

A photograph of two business women in a meeting. One woman, wearing a black blazer, is leaning over a table and pointing at a laptop screen. The other woman, wearing a white blazer, is sitting at the table with her hand on her chin, looking at the laptop. The background is a bright, modern office space with large windows.

# BDO KNOWS: CECL

Topic 326, Financial Instruments – Credit Losses:  
Presentation and Disclosure

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## Introduction

In June 2016, the FASB (or “the Board”) issued Accounting Standards Update (“ASU”) 2016-13 (ASC “326” or “Topic 326”), which (i) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model which will be based on an estimate of current expected credit loss (“CECL”); and (ii) provides targeted improvements on evaluating impairment and recording credit losses on available-for-sale (AFS) debt securities through an allowance account. The standard also requires certain incremental disclosures. Subsequently, the FASB issued ASU 2018-19, ASU 2019-04, ASU 2019-05, ASU 2019-10 and ASU 2019-11 to clarify and improve or ASU 2016-13. See [BDO KNOWS: FASB Topic 326, Financial Instruments – Credit Losses](#) for an overview of the standard.

While banks and other traditional financial institutions will be most affected by the FASB’s new credit impairment model, all entities with balances due or that otherwise has a credit exposure will be impacted. These include companies in the consumer industry, manufacturing entities and other non-financial institutions. As such these entities are also subject to disclosure requirements of ASC 326.

## Disclosure Objective

The objective of the disclosures is to enable a user of the financial statements to understand the credit risk inherent in a portfolio and how management monitors the credit quality of the portfolio, management’s estimate of expected credit losses and changes in the estimate of expected credit losses that have taken place during the period.

To achieve the objective, ASC 326 has numerous disclosures. Many of the disclosures carry forward existing requirements. However, the change to the new CECL model also necessitated certain amendments (additions and deletions) both to the scope and content of the existing disclosures, as well as introducing new disclosures. For example, unlike existing generally accepted accounting principles (“GAAP”), the impairment model for HTM debt securities now differs from that of AFS debt securities. Therefore, many existing disclosures remain for AFS debt securities but are not applicable to HTM debt securities.

ASC 326 requires new disclosures that will incorporate a mix of both qualitative and quantitative information about the methodology used to arrive at the estimate for expected credit losses, while also retaining certain disclosures that existed under legacy U.S. GAAP. Disclosures may vary based on the decisions made by management, but there are general disclosure requirements intended to provide users of the financial statements a transparent understanding of how the entity determines the amount of estimated lifetime losses for the various financial assets within the scope of ASC 326 at the reporting date. The type and extent of disclosures will also largely depend on the industry in which the entity operates and financial assets that are within the scope of the standard.

Additionally, in the year of adoption, the Securities and Exchange Commission (SEC) requires public companies to include all required annual disclosures in any interim financial statements that are prepared until the next annual financial statements are filed – even if the disclosure requirements are only applicable for annual periods.

**BDO Observation:** Those charged with governance, such as the board of directors and the audit committee, may find it useful to ask management for an example of the external disclosures reflecting the adoption of CECL. This information can help facilitate dialogue with management during the implementation effort.

# Presentation

## STATEMENT OF FINANCIAL POSITION

ASC 326 introduces a requirement to separately present the allowance for credit losses from the related asset's amortized cost basis for financial assets measured at amortized cost and parenthetically (together with the amortized cost) for available for sale debt securities carried at fair value on the statement of financial position.

### Off-balance-sheet credit exposures

An allowance for credit losses associated with off-balance-sheet credit exposures are to be presented as a liability on the statement of the financial position and be reduced in periods wherein these exposures have expired either as a result of settlement or a recognition of a financial asset and should be presented separately from allowance for credit losses that relates to recognized financial assets.

### Accrued interest receivables

Under Topic 326, an entity can make an accounting policy election to present accrued interest receivable (net of the allowance for credit losses) separately on the statement of financial position or within another statement of financial position line item.

