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FASB Proposes Guidance on Accounting for Debt Exchanges

Overview

On April 30, 2025, the FASB issued a [proposed ASU](#)¹ that would introduce an incremental framework to simplify the determination of whether contemporaneous exchanges of cash between a debtor and a creditor should be accounted for as extinguishments of debt under ASC 470-50.² Under this framework, an issuer would be required to consider new criteria in ASC 470-50-40-9 before performing the 10 percent cash flow test under the current guidance in ASC 470-50-40-10 through 40-12A. If these criteria are met, an issuer would account for a contemporaneous exchange of cash between the same debtor and creditor as an extinguishment of debt. If these criteria are not met, an issuer would perform an evaluation in accordance with the current guidance in ASC 470-50-40-10 through 40-12A to determine, on a creditor-by-creditor basis, whether such an exchange should be treated as a modification or an extinguishment of debt.³

The proposed ASU is part of a [project](#) on accounting for debt exchanges that began as an Emerging Issues Task Force (EITF) issue aimed at reducing the cost and complexity of applying the debt modification guidance. The EITF reached a consensus on this issue on October 28, 2024, and the FASB added the project to its technical agenda on November 20, 2024.

Comments on the proposed ASU are due by May 30, 2025.

¹ FASB Proposed Accounting Standards Update (ASU), *Debt — Modifications and Extinguishments (Subtopic 470-50) and Liabilities — Extinguishment of Liabilities (Subtopic 405-20): Accounting for Debt Exchanges*.

² FASB Accounting Standards Codification (ASC) Subtopic 470-50, *Debt: Modifications and Extinguishments*.

³ See [Section 10.3.2](#) of Deloitte's Roadmap *Issuer's Accounting for Debt* for discussion of the appropriate level of aggregation when cash flow tests are performed under ASC 470-50.

Main Provisions

If an entity determines that the proposed new criteria in ASC 470-50-40-9 are met, it would account for the transaction as an extinguishment rather than evaluate whether the transaction is a modification or an extinguishment under the current guidance in ASC 470-50-40-10 through 40-12A.⁴

The proposed new criteria are as follows:

- “[T]he new debt obligation has multiple creditors.”
- “The existing debt obligation has been repaid in accordance with its contractual terms or repurchased at market terms.”
- “The new debt obligation was issued at market terms following the issuer’s customary marketing process for new debt issuances.”

These criteria are further discussed in the sections below.

If these criteria are *not* met, the issuer would evaluate, in a manner consistent with current guidance, whether the exchange represents a modification or an extinguishment of debt.



Changing Lanes

As discussed in [Section 10.2.13](#) of Deloitte’s Roadmap *Issuer’s Accounting for Debt*, under existing GAAP, an entity in certain circumstances may be able to support a conclusion that a market issuance of new debt to replace old debt can be accounted for as an extinguishment without evaluating the exchange of instruments on a creditor-by-creditor basis. However, because of the lack of codified guidance on this concept, there are different interpretations in practice regarding when such a conclusion would be acceptable. Further, it is always acceptable under existing GAAP to evaluate contemporaneous exchanges of cash between the same creditor and borrower on a creditor-by-creditor basis by performing the 10 percent cash flow test described in ASC 470-50-40-10 through 40-12A, further contributing to diversity in practice.

Under the proposed ASU, if all of the new criteria in ASC 470-50-40-9 are met, an entity would be *required* to conclude that the market issuance of new debt to replace old debt is an extinguishment of the existing debt.

The New Debt Obligation Has Multiple Creditors

For the proposed amendments to ASC 470-50-40-9 to apply, the new debt obligation that is exchanged for the satisfaction of an existing debt obligation must have multiple creditors. If the new debt issued in the exchange transaction has a single creditor, the issuer would not meet this criterion; instead, the issuer would need to evaluate, in a manner consistent with current guidance, whether the terms of the existing debt instrument are substantially different from the terms of the new debt instrument by performing the 10 percent cash flow test described in ASC 470-50-40-10 through 40-12A.



Connecting the Dots

Like existing GAAP, the proposed ASU does not provide guidance on how to evaluate whether creditors that belong to the same consolidated group or otherwise are under common control should be considered multiple creditors. Therefore, we would generally expect that a debtor would apply judgment and consider the economic substance of the transaction in a manner consistent with existing practice to determine whether those creditors should be treated as one or multiple creditors.

⁴ This guidance requires an entity to determine whether a transaction represents a modification by (1) performing a cash flow test to determine whether the terms of the new debt are substantially different from the cash flows of the original instrument and (2) evaluating the addition, removal, or modification of any embedded conversion features.

When this judgment is applied, multiple creditors controlled by the same parent or entity are likely to be treated as a single creditor in most cases.

The Existing Debt Obligation Has Been Repaid in Accordance With Its Contractual Terms or Repurchased at Market Terms

For the second of the proposed new criteria in ASC 470-50-40-9 to be met, the existing debt obligation must be “repaid in accordance with its contractual terms” (e.g., in accordance with an existing call option) or “repurchased at market terms” (e.g., in accordance with a tender offer to all existing debt holders). If the existing debt obligation is repaid in accordance with its contractual terms or repurchased at market terms, it would help demonstrate that the satisfaction of the existing debt obligation is independent from the issuance of the new debt obligation. Further, it would help support an assertion that the repayment was not negotiated between the debtor and the existing creditors in connection with the issuance of the new debt obligation.

The New Debt Was Issued at Market Terms Following the Issuer’s Customary Marketing Process for New Debt Issuances

The third of the proposed new criteria in ASC 470-50-40-9 is that the new debt must be “issued at market terms following the issuer’s customary marketing process for new debt issuances.”

When new creditors that were not creditors in the existing debt participate substantively in the new debt issuance, determining whether this criterion is met is likely to be straightforward. However, on the basis of the proposed guidance, an entity could qualify for extinguishment accounting without any new creditor participation. In this case, greater scrutiny of the customary marketing process would most likely be required.

The proposed ASU does not expressly define “customary marketing process.” However, paragraph BC31 of the proposed ASU states, in part, that this term “is intended to convey that the debtor did not negotiate the exchange of debt instruments solely with its existing lenders and that a *customary marketing process* may be different across entities based on the specific facts and circumstances of each transaction.” Further, paragraph BC29 of the proposed ASU cites a “debt roadshow” and an “electronic data room for due diligence to market certain debt issuance” as examples of what the EITF referred to as a “normal marketing process.”⁵

That is, the purpose of the customary marketing process criterion is to demonstrate that (1) the new debt instrument was not negotiated in contemplation of the existing creditors and (2) other creditors were given the opportunity to participate in the new debt instrument.

Proposed Effective Date and Transition

The amendments in the proposed ASU would be applied prospectively to exchanges of debt instruments that occur on or after the initial date of application. Early adoption would be permitted.

The effective date will be determined after the FASB considers stakeholder feedback on the proposed ASU.

⁵ Paragraph BC31 of the proposed ASU states, in part, that “[o]verall, the Board supported including this condition in the amendments in this proposed Update and using the term *customary* instead of the term *normal* because the Board preferred to utilize a term more commonly used in the Codification.”

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