recorded investment for which there is a related allowance for credit losses determined in accordance with this Statement and the amount of that allowance

and (2) the amount of that recorded investment for which there is no related allowance for credit losses determined in accordance with this Statement

- b. The creditor's policy for recognizing interest income on impaired loans, including how cash receipts are recorded
- c. For each period for which results of operations are presented, the average recorded investment in the impaired loans during each period, the related amount of interest income recognized during the time within that period that the loans were impaired, and, unless not practicable, the amount of interest income recognized using a cash-basis method of accounting during the time within that period that the loans were impaired.

Information about an impaired loan that has been restructured in a troubled debt restructuring involving a modification of terms need not be included in the disclosures required by paragraphs 20.a. and 20.c. in years after the restructuring if (i) the restructuring agreement specifies an interest rate equal to or greater than the rate that the creditor was willing to accept at the time of the restructuring for a new loan with comparable risk and (ii) the loan is not impaired based on the terms specified by the restructuring agreement. That exception shall be applied consistently for paragraphs 20.a. and 20.c. to all loans restructured in a troubled debt restructuring that meet the criteria in (i) and (ii).

For each period for which results of operations are presented, a creditor also shall disclose the activity in the total allowance for credit losses related to loans, including the balance in the allowance at the beginning and end of each period, additions charged to operations, direct write-downs charged against the allowance, and recoveries of amounts previously charged off. The total allowance for credit losses related to loans includes those amounts that have been determined in accordance with *FASB Statement No. 5, Accounting for Contingencies, and with this Statement*.

- j. Paragraph 65 is deleted.

Effective Date and Transition

7. This Statement is effective concurrent with the effective date of Statement 114. Statement 114 is effective for financial statements for fiscal years beginning after December 15, 1994, with earlier application encouraged.

The provisions of this Statement need not be applied to immaterial items.

- 23. FTB 81-6 provides the following guidance:

Question

1. Does Statement 15 apply to troubled debt restructurings of debtors involved in bankruptcy proceedings?

Background

2. Some confusion has arisen about the interaction of paragraph 10 and footnote 4 of Statement 15. Paragraph 10 indicates that the Statement applies to troubled debt restructuring consummated under reorganization, arrangement, or other provisions of the Federal Bankruptcy Act or other federal statutes related thereto. However, footnote 4 to that paragraph states that the Statement does not apply “. . .if, under provisions of those Federal statutes or in a quasi-reorganization or corporate readjustment (ARB No. 43, Chapter 7, Section A, 'Quasi-

Reorganization or Corporate Readjustment . . .') with which a troubled debt restructuring coincides, the debtor restates its liabilities generally.”

Response

3. Statement 15 does not apply to debtors who, in connection with bankruptcy proceedings, enter into troubled debt restructuring that result in a general restatement of the debtor's liabilities, that is, when such restructuring or modifications accomplished under purview of the bankruptcy court encompass most of the amount of the debtor's liabilities.

4. For example, companies involved with Chapter XI bankruptcy proceedings frequently reduce all or most of their indebtedness with the approval of their creditors and the court in order to provide an opportunity for the company to have a fresh start. Such reductions are usually by a stated percentage so that, for example, the debtor owes only 60 cents on the dollar. Because the debtor would be restating its liabilities generally, Statement 15 would not apply to the debtor's accounting for such reduction of liabilities.

5. On the other hand, Statement 15 would apply to an isolated troubled debt restructuring by a debtor involved in bankruptcy proceedings if such restructuring did not result in a general restatement of the debtor's liabilities.

24. FTB 80-2 provides the following guidance:

Question

1. In applying Statement 15, can a debt restructuring be a troubled debt restructuring for a debtor but not for the creditor?

Background

2. Paragraph 2 of Statement 15 states that “a restructuring of a 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 7 points out that a debt restructuring is not necessarily a troubled debt restructuring simply because the debtor is experiencing some financial difficulties. That paragraph states in part:

For example, a troubled debt restructuring is not involved if (a) the fair value² of cash, other assets, or an equity interest accepted by a creditor from a debtor in full satisfaction of its receivable at least equals the creditor's recorded investment in the receivable;³ (b) the fair value of cash, other assets, or an equity interest transferred by a debtor to a creditor in full settlement of its payable at least equals the debtor's carrying amount of the payable; (c) the creditor reduces the effective interest rate on the debt primarily to reflect a decrease in market interest rates in general or a decrease in the risk so as to maintain a relationship with a debtor that can readily obtain funds from other sources at the current market interest rate; or (d) the debtor issues in exchange for its debt new marketable debt having an effective interest rate based on its market price that is at or near the current market interest rates of debt with similar maturity dates and stated interest rates issued by nontroubled debtors. [Emphasis added.]