If an entity elects to present the accrued interest receivable balance, net of the allowance for credit losses (if any), within another statement of financial position line item, they will have to disclose the amount of the accrued interest receivable balance, net of the allowance for credit losses and the line item in which it was included.

The above also applies for available-for-sale debt securities if the applicable accrued interest was excluded from both the fair value and the amortized cost basis of the available-for-sale debt security (for purposes of identifying and measuring an impairment).

## STATEMENT OF COMPREHENSIVE INCOME

The standard does not provide prescriptive guidance for an entity to follow when developing its estimate for expected credit losses. Instead, the FASB provided entities with the ability to use reasonable judgment in developing a methodology that is applied consistently. The method(s) used to estimate expected credit losses may vary based on the type of financial asset, the entity's ability to predict the timing of cash flows, and the information available to the entity.

When a discounted cash flow approach is used to estimate expected credit losses, the change in present value from one reporting period to the next may result not only from the passage of time, but also from changes in estimates of the timing or amount of expected future cash flows. Topic 326 allows entities using a discounted cash flow approach to present these changes in either of the following ways:

- ▶ Presenting the entire change in the present value as "credit loss expense" (or reversal of credit loss expense) or
- ▶ Presenting the change in present value attributable to the passage of time as interest income

### EXCERPT FROM ASC 326-30-45-2

An entity shall separately present, in the financial statement in which the components of accumulated other comprehensive income are reported, amounts reported therein related to available-for-sale debt securities for which an allowance for credit losses has been recorded.

Said differently, an entity with an allowance for credit losses on available-for-sale debt securities should disclose the amount of the provision for the period and the total allowance for credit losses related to available for sale debt securities.

### Fair value changes to collateral

For collateral-dependent financial assets, the ASU requires entities to estimate expected credit losses based on the fair value of the collateral when companies determine that foreclosure is probable or qualifies for, and applies, the practical expedients. In these instances, an entity should recognize changes in the fair value of the collateral at each reporting date as credit loss expense or a reversal of credit loss expense.



## Disclosures

As noted previously, the objective of the disclosure requirements is to enable a user of the financial statements to understand the credit risk inherent in a portfolio and how management monitors the credit quality of the portfolio, management's estimate of expected credit losses, and changes in the estimate of expected credit losses that have taken place during the period.

To help entities achieve this objective, the standard prescribes quantitative and qualitative disclosures about:

- ▶ Credit quality information
- ▶ Allowance for credit losses
- ▶ Past-due status
- ▶ Nonaccrual status
- ▶ Purchased financial assets with credit deterioration
- ▶ Collateral-dependent financial assets
- ▶ Off-balance-sheet credit exposures



The following table summarizes the disclosure requirements of CECL:

