

Heads Up

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All financing receivables held by both public and nonpublic entities are within the scope of the new and amended disclosures, excluding short-term trade accounts receivable or receivables measured at (1) fair value, with changes in fair value recorded in earnings, or (2) lower of cost or fair value.

FASB Goes “ALLL”-In, Requires Entities to Show Their Cards

Board Enhances Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses

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Introduction

On July 21, 2010, the FASB issued [ASU 2010-20](#),¹ which amends ASC 310² by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its allowance for credit losses. The objective of enhancing these disclosures is to improve financial statement users' understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes.

By now you may be wondering what a financing receivable is. It is defined as a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the entity's statement of financial position. Thus, examples of financing receivables include (1) loans, (2) trade accounts receivable, (3) notes receivable, (4) credit cards, and (5) lease receivables (other than operating leases). Financing receivables can't be (1) debt securities, (2) unconditional promises to give, or (3) acquired beneficial interests or the transferor's beneficial interests in securitized financial assets.

Scope

With all this talk of financing receivables and credit losses, some may be thinking that the new or amended disclosures only apply to financial institutions; however, this is not the case. All financing receivables held by both public and nonpublic entities are within the scope of the new and amended disclosures, excluding short-term trade accounts receivable or receivables measured at (1) fair value, with changes in fair value recorded in earnings, or (2) lower of cost or fair value. So the new and amended disclosures apply, for example, to lessor entities and entities that have a financing subsidiary.

¹ FASB Accounting Standards Update No. 2010-20, *Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*.

² FASB Accounting Standards Codification Topic 310, *Receivables*.

New and Amended Disclosure Requirements

The ASU's new and amended disclosure requirements focus on the following five topics (described in greater detail in the [appendix](#) of this *Heads Up*):

1. Nonaccrual and past due financing receivables.
2. Allowance for credit losses related to financing receivables.
3. Impaired loans (individually evaluated for impairment).
4. Credit quality information.
5. Modifications.

Under the ASU, at the portfolio-segment level, an entity is only required to provide disclosures about the allowance for credit losses related to financing receivables and qualitative information related to modifications of financing receivables. The ASU defines a portfolio segment as the "level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses." For example, a portfolio segment may be defined by the different types of financing receivables (e.g., mortgage loans, auto loans), the industry to which the financing receivable relates, or the differing risk rates. An entity must provide all other disclosures by class of financing receivable, which is generally a disaggregation of a portfolio segment and is determined on the basis of the nature and extent of an entity's exposure to credit risk arising from financing receivables. At a minimum, classes of financing receivables must be first (1) segregated on the basis of the measurement attribute (amortized cost and present value of amounts to be received) and then (2) disaggregated to the level that an entity uses when assessing and monitoring the risk and performance of the portfolio (including the entity's assessment of the risk characteristics of the financing receivables).

Effective Date and Transition

For public entities, the new and amended disclosures that relate to information as of the end of a reporting period will be effective for the first interim or annual reporting periods **ending** on or after December 15, 2010. That is, for calendar-year-end public entities, most of the new and amended disclosures in the ASU would be effective for this year-end reporting season. However, the disclosures that include information for **activity** that occurs during a reporting period will be effective for the first interim or annual periods **beginning** after December 15, 2010. Those disclosures include (1) the activity in the allowance for credit losses for each period and (2) disclosures about modifications of financing receivables. For calendar-year-end public entities, those disclosures would be effective for the first quarter of 2011.

Editor's Note: For public entities that do not have a calendar year-end, the effective date of the ASU becomes more complicated. For example, a public entity that has a June 30 year-end would be required to provide the new and amended disclosures that relate to information as of the end of the reporting period in its financial statements for the second quarter ended December 31, 2010. In addition, the new and amended disclosures that include information for activity that occurs during a reporting period will be effective as of the beginning of the public entity's third quarter ended March 31, 2011 (i.e., January 1, 2011).

For nonpublic entities, all disclosures will be required for annual reporting periods **ending** on or after December 15, 2011. That is, for calendar-year-end nonpublic entities, the new and amended disclosures in the ASU would be effective for the next year-end reporting season.

Comparative disclosures for earlier reporting periods that ended before initial adoption are encouraged but not required. However, the ASU requires entities to provide comparative disclosures for reporting periods that end after initial adoption.

For calendar-year-end public entities, most of the new and amended disclosures in the ASU would be effective for this year-end reporting season.

Appendix — New and Amended Disclosure Requirements

The table below lists only the additional disclosures required by the final ASU; accordingly, there may be other disclosures that are still required by ASC 310. Note that the disclosures presented below are required as of each balance sheet presented, unless otherwise noted.

