FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: December 3, 2024
Comments Due: January 17, 2025

Financial Instruments—Credit Losses (Topic 326)

Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 326 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to "Technical Director, File Reference No. 2024-ED900, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

Financial Accounting Standards Board

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until January 17, 2025. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2024-ED900
- Sending a letter to "Technical Director, File Reference No. 2024-ED900, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Proposed Accounting Standards Update

Financial Instruments—Credit Losses (Topic 326)

Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities

December 3, 2024

Comment Deadline: January 17, 2025

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The FASB and the Private Company Council (PCC) have undertaken this project to address challenges encountered when applying the guidance in Topic 326 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, Revenue from Contracts with Customers. Private company stakeholders indicated that estimating expected credit losses for these balances under Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost, can be costly and complex. To address this feedback, the amendments in this proposed Update introduce a practical expedient and a related accounting policy election for private companies and certain not-for-profit entities related to the application of Subtopic 326-20 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

Private companies and not-for-profit entities indicated that identifying, analyzing, and documenting macroeconomic data (such as unemployment rates and property values, among others) as part of developing reasonable and supportable forecasts can be costly and generally do not have a material effect on the allowance for short-term assets.

In addition, stakeholders observed that estimating expected credit losses for current accounts receivable and current contract assets requires significant effort and documentation even for assets that were collected before the date the financial statements were available to be issued. As such, the ability to consider collection activity after the balance sheet date in estimating expected credit losses would significantly reduce complexity for preparers while still providing investors and other financial statement users with decision-useful information.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would apply to private companies (as defined in the Master Glossary) and not-for-profit entities, excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

What Are the Main Provisions, How Would They Differ from Current Generally Accepted Accounting Principles (GAAP), and Why Would They Be an Improvement?

The current credit loss guidance in Topic 326 requires that an entity consider available information that is relevant to assessing the collectibility of cash flows when developing an estimate of expected credit losses. The historical credit loss experience of financial assets with similar risk characteristics generally provides a basis for an entity's assessment of expected credit losses. However, an entity is required to consider adjustments to that information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. Those adjustments may be qualitative in nature and should reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses on the financial asset or in the group of financial assets) during the forecast period. In addition, under Topic 326, an entity is not permitted to consider collections received after the balance sheet date when developing its estimate of expected credit losses.

The amendments in this proposed Update would provide private companies and certain not-for-profit entities with a practical expedient and an accounting policy election when estimating expected credit losses for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

1. Practical expedient. In developing reasonable and supportable forecasts, an entity may elect a practical expedient that assumes that current conditions as of the balance sheet date persist throughout the forecast period.
2. Accounting policy election. An entity that elects the practical expedient would be eligible to make an accounting policy election to consider collection activity after the balance sheet date when estimating expected credit losses.

The proposed amendments are expected to reduce the time and effort necessary to analyze and estimate credit losses for current accounts receivable and current contract assets without reducing the decision usefulness of this information for investors and other financial statement users.

What Are the Transition Requirements and When Would the Amendments Be Effective?

An entity that elects the practical expedient and accounting policy election would apply them prospectively.

The effective date will be determined after the PCC and Board consider stakeholder feedback on the proposed amendments. Early adoption would be permitted.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Entities

Question 1: Should the amendments in this proposed Update be limited to private companies and not-for-profit entities, excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market? Should the proposed amendments be expanded to include public business entities, all not-for-profit entities, or other types of entities? Please explain your reasoning.

Assets

Question 2: Should the proposed amendments apply to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606?

Question 3: Should the proposed amendments be extended to other assets or transactions and, if so, which ones and why? For example, should the proposed amendments apply to the initial estimate of expected credit losses on current accounts receivable and current contract assets acquired in a business combination accounted for under Topic 805, Business Combinations? Should the proposed amendments apply to transactions accounted for under Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and, if so, what specific assets?

Practical Expedient and Accounting Policy Election

Question 4: Will the proposed practical expedient improve the ability for entities to apply Topic 326 for current accounts receivable and current contract assets? Is it clear and operable? If not, what changes would you suggest?

Question 5: Will the proposed accounting policy election to consider subsequent collection activity improve the ability for entities to apply Topic 326 for current accounts receivable and current contract assets? Is it clear and operable? If not, what changes would you suggest?