## Financial Instruments Carried at Amortized Cost and Held-to-Maturity Debt Securities

### SUMMARY OF REQUIRED DISCLOSURES

ASC REFERENCES	ANNUAL AND INTERIM DISCLOSURES
ASC 326-20-50-4	<p>An entity shall provide information that enables a financial statement user to do both of the following:</p> <ol style="list-style-type: none"> <li>Understand how management monitors the credit quality of its financial assets</li> <li>Assess the quantitative and qualitative risks arising from the credit quality of its financial assets.</li> </ol>
ASC 326-20-50-5	<p>To meet the objectives of ASC 326-20-50-4, an entity shall provide quantitative and qualitative information by class of financing receivable and major security type about the credit quality of financial assets within the scope of this ASC Topic 326-20 (excluding off-balance-sheet credit exposures and repurchase agreements and securities lending agreements within the scope of Topic 860:), including all of the following:</p> <ol style="list-style-type: none"> <li>A description of the credit quality indicator(s)</li> <li>The amortized cost basis, by credit quality indicator</li> <li>For each credit quality indicator, the date or range of dates in which the information was last updated for that credit quality indicator.</li> </ol>
ASC 326-20-50-6	<p>When disclosing credit quality indicators of financing receivables and net investment in leases (except for reinsurance recoverables and funded or unfunded amounts of line-of-credit arrangements, such as credit cards), an entity shall present the amortized cost basis within each credit quality indicator by year of origination (that is, vintage year). For purchased financing receivables and net investment in leases, an entity shall use the initial date of issuance to determine the year of origination, not the date of acquisition. For origination years before the fifth annual period, an entity may present the amortized cost basis of financing receivables and net investments in leases in the aggregate. For interim-period disclosures, the current year-to-date originations in the current reporting period are considered to be the current-period originations. The requirement to present the amortized cost basis within each credit quality indicator by year of origination is not required for an entity that is not a public business entity.</p>
ASC 326-20-50-6A	<p>For the purpose of the disclosure requirement in paragraph 326-20-50-6, an entity shall present the amortized cost basis of line-of-credit arrangements that are converted to term loans in a separate column (see Example 15 in paragraph 326-20-55-79). An entity shall disclose in each reporting period, by class of financing receivable, the amount of line-of-credit arrangements that are converted to term loans in each reporting period.</p>
ASC 326-20-50-7	<p>Except as provided in paragraph 326-20-50-6A, an entity shall use the guidance in paragraphs 310-20-35-9 through 35-12 when determining whether a modification, extension, or renewal of a financing receivable should be presented as a current-period origination. An entity shall use the guidance in paragraphs 842-10-25-8 through 25-9 when determining whether a lease modification should be presented as a current-period origination.</p>
ASC 326-20-50-8	<p>If an entity discloses internal risk ratings, then the entity shall provide qualitative information on how those internal risk ratings relate to the likelihood of loss.</p>
ASC 326-20-50-9	<p>The requirements to disclose credit quality indicators in paragraphs 326-20-50-4 through 50-5 do not apply to receivables measured at the lower of amortized cost basis or fair value, or trade receivables due in one year or less, except for credit card receivables, that result from revenue transactions within the scope of Topic 605 on revenue recognition or Topic 606 on revenue from contracts with customers.</p>

## Financial Instruments Carried at Amortized Cost and Held-to-Maturity Debt Securities (Con't)

### SUMMARY OF REQUIRED DISCLOSURES

	ASC REFERENCES	ANNUAL AND INTERIM DISCLOSURES
ALLOWANCE FOR CREDIT LOSSES	ASC 326-20-50-10	<p>An entity shall provide information that enables a financial statement user to do the following:</p> <ol style="list-style-type: none"> <li>a. Understand management's method for developing its allowance for credit losses</li> <li>b. Understand the information that management used in developing its current estimate of expected credit losses</li> <li>c. Understand the circumstances that caused changes to the allowance for credit losses, thereby affecting the related credit loss expense (or reversal) reported for the period.</li> </ol>
	ASC 326-20-50-11	<p>To meet the objectives in paragraph 326-20-50-10, an entity shall disclose all of the following by portfolio segment and major security type:</p> <ol style="list-style-type: none"> <li>a. A description of how expected loss estimates are developed</li> <li>b. A description of the entity's accounting policies and methodology to estimate the allowance for credit losses, as well as a discussion of the factors that influenced management's current estimate of expected credit losses, including:               <ol style="list-style-type: none"> <li>1. Past events</li> <li>2. Current conditions</li> <li>3. Reasonable and supportable forecasts about the future.</li> </ol> </li> <li>c. A discussion of risk characteristics relevant to each portfolio segment</li> <li>d. A discussion of the changes in the factors that influenced management's current estimate of expected credit losses and the reasons for those changes (for example, changes in portfolio composition, underwriting practices, and significant events or conditions that affect the current estimate but were not contemplated or relevant during a previous period)</li> <li>e. Identification of changes to the entity's accounting policies, changes to the methodology from the prior period, its rationale for those changes, and the quantitative effect of those changes</li> <li>f. Reasons for significant changes in the amount of writeoffs, if applicable</li> <li>g. A discussion of the reversion method applied for periods beyond the reasonable and supportable forecast period</li> <li>h. The amount of any significant purchases of financial assets during each reporting period</li> <li>i. The amount of any significant sales of financial assets or reclassifications of loans held for sale during each reporting period.</li> </ol>
	ASC 326-20-50-12	<p>Paragraph 326-20-45-3 explains that a creditor that measures expected credit losses based on a discounted cash flow method is permitted to report the entire change in present value as credit loss expense (or reversal of credit loss expense) but also may report the change in present value attributable to the passage of time as interest income. Creditors that choose the latter alternative shall disclose the amount recorded to interest income that represents the change in present value attributable to the passage of time.</p>