Category	Does Not Apply To	New and Amended Disclosures
Nonaccrual and Past Due Financing Receivables	<ol style="list-style-type: none"> Short-term trade accounts receivable (except for credit card receivables). Financing receivables measured at fair value, with changes in in fair value recorded in earnings. Financing receivables measured at lower of cost or fair value. Loans acquired with deteriorated credit quality. 	<p><i>By class of financing receivable:</i></p> <ol style="list-style-type: none"> In an entity's summary of significant accounting policies, its policies for: <ul style="list-style-type: none"> Placing financing receivables on nonaccrual status. Recording payments received on nonaccrual financing receivables. Resuming accrual of interest. Determining past due or delinquency status. The "recorded investment in financing receivables on nonaccrual status" and those "past due 90 days or more and still accruing." An analysis of the age of the recorded investment in financing receivables that are past due (determined on the basis of the entity's policy), at the end of the reporting period.
Allowance for Credit Losses Related to Financing Receivables	<ol style="list-style-type: none"> Short-term trade accounts receivable (except for credit card receivables). Financing receivables measured at fair value, with changes in in fair value recorded in earnings. Financing receivables measured at lower of cost or fair value. Lessor's net investments in leveraged leases. 	<p><i>By portfolio segment:</i></p> <ol style="list-style-type: none"> A description of the "accounting policies and methodology used to estimate the allowance for credit losses." A description of management's "policy for charging off uncollectible financing receivables." "The activity in the allowance for credit losses for each period." For each income statement presented, the quantitative effect on an entity's current-period provision for credit losses resulting from an entity changing its accounting policy and methodology used to estimate the allowance for credit losses from the prior period. "The amount of any significant purchases of financing receivables during each reporting period." "The amount of any significant sales of financing receivables or reclassifications of financing receivables to held for sale during each reporting period." "The balance in the allowance for credit losses at the end of each period disaggregated on the basis of the entity's impairment method" (i.e., separate presentation for financing receivables that are evaluated collectively for impairment (under ASC 450-20), those that are evaluated individually for impairment (under ASC 310-10-35), and loans acquired with deteriorated credit quality (under ASC 310-30)). "The recorded investment in financing receivables at the end of each period related to each balance in the allowance for credit losses," disaggregated on the basis of impairment method (i.e., separate presentation for financing receivables that are evaluated collectively for impairment (under ASC 450-20), those that are evaluated individually for impairment (under ASC 310-10-35), and loans acquired with deteriorated credit quality (under ASC 310-30)).
Impaired Loans (Individually Evaluated for Impairment)	<p>Editor's Note: Impaired loan disclosures do not apply to loans measured at (1) fair value, with changes in fair value recorded in earnings, and (2) loans measured at the lower of cost or fair value because credit losses have already been reflected in earnings.</p>	<p><i>By class of financing receivable:</i></p> <ol style="list-style-type: none"> The accounting for impaired loans. The amount of impaired loans. The recorded investment in the impaired loans, including the recorded investment for which there is a related allowance (and the allowance amount itself) and for which there is no related allowance. The total unpaid principal balance of the impaired loans. "The entity's policy for recognizing interest income on impaired loans, including how cash receipts are recorded." For each income statement presented, the "average recorded investment in the impaired loans," "the related amount of interest income recognized during the time . . . the loans were impaired," and the "amount of interest income recognized using a cash-basis method of accounting during the time within that period that the loans were impaired, if practicable." The entity's policy for determining which loans the entity individually assesses for impairment. The factors the entity considered in determining that the loan is impaired.

Category	Does Not Apply To	New and Amended Disclosures
Credit Quality Information	<ol style="list-style-type: none"> 1. Short-term trade accounts receivable (except for credit card receivables). 2. Financing receivables measured at fair value, with changes in in fair value recorded in earnings. 3. Financing receivables measured at lower of cost or fair value. 	<p><i>By class of financing receivable:</i></p> <ol style="list-style-type: none"> 1. Quantitative and qualitative information about the credit quality of financing receivables, including: <ul style="list-style-type: none"> • A description of the credit quality indicator. • The recorded investment in financing receivables by credit quality indicator. • For each credit quality indicator, the date or range of dates in which the information was updated for that credit quality indicator. 2. If internal risk ratings are disclosed, the entity must provide qualitative information about how those internal risk ratings relate to the likelihood of loss.
Modifications ³	<ol style="list-style-type: none"> 1. Short-term trade accounts receivable (except for credit card receivables). 2. Financing receivables measured at fair value, with changes in in fair value recorded in earnings. 3. Financing receivables measured at lower of cost or fair value. 4. Loans acquired with deteriorated credit quality that are accounted for within a pool. 	<p><i>For each income statement presented:</i></p> <ol style="list-style-type: none"> 1. For troubled debt restructurings of financing receivables that occurred during the period: <ul style="list-style-type: none"> • Qualitative and quantitative information, by class of financing receivable, about (a) how “the financing receivables were modified” and (b) the “financial effects of the modifications.” • Qualitative information by portfolio segment about how “modifications are factored into the determination of the allowance for credit losses.” 2. For “financing receivables modified as trouble debt restructurings within the previous 12 months and for which there was a payment default during the period”: <ul style="list-style-type: none"> • Qualitative and quantitative information by class of financing receivable, including the types and the amounts of financing receivables that defaulted. • Qualitative information by portfolio segment “about how such defaults are factored into the determination of the allowance for credit losses.”

³ This disclosure guidance applies “only to a creditor’s troubled debt restructurings of financing receivables” and to “a creditor’s modification of a lease receivable that meets the definition of a troubled debt restructuring.”

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