Question 6: Should the proposed accounting policy election to consider subsequent collection activity be limited to entities that have elected the practical expedient? Please explain why or why not.

Disclosure

Question 7: Should the proposed amendments include a specific requirement for entities to disclose that they are applying the proposed practical expedient and accounting policy election? Please explain why or why not.

Transition

Question 8: Do you agree with the proposed prospective transition requirements? Should entities be able to initially apply the practical expedient and accounting policy election in any period after the effective date without performing a preferability assessment under Topic 250, Accounting Changes and Error Corrections? Please explain why or why not.

Effective Date

Question 9: Should the proposed amendments be effective upon issuance of a final Accounting Standards Update? If not, how much time would be needed to implement the proposed amendments? Should early adoption be permitted for financial statements that are not yet available to be issued? Please explain why or why not.

Benefits and Costs

Question 10: Will the proposed amendments reduce costs without reducing the decision usefulness of information provided to investors and creditors? Please explain why or why not.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Add the following Master Glossary terms to Subtopic 326-20 as follows:

Contract Asset

An entity's right to consideration in exchange for goods or services that the entity has transferred to a **customer** when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

Current Assets

Current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. See paragraphs 210-10-45-1 through 45-4.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Financial Statements Are Available to Be Issued

Financial statements are considered available to be issued when they are complete in a form and format that complies with GAAP and all approvals necessary for issuance have been obtained, for example, from management, the board of directors, and/or significant shareholders. The process involved in creating and distributing the financial statements will vary depending on an entity's management and corporate governance structure as well as statutory and regulatory requirements.

Private Company

An entity other than a **public business entity**, a **not-for-profit entity**, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.

Amendments to Topic 326

3. Add paragraphs 326-20-30-10A through 30-10F, 326-20-50-12A, and 326-20-55-40A through 55-40M and the related headings and amend paragraph 326-20-55-17, with a link to a transition paragraph 326-10-65-6, as follows:

Financial Instruments—Credit Losses—Measured at Amortized Cost

Initial Measurement

> Developing an Estimate of Expected Credit Losses

326-20-30-7 When developing an estimate of expected credit losses on financial asset(s), an entity shall consider available information relevant to assessing the collectibility of cash flows. This information may include internal information, external information, or a combination of both relating to past events, current conditions, and reasonable and supportable forecasts. An entity shall consider relevant qualitative and quantitative factors that relate to the environment in which the entity operates and are specific to the borrower(s). When financial assets are evaluated on a collective or individual basis, an entity is not required to search all possible information that is not reasonably available without undue cost and effort. Furthermore, an entity is not required to develop a hypothetical pool of financial assets. An entity may find that using its internal information is sufficient in determining collectibility.

326-20-30-8 Historical credit loss experience of financial assets with similar risk characteristics generally provides a basis for an entity's assessment of expected credit losses. Historical loss information can be internal or external historical loss information (or a combination of both). An entity shall consider adjustments to historical loss information for differences in current asset specific risk characteristics, such as differences in underwriting standards, portfolio mix, or asset term within a pool at the reporting date or when an entity's historical loss information is not reflective of the contractual term of the financial asset or group of financial assets.

326-20-30-9 An entity shall not rely solely on past events to estimate expected credit losses. When an entity uses historical loss information, it shall consider the need to adjust historical information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The adjustments to historical loss information may be qualitative in nature and should reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses on the financial asset or in the group of financial assets). Some entities may be able to develop reasonable and supportable forecasts over the contractual term of the financial asset or a group of financial assets. However, an entity is not required to develop forecasts over the contractual term of the financial asset or group of financial assets. Rather, for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts of expected credit losses, an entity shall revert to historical loss information determined in accordance with paragraph 326-20-30-8 that is reflective of the contractual term of the financial asset or group of financial assets. An entity shall not adjust historical loss information for existing economic conditions or expectations of future economic conditions for periods that are beyond the reasonable and supportable period. An entity may revert to historical loss information at the input level or based on the entire estimate. An entity may revert to historical loss information immediately, on a straight-line basis, or using another rational and systematic basis.