## Financial Instruments Carried at Amortized Cost and Held-to-Maturity Debt Securities (Con't)

### SUMMARY OF REQUIRED DISCLOSURES

	ASC REFERENCES	ANNUAL AND INTERIM DISCLOSURES
ALLOWANCE FOR CREDIT LOSSES	ASC 326-20-50-13	<p>Furthermore, to enable a financial statement user to understand the activity in the allowance for credit losses for each period, an entity shall separately provide by portfolio segment and major security type the quantitative disclosures of the activity in the allowance for credit losses for financial assets within the scope of this Subtopic, including all of the following:</p> <ol style="list-style-type: none"> <li>The beginning balance in the allowance for credit losses</li> <li>Current-period provision for expected credit losses</li> <li>The initial allowance for credit losses recognized on financial assets accounted for as purchased financial assets with credit deterioration (including beneficial interests that meet the criteria in paragraph 325-40-30-1A), if applicable</li> <li>Writeoffs charged against the allowance</li> <li>Recoveries collected</li> <li>The ending balance in the allowance for credit losses.</li> </ol>
PAST-DUE STATUS	ASC 326-20-50-14	To enable a financial statement user to understand the extent of financial assets that are past due, an entity shall provide an aging analysis of the amortized cost basis for financial assets that are past due as of the reporting date, disaggregated by class of financing receivable and major security type. An entity also shall disclose when it considers a financial asset to be past due.
	ASC 326-20-50-15	The requirements to disclose past-due status in paragraph 326-20-50-14 do not apply to receivables measured at the lower of amortized cost basis or fair value, or trade receivables due in one year or less, except for credit card receivables, that result from revenue transactions within the scope of Topic 605 on revenue recognition or Topic 606 on revenue from contracts with customers.
NON-ACCRUAL STATUS	ASC 326-20-50-16	<p>To enable a financial statement user to understand the credit risk and interest income recognized on financial assets on nonaccrual status, an entity shall disclose all of the following, disaggregated by class of financing receivable and major security type:</p> <ol style="list-style-type: none"> <li>The amortized cost basis of financial assets on nonaccrual status as of the beginning of the reporting period and the end of the reporting period</li> <li>The amount of interest income recognized during the period on nonaccrual financial assets</li> <li>The amortized cost basis of financial assets that are 90 days or more past due, but are not on nonaccrual status as of the reporting date</li> <li>The amortized cost basis of financial assets on nonaccrual status for which there is no related allowance for credit losses as of the reporting date.</li> </ol>
	ASC 326-20-50-17	<p>An entity's summary of significant accounting policies for financial assets within the scope of this Subtopic shall include all of the following:</p> <ol style="list-style-type: none"> <li>Nonaccrual policies, including the policies for discontinuing accrual of interest, recording payments received on nonaccrual assets (including the cost recovery method, cash basis method, or some combination of those methods), and resuming accrual of interest, if applicable</li> <li>The policy for determining past-due or delinquency status</li> <li>The policy for recognizing writeoffs within the allowance for credit losses.</li> </ol>
	ASC 326-20-50-18	The requirements to disclose nonaccrual status in paragraphs 326-20-50-16 through 50-17 do not apply to receivables measured at lower of amortized cost basis or fair value, or trade receivables due in one year or less, except for credit card receivables, that result from revenue transactions within the scope of Topic 605: on revenue recognition or Topic 606: on revenue from contracts with customers.



