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Summary of the October Meeting of the Emerging Issues Task Force

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This *EITF Snapshot* summarizes the October 28, 2024, meeting of the Emerging Issues Task Force (EITF or "Task Force"). In March 2024, the Financial Accounting Standards Board (FASB or "Board") updated the EITF's operating procedures. Under the new operating procedures, the initial Task Force recommendation is summarized by the FASB staff in an agenda decision memo for the Board's discussion at a public meeting. On the basis of such discussion, the Board determines whether to add a project to the FASB's technical agenda and votes on all substantive decisions (including a cost-benefit analysis). The Board then directs the staff to draft a proposed Accounting Standards Update (ASU) for a vote by written ballot. These decisions are expected to be made at a single meeting. After the FASB approves the draft proposed ASU, it is exposed for public comment. When the comment period ends, the FASB considers the comments received; redeliberates the issues at a public Board meeting; and, ultimately, issues a final ASU.

The official EITF meeting summaries are posted to the Deloitte Accounting Research Tool (DART) and to the FASB's Web site. EITF meeting materials (released before the meeting and used to frame the discussion) are also available on those sites.

Issue — "Issuance of New Debt to Repay Old Debt"

Status: Agenda decision reached. The EITF directed the FASB staff to draft an agenda decision memo for the Board's consideration.

Affects: All entities.

Background: At its August 6, 2024, meeting, the EITF Agenda Committee added a project to its agenda to clarify the applicability of ASC 470-50[1] to transactions the debtor enters into with multiple creditors that result in the contemporaneous repayment of existing debt and issuance of new debt involving the same debtor and creditor. The EITF deliberated an Issue Summary related to this topic at its October 28, 2024, meeting.

ASC 470-50-40-9 states that "[t]ransactions involving contemporaneous exchanges of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and satisfaction of an existing debt obligation by the debtor would only be accounted for as debt extinguishments if the debt instruments have substantially different terms." To determine whether the terms of the existing debt instruments differ substantially from those of the new debt, an entity must perform the 10 percent cash flow test described in ASC 470-50-40-10. Further, when identical debt instruments are held by more than one creditor (e.g., in publicly held debt or syndicated debt), the debtor applies the modification and exchange guidance in ASC 470-50 separately to the debt held by each individual creditor (i.e., on a creditor-by-creditor basis).

Under the existing guidance, when modifying an outstanding debt instrument or exchanging it for new debt, at least in part, with existing creditors, a debtor performs the 10 percent cash flow test to determine whether the (1) debt is extinguished and new debt is issued or (2) existing debt is modified. If debt is extinguished and new debt is issued, the debtor recognizes a gain or loss for the difference between (1) the carrying value of the debt instrument, including any unamortized discounts/premiums and issuance costs, as of the extinguishment date and (2) the cash paid to extinguish the liability. The new debt is recognized at fair value. Conversely, if the debt is modified, modification-related fees paid to or received from creditors are deferred as an adjustment to the existing debt's net carrying amount; any unamortized discount/premium and issuance costs are amortized over the term of the new debt; and no gain or loss is recognized on the modification date.

The existing guidance is not clear on whether a debtor is always required to apply the 10 percent cash flow test if it enters into contemporaneous exchanges of cash with multiple creditors in connection with the issuance of new debt and satisfaction of an existing debt obligation. This lack of clarity has resulted in diversity in practice.

Summary: At its October 28, 2024, meeting, the EITF made the following decisions:

- The Task Force unanimously agreed that the 10 percent cash flow test should not **always** be required when there is a contemporaneous issuance of new debt and satisfaction of an existing debt instrument held by the same creditor. However, the Task Force concluded that the exception to applying the 10 percent cash flow test when certain conditions are met, as described below, would not be permitted in arrangements with a single creditor (i.e., the 10 percent cash flow test must be applied in single creditor exchanges).

[1] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

- EITF members deliberated the four potential conditions identified in the Issue Summary along with other alternatives raised during the meeting and unanimously recommended that, upon meeting the following conditions (quoted from the Meeting Summary), the debtor should account for the transactions separately as an extinguishment of the existing debt and an issuance of new debt:
    - "The existing debt has been repaid in accordance with its original contractual terms or repurchased at market terms."
    - "The new debt was issued at market terms following the issuer's normal marketing process for new debt issuances."
- EITF members voted 11 to 0 that (1) the amendments would be required rather than optional and (2) all entities, including public and private companies, would need to apply them.
- The Task Force also unanimously decided on a prospective transition method and to permit early adoption.

Certain EITF members observed that, if the project is added to the Board's technical agenda, the FASB staff should consider providing guidance in the exposure draft indicating that the determination of whether the issuance of the new debt is at market terms should be based on facts and circumstances. Some EITF members noted that when a small number of creditors exists and no new creditors are investing in the new debt issuance, an entity would most likely need more objectively verifiable evidence to show that the new debt was issued at market terms.

Next Steps: The FASB staff will prepare an agenda decision memo for the Board, which will discuss, at a public meeting, whether to add the project to its agenda. The memo will include the materials addressed by the EITF, a summary of the EITF's discussions, the basis for the EITF's recommendation, and an analysis of the FASB's agenda criteria.

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