326-20-30-10 An entity's estimate of expected credit losses shall include a measure of the expected risk of credit loss even if that risk is remote, regardless of the method applied to estimate credit losses. However, an entity is not required to measure expected credit losses on a financial asset (or group of financial assets) in which historical credit loss information adjusted for current conditions and reasonable and supportable forecasts results in an expectation that nonpayment of the amortized cost basis is zero. Except for the circumstances described in paragraphs 326-20-35-4 through 35-6, an entity shall not expect nonpayment of the amortized cost basis to be zero solely on the basis of the current value of collateral securing the financial asset(s) but, instead, also shall consider the nature of the collateral, potential future changes in collateral values, and historical loss information for financial assets secured with similar collateral.

• > Practical Expedient and Accounting Policy Election for Accounts Receivable and Contract Assets

326-20-30-10A A **private company** or **not-for-profit entity** (excluding a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market) may elect a practical expedient when developing an estimate of expected credit losses on current accounts receivable and current **contract asset** balances arising from transactions accounted for under Topic 606 on revenue from contracts with **customers**. In addition, entities that have elected the practical expedient may also elect an accounting policy to consider cash collection activity after the balance sheet date, as described further in paragraphs 326-20-30-10E through 30-10F.

326-20-30-10B The practical expedient and accounting policy election shall be applied consistently to all current accounts receivable and current contract asset balances arising from transactions accounted for under Topic 606. A one-year period shall be used as the basis for determining whether a receivable or contract asset is a **current asset**, unless an entity's operating cycle exceeds 12 months, in which case the longer period shall be used (see paragraph 210-10-45-3).

• • > Practical Expedient

326-20-30-10C Under the practical expedient, an entity shall assume that current conditions as of the balance sheet date will persist throughout the reasonable and supportable forecast period.

326-20-30-10D When developing an estimate of expected credit losses for assets to which the practical expedient is applied, an entity shall continue to adjust historical loss information to reflect current conditions to the extent that historical loss information does not reflect current conditions. For example, a private company that has identified an individual customer that is experiencing financial distress would consider that information in its estimate of expected credit losses for that customer even if that information has not yet affected its historical loss experience (that is, even if the customer has remained current as of the balance sheet date). Similarly, a private company that has recently expanded its credit policies to offer credit to lower credit-quality customers would consider that information in its estimate of expected credit losses even if that change has not yet affected its historical loss experience (that is, even if the new, lower credit-quality customers have remained current as of the balance sheet date). See paragraph 326-20-50-12A for related disclosure requirements and paragraphs 326-20-55-40A through 55-40M for an illustrative Example.

• • > Accounting Policy Election

326-20-30-10E An entity that elects the practical expedient in paragraphs 326-20-30-10C through 30-10D may make an accounting policy election when estimating expected credit losses to consider collection activity after the balance sheet date but before the date the entity's **financial statements are available to be issued**, including any date selected by the entity which is after the balance sheet date but before the date the financial statements are available to be issued. For example, under this accounting policy election, the allowance for credit losses related to current accounts receivable and current contract asset balances arising from transactions accounted for under Topic 606 that are fully collected before the date that an entity's financial statements are available to be issued (or the date after the balance sheet date but before the financial statements are available to be issued selected by the entity) would be zero.

326-20-30-10F An entity that applies the practical expedient and elects the accounting policy shall estimate its expected credit losses on current accounts receivable and current contract asset balances as follows:

a. The entity shall first consider subsequent collections of current accounts receivable and current contract asset balances arising from transactions accounted for under Topic 606 that were outstanding as of the balance sheet date. No credit loss allowance shall be recorded for assets that have been fully collected before the date the financial statements are available to be issued (or the date after the balance sheet date but before the financial statements are available to be issued selected by the entity).

b. The entity shall then evaluate any remaining uncollected amounts as of the date the financial statements are available to be issued (or the date after the balance sheet date but before the financial statements are available to be issued selected by the entity) using the practical expedient in paragraphs 326-20-30-10C through 30-10D. That evaluation shall be based on the collection status of those assets as of the date the financial statements are available to be issued or the date selected by the entity (see paragraphs 326-20-55-40H through 55-40M for an illustrative Example).

Disclosure

> Allowance for Credit Losses

• > Practical Expedient and Accounting Policy Election for Accounts Receivable and Contract Assets

326-20-50-12A An entity shall disclose that it has elected the practical expedient, described in paragraphs 326-20-30-10C through 30-10D, or that it has elected both the practical expedient and accounting policy election, described in paragraphs 326-20-30-10E through 30-10F.