² Defined in paragraph 13 [of Statement 15].

³ Defined in footnote 17 [of Statement 15].

Response

3. Yes, a debtor may have a troubled debt restructuring under Statement 15 even though the related creditor does not have a troubled debt restructuring. The debtor and creditor must individually apply Statement 15 to the specific facts and circumstances to determine whether a troubled debt restructuring has occurred. Example (a) in paragraph 7 of Statement 15 identifies a type of debt restructuring that is not a troubled debt restructuring for purposes of the creditor's application of Statement 15; similarly, example (b) in paragraph 7 identifies a type of debt restructuring that is not a troubled debt restructuring for purposes of the debtor's application of Statement 15. Thus, Statement 15 establishes tests for applicability that are not symmetrical as between the debtor and the creditor when the debtor's carrying amount and the creditor's recorded investment differ.

Illustration

4. Creditor A makes a \$10,000 interest-bearing loan to Debtor X and, when Debtor X later encounters financial difficulties, sells its receivable from Debtor X to Creditor B for \$4,000 on a nonrecourse basis. Following the sale, the carrying amount of the loan payable by Debtor X would still be \$10,000 and the recorded investment of the loan by Creditor B would be \$4,000. If Debtor X subsequently transfers to Creditor B assets with a fair value of \$5,500 in full settlement of the loan, that transaction would be a troubled debt restructuring for Debtor X because the fair value of the assets is less than the carrying amount of the loan, whereas Creditor B would not have a troubled debt restructuring because the fair value of the assets received exceeds its recorded investment in the loan.

25. FAS 91 provides the following guidance:

Fees and Costs in Refinancings or Restructuring

12. 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.⁴ 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.

13. If the refinancing or restructuring does not meet the condition set forth in paragraph 12 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,⁵ any additional amounts loaned, any fees received, and direct loan origination costs set forth in paragraph 6 associated with the refinancing or restructuring.

⁴ 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.

⁵ The net investment in the original loan includes the unpaid loan principal, any remaining unamortized net fees or costs, any remaining unamortized purchase premium or discount, and any accrued interest receivable.

14. Fees received in connection with a modification of terms of a troubled debt restructuring as defined in *FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings*, 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.
26. EITF 94-8 provides the following guidance, as summarized in the *EITF Abstracts*:

ISSUE

Statement 115 applies to marketable equity securities and to all debt securities. Technical Bulletin 94-1 clarifies that securities received in connection with a debt restructuring are subject to Statement 115.

In a debt restructuring, the creditor may receive a debt security issued by the original debtor with a fair value that differs from the creditor's basis in the loan at the date of the debt restructuring.

The issues are (1) what the initial cost basis of a debt security of the original debtor received in the restructuring of a loan should be and (2) how the creditor should account for any difference between the creditor's basis in the loan and the fair value of the security at the date of the restructuring.

EITF DISCUSSION

The Task Force reached a consensus that the initial cost basis of a debt security of the original debtor received as part of a debt restructuring should be the security's fair value at the date of the restructuring. Any excess of the fair value of the security received over the net carrying amount of the loan should be recorded as a recovery on the loan. Any excess of the net carrying amount of the loan over the fair value of the security received should be recorded as a charge-off to the allowance for credit losses. Subsequent to the restructuring, the security should be accounted for according to the provisions of Statement 115.

The Task Force also reached a consensus that a security received in a restructuring in settlement of a claim for only the past-due interest on a loan should be measured at the security's fair value at the date of the restructuring and accounted for in a manner consistent with the entity's policy for recognizing cash received for past-due interest. Subsequent to the restructuring, the security should be accounted for according to the provisions of Statement 115.

27. FTB 94-1 provides the following guidance:

References:

FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructuring

FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan, paragraph 27

FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, paragraph 3

Question

1. For a loan that was restructured in a troubled debt restructuring involving a modification of terms, does Statement 115 apply to the accounting by the creditor (that is, investor) if the restructured loan meets the definition of a security in Statement 115?