## Financial Instruments Carried at Amortized Cost and Held-to-Maturity Debt Securities (Con't)

### SUMMARY OF REQUIRED DISCLOSURES

	ASC REFERENCES	ANNUAL AND INTERIM DISCLOSURES
PURCHASED FINANCIAL ASSETS WITH CREDIT DETERIORATION	ASC 326-20-50-19	<p>To the extent an entity acquired purchased financial assets with credit deterioration during the current reporting period, an entity shall provide a reconciliation of the difference between the purchase price of the financial assets and the par value of the assets, including:</p> <ol style="list-style-type: none"> <li>The purchase price</li> <li>The allowance for credit losses at the acquisition date based on the acquirer's assessment</li> <li>The discount (or premium) attributable to other factors</li> <li>The par value</li> </ol>
COLLATERAL DEPENDENT FINANCIAL ASSETS	ASC 326-20-50-20	<p>For a financial asset for which the repayment (on the basis of an entity's assessment as of the reporting date) is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty, an entity shall describe the type of collateral by class of financing receivable and major security type. The entity also shall qualitatively describe, by class of financing receivable and major security type, the extent to which collateral secures its collateral-dependent financial assets, and significant changes in the extent to which collateral secures its collateral-dependent financial assets, whether because of a general deterioration or some other reason.</p>
OFF-BALANCE SHEET CREDIT EXPOSURES	ASC 326-20-50-21	<p>In addition to disclosures required by other Topics, an entity shall disclose a description of the accounting policies and methodology the entity used to estimate its liability for off-balance-sheet credit exposures and related charges for those credit exposures. Such a description shall identify the factors that influenced management's judgment (for example, historical losses, existing economic conditions, and reasonable and supportable forecasts) and a discussion of risk elements relevant to particular categories of financial instruments.</p>
	ASC 326-20-50-22	<p>Off-balance-sheet credit exposures refers to credit exposures on off-balance-sheet loan commitments, standby letters of credit, financial guarantees not accounted for as insurance, and other similar instruments, except for instruments within the scope of Topic 815.</p>



## Available for Sale Debt Securities

### SUMMARY OF REQUIRED DISCLOSURES

ASC REFERENCES	ANNUAL AND INTERIM DISCLOSURES
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AFS IN UNREALIZED LOSS POSITION WITHOUT AN ALLOWANCE FOR CREDIT LOSSES

ASC 326-30-50-4

For available-for-sale debt securities, including those that fall within the scope of Subtopic 325-40 in an unrealized loss position for which an allowance for credit losses has not been recorded, an entity shall disclose all of the following in its interim and annual financial statements:

- a. As of each date for which a statement of financial position is presented, quantitative information, aggregated by category of investment—each major security type that the entity discloses in accordance with this Subtopic—in tabular form:
  1. The aggregate related fair value of investments with unrealized losses;
  2. The aggregate amount of unrealized losses (that is, the amount by which amortized cost basis exceeds fair value).
- b. As of the date of the most recent statement of financial position, additional information (in narrative form) that provides sufficient information to allow a financial statement user to understand the quantitative disclosures and the information that the entity considered (both positive and negative) in reaching the conclusion that an allowance for credit losses is unnecessary. The disclosures required may be aggregated by investment categories, but individually significant unrealized losses generally shall not be aggregated. This disclosure could include all of the following:
  1. The nature of the investment(s)
  2. The cause(s) of the impairment(s)
  3. The number of investment positions that are in an unrealized loss position
  4. The severity of the impairment(s)
  5. Other evidence considered by the investor in reaching its conclusion that an allowance for credit losses is not necessary, including, for example, any of the following:
    - i. Performance indicators of the underlying assets in the security, including any of the following:
      01. Default rates
      02. Delinquency rates
      03. Percentage of nonperforming assets
    - ii. Debt-to-collateral-value ratios
    - iii. Third-party guarantees
    - iv. Current levels of subordination
    - v. Vintage
    - vi. Geographic concentration
    - vii. Industry analyst reports
    - viii. Credit ratings
    - ix. Volatility of the security's fair value
    - x. Interest rate changes since purchase
    - xi. Any other information that the investor considers relevant