Implementation Guidance and Illustrations

> Illustrations

326-20-55-17 The following Examples illustrate certain initial and subsequent measurement guidance in this Subtopic to account for expected credit losses on financial assets:

a. Example 1: Estimating expected credit losses using a loss-rate approach (collective evaluation)
b. Example 2: Estimating expected credit losses using a loss-rate approach (individual evaluation)
c. Example 3: Estimating expected credit losses on a vintage-year basis
d. Example 4: Estimating expected credit losses using both a collective method and an individual asset method
e. Example 5: Estimating expected credit losses for trade receivables using an aging schedule

ee. Example 5A: Practical expedient and accounting policy election for estimating expected credit losses on current accounts receivable and current **contract assets** arising from transactions accounted for under Topic 606 for **private companies** and certain **not-for-profit entities**

[The remainder of this paragraph is not shown here because it is unchanged.]

• > Example 5A: Practical Expedient and Accounting Policy Election for Estimating Expected Credit Losses on Current Accounts Receivable and Current Contract Assets Arising from Transactions Accounted for under Topic 606 for Private Companies and Certain Not-for-Profit Entities

326-20-55-40A This Example illustrates how to apply the practical expedient and accounting policy election for estimating credit losses on current accounts receivable and current contract assets arising from transactions accounted for under Topic 606 on revenue from contracts with **customers**, in accordance with paragraphs 326-20-30-10A through 30-10F. Assume that Entity R does not have any contract assets.

326-20-55-40B Entity R manufactures and sells products to a broad range of customers that are primarily retail stores. Entity R provides customers with payment terms of 30 days. Entity R recognizes revenue and corresponding accounts receivables related to the sale of products in accordance with Topic 606 (referred to as "receivable(s)" in the remainder of this Example). Entity R monitors payment activity and classifies outstanding receivables on the basis of the number of days past due (delinquency) when a receivable has not been collected in accordance with the payment terms. Delinquent receivables are re-segmented every 30 days past due and assessed to determine whether they continue to share common risk characteristics with other receivables in the portfolio. Entity R uses its historical collection information to calculate a loss rate realized from each portfolio segment of receivables.

326-20-55-40C On December 31, 20X0, the outstanding balance and historical credit loss rates for each portfolio segment of Entity R's receivables are as follows.

[For ease of readability, the new table is not underlined.]

Past-Due Status	Outstanding Receivables Balance	Credit Loss Rate
Current	$ 5,984,698	0.3%
1–30 days past due	8,272	8%
31–60 days past due	2,882	26%
61–90 days past due	841	58%
91–120 days past due	554	82%
More than 120 days past due	342	99%
Total	$ 5,997,589	

326-20-55-40D Entity R has determined that its historical loss rates would be a reasonable basis on which to estimate expected credit losses for outstanding receivables because of the similar risk characteristics of its customers (paragraph 326-20-30-8) and because its payment terms have not changed significantly over time. Management determined that current conditions are consistent with conditions that existed during the period that historical data was collected.

• • > Case 1: Election of Practical Expedient

326-20-55-40E Entity R elects the practical expedient to estimate expected credit losses related to its current receivables that allows Entity R to assume that current economic conditions as of the balance sheet date will persist throughout the reasonable and supportable forecast period. Entity R has determined that the current conditions as of the balance sheet date are consistent with those conditions that existed during the period that the historical data was collected. Accordingly, Entity R determines that no adjustment to its historical loss information is necessary. Entity R develops its estimate of expected credit losses as follows.

[For ease of readability, the new table is not underlined.]

Past-Due Status		Outstanding Receivables Balance	Credit Loss Rate		Expected Credit Loss Estimate
Current	$	5,984,698	0.3%	$	17,954
1–30 days past due		8,272	8%		662
31–60 days past due		2,882	26%		749
61–90 days past due		841	58%		488
91–120 days past due		554	82%		454
More than 120 days past due		342	99%		339
Total	$	5,997,589		$	20,646

• • > Case 2: Application of Practical Expedient When Receivable Does Not Share Similar Characteristics

326-20-55-40F Assume the same facts and circumstances as Case 1, except that Entity R has an outstanding receivable balance of $2,000 aged 30-days past due at the balance sheet date from Customer S, who has recently filed for bankruptcy. As a result, Entity R determines that the receivable due from Customer S no longer shares similar risk characteristics with receivables due from other customers. Therefore, Entity R measures expected credit losses from Customer S individually and in accordance with the practical expedient.