Background

2. Statement 15 specifies the accounting for troubled debt restructuring and has been amended by Statement 114, which has changed a creditor's accounting for troubled debt restructuring involving a modification of terms. However, Statement 114 grandfathered certain previous troubled debt restructuring; that is, it does not require loans restructured prior to its effective date to be retroactively remeasured upon adoption of that Statement. Paragraph 27 of Statement 114 states that "if a loan that was restructured in a troubled debt restructuring involving a modification of terms before the effective date of this Statement is not impaired based on the terms specified by the restructuring agreement, a creditor may continue to account for the loan in accordance with the provisions of Statement 15 prior to its amendment by this Statement." (Although the term loan is defined in Statement 114 to encompass both loans that are securities and loans that are not, paragraph 6.d. of Statement 114 excludes all debt securities from the scope of that pronouncement.) Some have perceived an inconsistency between paragraph 27 of Statement 114 and paragraph 3 of Statement 115, which indicates that Statement 115 applies to all investments in debt securities.

Response

3. Statement 115 applies to all loans that meet the definition of a security in that Statement. Thus, any loan that was restructured in a troubled debt restructuring involving a modification of terms, including those restructured before the effective date of Statement 114, would be subject to the provisions of Statement 115 if the debt instrument meets the definition of a security. Paragraph 137 of Statement 115 defines a security as follows:

A share, participation, or other interest in property or in an enterprise of the issuer or an obligation of the issuer that (a) either is represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer, (b) is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment, and (c) either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Effective Date and Transition

4. The provisions of this Technical Bulletin are effective for financial statements issued after April 30, 1994.

Appendix

BACKGROUND INFORMATION AND CONSIDERATION OF COMMENTS RECEIVED ON THE PROPOSED TECHNICAL BULLETIN

5. The perceived inconsistency between paragraph 27 of Statement 114 and paragraph 3 of Statement 115 was identified during the Board's discussion of the applicability of Statement 115 to "Brady bonds" that were received in a troubled debt restructuring. The phrase Brady bonds

refers to bonds issued to financial institutions by foreign governments (such as Mexico and Venezuela) under a program designed by Treasury Secretary Nicholas Brady in the late 1980s to help developing countries refinance their debt to those institutions.

6. If Statement 115 were not to apply to a debt security that was restructured in a troubled debt restructuring involving a modification of terms prior to the effective date of Statement 114, then the impairment provisions of neither Statement 114 nor Statement 115 would apply. Instead, the security would be accounted for under the provisions of Statement 15, which do not recognize the relevance of the time value of money or the security's fair value. For example, restructured securities that otherwise would be classified as available-for-sale would be accounted for at amortized cost.

7. Proposed *FASB Technical Bulletin No. 94-a, Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring*, was released for comment on January 4, 1994. Twelve comment letters were received on the proposed Technical Bulletin. Most of the comment letters expressed support for issuing the Technical Bulletin; a few suggested clarifications, which have been implemented.

28. EITF 87-18 provides the following guidance:

ISSUE

In connection with a troubled debt restructuring, a debtor, with the creditor's approval, sells the collateral, which has a fair value less than the creditor's net investment in the related loan, and invests the proceeds in a series of zero coupon bonds that are received and held by the creditor as collateral for the newly restructured loan. The bonds will mature at a value equal to each year's debt service requirement under the newly restructured terms.

The issue is whether the sale of collateral, the purchase of the zero coupon bonds, and their receipt by the creditor as collateral require the creditor to recognize a loss equal to the amount by which the net investment in the loan exceeds the fair value of the zero coupon bonds.

EITF DISCUSSION

The Task Force reached a consensus that the creditor should recognize a loss on the satisfaction of the loan and record an asset for the fair value of the zero coupon bonds. Under paragraph 28 of Statement 15, the loss would be measured as the amount by which the creditor's net investment in the loan exceeds the fair value of the assets received in full satisfaction of the debt. Most Task Force members considered the transaction to be an in-substance foreclosure or settlement of the loan pursuant to paragraph 34 of Statement 15. Some Task Force members commented that the creditor should not be able to avoid loss recognition by refraining from legal foreclosure even though the creditor has effectively acknowledged accepting possession of what is designated to be the collateral.

29. EITF 87-19 provides the following guidance:

ISSUE

In connection with a troubled debt restructuring, a debtor, with the creditor's approval, sells the collateral (real estate) on a contract for deed for a purchase price, the present value of which is less than the creditor's net investment in the related loan. The creditor does not release its lien on the property. The seller-debtor provides 100 percent financing for the third-party purchaser, with payment terms identical to the seller-debtor's obligation under the restructured terms. The third-party purchaser must make the monthly payments directly to the creditor and not to the seller-debtor.