## Available for Sale Debt Securities (Con't)

### SUMMARY OF REQUIRED DISCLOSURES

	ASC REFERENCES	ANNUAL AND INTERIM DISCLOSURES
AFS IN UNREALIZED LOSS POSITION WITHOUT AN ALLOWANCE FOR CREDIT LOSSES	ASC 326-30-50-5	The disclosures in (a)(1) through (a)(2) in paragraph 326-30-50-4: shall be disaggregated by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer.
	ASC 326-30-50-6	The reference point for determining how long an investment has been in a continuous unrealized loss position is the balance sheet date of the reporting period in which the impairment is identified. For entities that do not prepare interim financial information, the reference point is the annual balance sheet date of the period during which the impairment was identified. The continuous unrealized loss position ceases upon the investor becoming aware of a recovery of fair value up to (or beyond) the amortized cost basis of the investment during the period.
ALLOWANCE FOR CREDIT LOSSES	ASC 326-30-50-7	<p>For interim and annual periods in which an allowance for credit losses of an available-for-sale debt security is recorded, an entity shall disclose by major security type, the methodology and significant inputs used to measure the amount related to credit loss, including its accounting policy for recognizing writeoffs of uncollectible available-for-sale debt securities. Examples of significant inputs include, but are not limited to, all of the following:</p> <ol style="list-style-type: none"> <li>a. Performance indicators of the underlying assets in the security, including all of the following: <ol style="list-style-type: none"> <li>1. Default rates</li> <li>2. Delinquency rates</li> <li>3. Percentage of nonperforming assets</li> </ol> </li> <li>b. Debt-to-collateral-value ratios</li> <li>c. Third-party guarantees</li> <li>d. Current levels of subordination</li> <li>e. Vintage</li> <li>f. Geographic concentration</li> <li>g. Industry analyst reports and forecasts</li> <li>h. Credit ratings</li> <li>i. Other market data that are relevant to the collectibility of the security</li> </ol>
	ASC 326-30-50-8	Paragraph 326-30-45-3 explains that an entity may report the change in the allowance for credit losses due to changes in time value as credit loss expense (or reversal of credit loss expense) but also may report the change as interest income. An entity that chooses the latter alternative shall disclose the amount recorded to interest income that represents the change in present value attributable to the passage of time.

## Available for Sale Debt Securities (Con't)

### SUMMARY OF REQUIRED DISCLOSURES

	ASC REFERENCES	ANNUAL AND INTERIM DISCLOSURES
ALLOWANCE FOR CREDIT LOSSES	ASC 326-30-50-9	<p>For each interim and annual reporting period presented, an entity shall disclose by major security type, a tabular rollforward of the allowance for credit losses, which shall include, at a minimum, all of the following:</p> <ol style="list-style-type: none"> <li>The beginning balance of the allowance for credit losses on available-for-sale debt securities held by the entity at the beginning of the period</li> <li>Additions to the allowance for credit losses on securities for which credit losses were not previously recorded</li> <li>Additions to the allowance for credit losses arising from purchases of available-for-sale debt securities accounted for as purchased financial assets with credit deterioration</li> <li>Reductions for securities sold during the period (realized)</li> <li>Reductions in the allowance for credit losses because the entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis</li> <li>If the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, additional increases or decreases to the allowance for credit losses on securities that had an allowance recorded in a previous period</li> <li>Writeoffs charged against the allowance</li> <li>Recoveries of amounts previously written off</li> <li>The ending balance of the allowance for credit losses related to debt securities held by the entity at the end of the period</li> </ol>
PURCHASED FINANCIAL ASSETS WITH CREDIT DETERIORATION	ASC 326-30-50-10	<p>To the extent an entity acquired purchased financial assets with credit deterioration during the current reporting period, an entity shall provide a reconciliation of the difference between the purchase price of the assets and the par value of the available-for-sale debt securities, including:</p> <ol style="list-style-type: none"> <li>The purchase price</li> <li>The allowance for credit losses at the acquisition date based on the acquirer's assessment</li> <li>The discount (or premium) attributable to other factors</li> <li>The par value</li> </ol>