326-20-55-40G Entity R has not identified other information that is expected to affect the collectibility of the remaining portfolio of receivables and estimates expected credit losses on the remaining portfolio collectively using the practical expedient. Entity R develops its estimate of expected credit losses as follows.

[For ease of readability, the new table is not underlined.]

Past-Due Status	Outstanding Receivables Balance		Credit Loss Rate	Expected Credit Loss Estimate
Current	$ 5,984,698		0.3%	$ 17,954
1–30 days past due	6,272	(a)	8%	502
31–60 days past due	2,882		26%	749
61–90 days past due	841		58%	488
91–120 days past due	554		82%	454
More than 120 days past due	342		99%	339
Collectively assessed subtotal	5,995,589			20,486
Individually assessed subtotal (Customer S)	2,000			2,000
Total	$ 5,997,589			$ 22,486

(a) Outstanding receivable balance reduced by $2,000 to reflect individual assessment of Customer S.

• • > Case 3: Practical Expedient Accompanied by Accounting Policy Election—Entity R Financial Statements Are Available to Be Issued on March 1

326-20-55-40H Assume the same facts and circumstances as Case 1, except that Entity R also elects to consider collection activity after the balance sheet date when estimating expected credit losses (that is, it elects to apply the accounting policy election in paragraphs 326-20-30-10E through 30-10F). Entity R will consider collection activity through March 1, which is the date the **financial statements are available to be issued**.

326-20-55-40I Entity R has not identified other information that is expected to affect the collectibility of its receivables other than the collection activity detailed in paragraph 326-20-55-40J.

326-20-55-40J Entity R's December 31, 20X0 financial statements are available to be issued on March 1, 20X1. Entity R has observed the following subsequent collection activity for all outstanding receivables as of the balance sheet date (December 31, 20X0).

[For ease of readability, the new table is not underlined.]

Balance Sheet Date 12/31/20X0			Date the Financial Statements Are Available to Be Issued 3/1/20X1			
Past-Due Status	Outstanding Receivables Balance	Collections between Balance Sheet Date and the Date the Financial Statements Are Available to Be Issued	Remaining Balance Uncollected	Past-Due Status	Credit Loss Rate (a)	Expected Credit Loss Estimate
Current	$ 5,984,698	$ (5,925,118)	$ 59,580	31–60 days past due	26%	$ 15,491
1–30 days past due	8,272	(3,676)	4,596	61–90 days past due	58%	2,666
31–60 days past due	2,882	(441)	2,441	91–120 days past due	82%	2,002
61–90 days past due	841	(300)	541	More than 120 days past due	99%	536
91–120 days past due	554	(149)	405	More than 120 days past due	99%	401
More than 120 days past due	342	(43)	299	More than 120 days past due	99%	296
Total	$ 5,997,589	$ (5,929,727)	$ 67,862			$ 21,392

(a) Credit loss rate based on the days past due measurement as of the date the financial statements are available to be issued.

Entity R develops its estimate of expected credit losses by determining which receivables have been collected between the balance sheet date and the date the financial statements are available to be issued and by recognizing an allowance for the amounts that are uncollected based on its historical loss rate that corresponds to the uncollected balance’s delinquency status as of the date the financial statements are available to be issued.

• • > Case 4: Practical Expedient Accompanied by Accounting Policy Election—Entity R Financial Statements Are Available to Be Issued on May 15

326-20-55-40K Assume the same facts and circumstances as Case 1, except that Entity R also elects to consider collection activity after the balance sheet date when estimating expected credit losses (that is, it elects to apply the accounting policy election in paragraphs 326-20-30-10E through 30-10F). Entity R will consider collection activity through May 15, which is the date the financial statements are available to be issued.

326-20-55-40L Entity R has not identified other information that is expected to affect the collectibility of its receivables other than the collection activity detailed in paragraph 326-20-55-40M.

326-20-55-40M Entity R’s December 31, 20X0 financial statements are available to be issued on May 15, 20X1. As of May 15, 20X1, Entity R has observed the following collection activity for outstanding receivables as of the balance sheet date (December 31, 20X0).

[For ease of readability, the new table is not underlined.]