The issue is whether the sale of collateral and related requirement for the purchaser to make payments directly to the creditor warrant the creditor's recognition of a loss related to the amount by which the net investment in the loan exceeds the fair value of the payments to be received from the purchaser.

EITF DISCUSSION

The Task Force reached a consensus that the creditor should recognize a loss on the disposition of the original loan and record an asset for the fair value of the payments to be received from the purchaser. Under paragraph 28 of Statement 15, the loss would be measured as the amount by which the creditor's net investment in the loan exceeds the fair value of the assets received in full satisfaction of the debt. Some Task Force members considered the transaction to be an in-substance foreclosure or settlement of the loan pursuant to paragraph 34 of Statement 15. Others viewed it as the addition or substitution of a debtor pursuant to paragraph 42 of Statement 15. Some Task Force members commented that the creditor should not be able to avoid loss recognition by refraining from legal foreclosure even though the creditor has effectively repossessed the original collateral by approving its sale and requiring the purchaser's payments to be made directly to the creditor.

30. EITF 89-15 provides the following guidance:

ISSUE

An enterprise that is experiencing financial difficulties proposes to exchange new debt for existing debt with the same creditor or creditors. Although the terms of the new debt are more favorable to the creditor than the terms of the existing debt, the new debt terms are not representative of and are less favorable to the creditor than prevailing terms for new borrowings by enterprises with similar credit ratings. This transaction may occur, for example, when an enterprise operating in a regulated environment wishes to increase its capital.

The issue is whether an exchange of new debt for existing debt under the circumstances described above should be considered an extinguishment of debt as described in Opinion 26 resulting in recognition of a gain by the debtor in the period of the exchange.

EITF DISCUSSION

The Task Force reached a consensus that no gain should be recognized in the circumstances described above. The Task Force concluded that an exchange of existing debt for new debt with the same creditor, the terms of which are not representative of and are less favorable to the creditor than prevailing terms for new borrowings by enterprises with similar credit ratings, results in a concession to the debtor by the creditor and should be accounted for by both parties as a modification of an existing obligation under the provisions of Statement 15. The Task Force agreed that the consensus reached regarding this Issue applies from the date of the September 21, 1989 meeting.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies, Chapter 3, Mortgage Loans, and Chapter 4, Real Estate
- Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies, Chapter 3, Mortgage Loans, and Chapter 4, Real Estate
- Accounting Practices and Procedures of the Securities Valuation Office of the National Association of Insurance Commissioners
- *Issue Paper No. 24—Discontinued Operations and Extraordinary Items*
- *Issue Paper No. 26—Bonds, Excluding Loan-Backed and Structured Securities*
- *Issue Paper No. 30—Investments in Common Stock (excluding investments in common stock of subsidiary, controlled, or affiliated entities)*
- *Issue Paper No. 32—Investments in Preferred Stock (including investments in preferred stock of subsidiary, controlled, or affiliated entities)*

Generally Accepted Accounting Principles

- *FASB Statement No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings*
- *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loan and Initial Direct Costs of Leases*
- *FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan*
- *FASB Statement No. 118, Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures*
- *FASB Technical Bulletin 80-2, Classification of Debt Restructuring by Debtors and Creditors*
- *FASB Technical Bulletin 81-6, Applicability of Statement 15 to Debtors in Bankruptcy Situations*
- *FASB Technical Bulletin 94-1, Application of Statement 115 to Debt Securities Restructured in a Troubled Debt Restructuring*
- *FASB Emerging Issues Task Force Issue No. 94-8, Accounting for Conversion of a Loan into a Security in a Troubled Debt Restructuring*
- *FASB Emerging Issues Task Force Issue No. 87-18, Use of Zero Coupon Bonds in a Troubled Debt Restructuring*
- *FASB Emerging Issues Task Force Issue No. 87-19, Substituted Debtors in a Troubled Debt Restructuring*
- *FASB Emerging Issues Task Force Issue No. 89-15, Accounting for a Modification of Debt Terms When the Debtor is Experiencing Financial Difficulties*
- *FASB Emerging Issue Task Force Issue No. 96-22, Applicability of the Disclosures Required by FASB Statement No. 114 When a Loan Is Restructured in a Troubled Debt Restructuring into Two (or More) Loan*

State Regulations

- No additional guidance obtained from state statutes or regulations.

This page intentionally left blank.