## Accrued Interest Receivables

### SUMMARY OF REQUIRED DISCLOSURES

	ASC REFERENCES	ANNUAL AND INTERIM DISCLOSURES
FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED COST AND HELD-TO-MATURITY DEBT SECURITIES	ASC 326-20-50-3A	An entity that makes an accounting policy election to present the accrued interest receivable balance within another statement of financial position line item as described in paragraph 326-20-45-5 shall disclose the amount of accrued interest, net of the allowance for credit losses (if any), and shall disclose in which line item on the statement of financial position that amount is presented.
	ASC 326-20-50-3B	As a practical expedient, an entity may exclude the accrued interest receivable balance that is included in the amortized cost basis of financing receivables and held-to-maturity securities for the purposes of the disclosure requirements in paragraphs 326-20-50-4 through 50-22. If an entity applies this practical expedient, it shall disclose the total amount of accrued interest excluded from the disclosed amortized cost basis.
	ASC 326-20-50-3C	An entity that makes the accounting policy election in paragraph 326-20-30-5A shall disclose its accounting policy not to measure an allowance for credit losses for accrued interest receivables. The accounting policy shall include information about what time period or periods, at the class of financing receivable or major security-type level, are considered timely.
	ASC 326-20-50-3D	An entity that makes the accounting policy election in paragraph 326-20-35-8A shall disclose its accounting policy to write off accrued interest receivables by reversing interest income or recognizing credit loss expense or a combination of both. The entity also shall disclose the amount of accrued interest receivables written off by reversing interest income by portfolio segment or major security type.
AVAILABLE FOR SALE DEBT SECURITIES	ASC 326-30-50-3A	An entity that makes the accounting policy election to present separately the accrued interest receivable balance within another statement of financial position line item as described in paragraph 326-30-45-1 shall disclose the amount of applicable accrued interest, net of the allowance for credit losses (if any), and shall disclose in which line item on the statement of financial position that amount is presented.
	ASC 326-30-50-3B	If for the purposes of identifying and measuring an impairment the applicable accrued interest is excluded from both the fair value and the amortized cost basis of the available-for-sale debt security, an entity may, as a practical expedient, exclude the applicable accrued interest that is included in the amortized cost basis for the purposes of the disclosure requirements in paragraphs 326-30-50-4 through 50-10. If an entity elects this practical expedient, it shall disclose the total amount of accrued interest, net of the allowance for credit losses (if any), excluded from the disclosed amortized cost basis.
	ASC 326-30-50-3C	An entity that makes the accounting policy election in paragraph 326-30-30-1B shall disclose its accounting policy not to measure an allowance for credit losses for accrued interest receivables. The accounting policy shall include information about what time period or periods, at the major security-type level, are considered timely.
	ASC 326-30-50-3D	An entity that makes the accounting policy election in paragraph 326-30-35-13A shall disclose its accounting policy to write off accrued interest receivables by reversing interest income or recognizing credit loss expense or a combination of both. The entity also shall disclose the amount of accrued interest receivables written off by reversing interest income by major security type.



## DISAGGREGATED LEVEL OF DISCLOSURES

Entities are required to provide information by either portfolio segment or class of financing receivable for its financing receivables (this includes net investment in leases). While for held-to-maturity debt securities, information will be provided by major security type.