Balance Sheet Date 12/31/20X0			Date the Financial Statements Are Available to Be Issued 5/15/20X1			
Past-Due Status	**Outstanding Receivables Balance**	**Collections between Balance Sheet Date and the Date the Financial Statements Are Available to Be Issued**	**Remaining Balance Uncollected**	**Past-Due Status**	**Credit Loss Rate** (a)	**Expected Credit Loss Estimate**
Current	$ 5,984,698	$ (5,968,449)	$ 16,249	More than 120 days past due	99%	$ 16,087
1–30 days past due	8,272	(8,272)	-	More than 120 days past due	99%	-
31–60 days past due	2,882	(2,279)	603	More than 120 days past due	99%	597
61–90 days past due	841	(623)	218	More than 120 days past due	99%	216
91–120 days past due	554	(289)	265	More than 120 days past due	99%	262
More than 120 days past due	342	(145)	197	More than 120 days past due	99%	195
Total	$ 5,997,589	$ (5,980,057)	$ 17,532			$ 17,357

(a) Credit loss rate based on the days past due measurement as of the date the financial statements are available to be issued.

As part of the estimate of expected credit losses, Entity R applies a credit loss rate of 99 percent to the receivables that are uncollected as of the date the financial statements are available to be issued (in this Case, May 15), since all remaining amounts have been outstanding for greater than 120 days.

4. Add paragraph 326-10-65-6 and its related heading as follows:

Financial Instruments—Credit Losses—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 202X-XX, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*

326-10-65-6 The following represents the transition and effective date information related to Accounting Standards Update No. 202X-XX, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities:*

Transition method

a. The pending content that links to this paragraph shall be effective [date to be inserted after adoption] for private companies and **not-for-profit entities**, excluding not-for-profit entities that have issued, or are conduit bond obligors for, **securities** that are traded, listed, or quoted on an exchange or an over-the-counter market.

b. An entity shall apply the pending content that links to this paragraph prospectively to estimates of expected credit losses for all current accounts receivable and current contract assets performed after [date to be inserted after exposure].

c. When a private company or not-for-profit entity, excluding a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, initially applies the pending content that links to this paragraph, it is not required to justify that it is preferable to use the practical expedient and accounting policy election described in paragraphs 326-20-30-10A through 30-10F in accordance with Topic 250 on accounting changes and error corrections.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Christine A. Botosan
Frederick L. Cannon
Susan M. Cosper
Marsha L. Hunt
Dr. Joyce T. Joseph

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the considerations of the PCC and the Board in reaching the conclusions in this proposed Update. It includes the Board's basis for endorsing the PCC's conclusions when needed to supplement the PCC's considerations. Individual PCC members and Board members gave greater weight to some factors than to others.

BC2. In September 2024, the PCC added a project to its technical agenda to address challenges encountered when applying the guidance in Topic 326 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606. Private company stakeholders indicated that estimating expected credit losses for current accounts receivable and current contract assets under Subtopic 326-20 on an ongoing basis may be overly burdensome because of the short-term nature of those assets. In addition, stakeholders indicated that the guidance is costly to apply and generally does not result in a materially different estimate of expected credit losses than if the estimate was based on historical loss information.

BC3. To address stakeholder feedback, the PCC decided to provide entities with a practical expedient and an accounting policy election to improve the operability of the guidance in Subtopic 326-20 for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606. In October 2024, the Board endorsed the PCC's decision and decided to expand the scope of the project to not-for-profit entities, excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or over-the-counter market.

Background

BC4. Current credit loss guidance in Topic 326 requires that when developing an estimate of expected credit losses an entity should consider available information relevant to assessing the collectibility of cash flows. This information may include internal information, external information, or a combination of both relating to past events, current conditions, and reasonable and supportable forecasts. The historical credit loss experience of financial assets with similar risk characteristics generally provides a basis for an entity's assessment of expected credit losses. However, when an entity uses historical loss information, it is required to consider making adjustments to that information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. These adjustments may be qualitative in nature and reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses). In addition, under Topic 326, an entity is not permitted to consider collections received after the balance sheet date when developing its estimate of expected credit losses.

