Around The Horn || ASU 2016-13

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Accounting For Credit Losses Under Accounting Standards Update (ASU) 2016-13

- As a response to the financial crisis of 2008, a joint advisory group of the FASB and IASB identified a weakness in current GAAP that delays the recognition of Credit Loss which can result in potential overstatement of assets

- Changes the accounting approach from an "incurred loss" to a "current expected credit loss (CECL)"

- Expected to require an increase in the allowance for credit losses (ACL)

- Expected to generate a charge to retained earnings when implemented

- Effective dates – FY beginning after December 15, 2019 for public entities with early adoption permitted. One year later for all other companies

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Accounting For Credit Losses Under Accounting Standards Update (ASU) 2016-13

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- The main objective of ASU 2016-13 is to provide the financial statement users with decision-useful information regarding expected credit losses on financial instruments

- The Scope
  - Entities holding financial assets and net investment in leases that are not accounted for at fair value through net income.
  - Entities holding loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

- Assets measured at amortized cost basis should be presented at the net amount expected to be collected.

- Credit losses for Available for Sale Debt Securities should be recorded through an allowance for credit losses.

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