BC5. Stakeholders observed that identifying, analyzing, and documenting macroeconomic data (such as unemployment rates and real estate values, among others) as part of developing a reasonable and supportable forecast can be costly and generally do not have a material effect on the allowance for short-term assets. In certain instances, the limited availability of relevant economic data, such as the unemployment rate in the local area where a private company operates, makes it more challenging to apply the current expected credit loss (CECL) guidance. In addition, stakeholders noted that such economic data generally do not have a material effect on the estimate of expected credit losses for short-term receivables.

Basis for Conclusions

Benefits and Costs

BC6. The Board and the PCC considered the expected benefits and costs of entities electing the practical expedient and the accounting policy election and determined that users would continue to receive decision-useful information at a reduced cost to preparers and practitioners. The expected costs to preparers and practitioners would be minimal because the practical expedient, if elected, would no longer require identifying, analyzing, or documenting macroeconomic data, such as changes in unemployment rates, property values, commodity values, or other economic factors subsequent to the balance sheet date as part of developing a reasonable and supportable forecast. To the extent that the accounting policy election also is made, an entity would consider subsequent collection activity. Accordingly, the PCC and the Board expect that the amendments in this proposed Update would reduce the cost of applying the expected credit loss guidance.

BC7. In analyzing the expected benefits and expected costs of the proposed Update, the PCC considered factors from the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, to determine whether, based on relevance to users, the Private Company Decision-Making Framework would support that the practical expedient and accounting policy election would benefit private companies and their users. The PCC believes that applying the practical expedient and accounting policy election would reduce the time and effort necessary for entities to estimate expected credit losses for assets within the scope of the amendments in this proposed Update, while maintaining the decision usefulness of this information for users. The PCC did not identify significant costs to apply the proposed amendments.

Entities

BC8. The Board decided that the amendments in this proposed Update should apply to private companies and not-for-profit entities, excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market. While the issue was initially raised by the PCC and other private company stakeholders, not-for-profit entity stakeholders, including the Board's Not-for-Profit Advisory Committee, provided similar concerns that the guidance in Subtopic 326-20 is complex to apply to assets within the scope of the proposed amendments and generally does not result in a materially different estimate of the expected credit losses than if the estimate had been based on historical loss information.

BC9. The Board determined that public business entities, not-for-profit entities that are conduit bond obligors (not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market), and employee benefit plans should not be included within the scope of the amendments in this proposed Update.

BC10. The Board observed that public business entities have not expressed concerns about significant cost or complexity associated with estimating expected credit losses for current accounts receivable and current contract assets arising from transactions recognized under Topic 606. Public business entities typically have additional accounting and reporting resources to prepare financial statements. In addition, because public business entities have shorter reporting deadlines, the proposed accounting policy election to consider subsequent collections (see paragraph BC19) may not result in a reduction of costs for those entities.

BC11. The Board determined that a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market should not be included within the scope of this proposed Update because their access to public markets makes those entities similar to public companies. Additionally, the Board determined that employee benefit plans should not be included within the scope of this proposed Update because those entities generally do not have accounts receivable or contract assets that are recognized in accordance with Topic 606.

Assets

BC12. The Board endorsed the PCC's decision that the amendments in this proposed Update should be applied to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606. Receivables that arise from other Topics that reference Topic 606 are not included within the scope of this project (for example, transactions accounted for under Subtopic 610-20). The term *accounts receivable* as used in the proposed amendments is intended to be consistent with the term *receivable* as discussed in paragraph 606-10-45-4. The targeted scope is intended to avoid potential unintended consequences resulting from applying the proposed amendments to assets arising from nonrevenue transactions. The Board considered that transactions other than those accounted for under Topic 606 are more varied in nature, and, therefore, the practical expedient and accounting policy election may not be appropriate.

BC13. The Master Glossary defines *current assets* as follows:

> Current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. See paragraphs 210-10-45-1 through 45-4.

The amendments in this proposed Update apply to current accounts receivable and current contract assets, consistent with balance sheet classification guidance related to those amounts. Determining whether a contract asset is a current asset should be based on when that contract asset is expected to be realized, rather than when that contract asset is expected to be converted to a receivable. The Board decided to limit the scope of the proposed amendments to current accounts receivable and current contract assets to exclude longer term assets with a significant financing component between the company and customer. The Board also decided that the estimate of expected credit losses on noncurrent assets may be more affected by macroeconomic factors because they have a longer contractual life.

BC14. The PCC considered whether the amendments in this proposed Update should be limited to receivables outstanding for a specified period of time (for example, 90 days or 120 days). The PCC noted that any period of time selected would be arbitrary and potentially could limit the application of the proposed amendments. Therefore, the PCC determined that the expected benefits of applying the proposed amendments only to receivables that are outstanding for a short period of time would not justify the expected costs.

BC15. The PCC also considered whether the guidance should apply to all current receivables and not only those arising from transactions accounted for under Topic 606. The PCC rejected that alternative, noting that stakeholder feedback on this issue focused on short-term transactions with customers because collectibility risk is considered low. The PCC believes that other types of receivables, such as short-term loan receivables, have different risks and that expanding the scope of the proposed Update to other types of assets could have unintended consequences.

Practical Expedient and Accounting Policy Election

BC16. The Board endorsed the PCC’s decision to provide a practical expedient and an accounting policy election for applying the guidance in Subtopic 326-20 for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

BC17. Under the practical expedient, an entity would assume that current conditions as of the balance sheet date persist throughout the forecast period and require no adjustment to historical loss information to reflect changes in economic data when developing a reasonable and supportable forecast. However, an entity would still be required to consider other information that affects collectibility such as adjustments to historical loss information to reflect the extent to which current conditions differ from the conditions that existed for the periods over which the historical information was gathered. An entity also would be required to reflect customer-specific and company-specific information that is expected to have an effect on the collectibility of outstanding receivables.

BC18. For example, a private company that has identified an individual customer that is experiencing financial distress would consider that information in its estimate of expected credit losses even if that information has not yet affected its historical loss experience or current conditions (that is, even if the customer has remained current on existing receivables as of the balance sheet date). Similarly, a private company that has recently expanded its credit policies to offer credit to lower quality customers would consider that information in its estimate of expected credit losses even if that change has not yet affected its historical loss experience (that is, even if the new, lower credit-quality customers have remained current as of the balance sheet date).

BC19. In addition, an entity that applies the practical expedient may apply an accounting policy election that would allow the entity to consider collection activity after the balance sheet date when estimating expected credit losses. If an entity makes this accounting policy election, it would record a credit loss allowance of zero for current accounts receivable and current contract assets that have been fully collected as of the date the financial statements are available to be issued (or the date after the balance sheet date but before the financial statements are available to be issued selected by the entity).

BC20. Some Board members stated that Subtopic 326-20 may not require that an entity identify or analyze macroeconomic variables when estimating expected credit losses for current accounts receivable and current contract assets because those variables are not likely to be considered relevant to the collection of short-term accounts receivable and contract assets. They noted that paragraph 326-20-30-9 requires that an entity consider the need to adjust historical information to reflect changes to relevant data. Therefore, some

Board members view the proposed practical expedient to be primarily focused on clarifying the existing CECL requirement for current accounts receivable and current contract assets.

BC21. In accordance with the Private Company Decision-Making Framework, the PCC decided that an entity would be required to disclose when it has applied the proposed practical expedient and accounting policy election. This disclosure would allow financial statement users to better compare information about the allowance for credit losses across entities.

Effective Date and Transition

BC22. The Board endorsed the PCC's decision that the amendments in this proposed Update should be applied prospectively. The PCC determined that the prospective method was appropriate because the proposed amendments are expected to be straightforward to apply and prospective application would reduce the cost and complexity of applying the proposed amendments, which is consistent with this project's overall objective.

BC23. The Board will determine the effective date after it considers stakeholders' feedback on the proposed amendments. Early adoption would be permitted for periods for which financial statements have not yet been made available for issuance.

BC24. PCC members noted that there are scenarios in which a private company may not elect the amendments in this proposed Update by its effective date because of that company's specific facts and circumstances or because it is unaware of the proposed practical expedient and accounting policy election until after its effective date. As such, the PCC expressed interest in including a transition provision to clarify that a private company would not need to perform a preferability assessment in accordance with paragraph 250-10-45-2 the first time that it applies the proposed amendments. Therefore, an entity would be able to initially apply the practical expedient and accounting policy election in a period after the proposed amendments are effective without having to justify that the change in accounting principle is preferable. This approach was suggested by PCC members and is consistent with the PCC's other recent guidance. Therefore, the Board decided to specify this in the proposed transition guidance.

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the "GAAP Taxonomy"). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.