**Portfolio Segment** - The level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses.

**Class of Financing Receivable** - A group of financing receivables determined based on both of the following:

- a. Risk characteristics of the financing receivable
- b. An entity's method for monitoring and assessing credit risk

While judgment will be required to determine the appropriate level of aggregation or disaggregation of information needed to satisfy the overall disclosure objective, entities should be mindful not to overshadow important information by disclosing unnecessary amount of inconsequential details. In addition, an entity should also be mindful not to disclose information that has been aggregated such that it masks important differences between the various types of financial assets and associated risks.

## VINTAGE DISCLOSURES

As noted above, ASC 326-20-50-6 requires a new disclosure requirement for Public Business Entities (PBEs) to include certain vintage disclosures, regardless of whether a vintage model is used in estimating the allowance for expected credit losses. The disclosures should present the amortized cost basis within each credit quality indicator by year of origination. The initial date of the loan funding, not the acquisition date should be used for purchased financing receivables, PCD assets and net investments in leases. Reinsurance recoverable and funded and unfunded amounts of lines of credit, including credit cards do not need to be presented by year of origination. Additionally, lines of credit that are converted to term loans should be presented separately and the amount of line of credit arrangements that are converted to term loans during the period should be disclosed. An example of the tabular presentation by vintage that would apply for PBEs is illustrated in ASC 326-20-55-79. For interim-period disclosures, the current year-to-date originations or purchases should be disclosed as the originations.

PBEs that do not meet the definition of a SEC filer may phase-in the disclosure of credit quality indicators by year of origination by only presenting the three most recent origination years (including the first year of adoption). In each subsequent fiscal year, the then-current origination year will be added in the periods after adoption until a total of five origination years are presented.



# Other Disclosure Considerations

## TRANSITION

In addition to the other required annual and interim disclosures, the GAAP requires an entity to provide the general disclosures at transition as follows:

1. The nature of the change in accounting principle, including an explanation of the newly adopted accounting principle.
2. The method of applying the change.
3. The effect of the adoption on any line item in the statement of financial position, if material, as of the beginning of the first period for which the CECL standard is effective. Presentation of the effect on financial statement subtotals is not required.
4. The cumulative effect of the change on retained earnings or other components of equity in the statement of financial position as of the beginning of the first period for which CECL is effective.

For companies issuing interim financial statements, the above disclosures are required to be provided for all interim financial statements in the year of change.

## SELECTED FINANCIAL DATA

Some SEC registrants have questioned whether they must recast all periods reflected in the 5 year Summary of Selected Financial Data in accordance with the new CECL standard. Registrants are only required to adjust the periods in the financial data table that correspond to the periods adjusted in the registrant's financial statements. For example, an entity that elects to adopt the new standard as of the effective date (i.e., without restating prior comparative periods), the four prior years in the selected financial data table would not be adjusted.

**BDO Observation:** Although the prior period selected financial data will not be adjusted, it is expected the registrant will explain why the information is not comparable.

## SAB 74 DISCLOSURES

As the adoption date approaches, SEC registrants should provide users of the financial statements with information indicating the status and expected impact of CECL, specifically in the SAB 74 disclosures. It's likely that as the effective date draws closer, conclusions will become more evident and supportable and disclosures will evolve to be more precise for the users of the financial statements.

SAB 74 requires that when a recently issued accounting standard has not yet been adopted, a registrant disclose the potential effects of the future adoption in its interim and annual SEC filings. SAB 74 disclosures should be both qualitative and quantitative. According to Center for Audit Quality Alert 2017-03, [SAB Topic 11.M – A Focus on Disclosures for New Accounting Standards](#), the SEC staff expects that SAB 74 disclosures will become more robust and quantitative as the new accounting standard's effective date approaches. As such, the following types of SAB 74 disclosures are expected in a registrant's financial statements in the periods before new accounting standards are effective:

- ▶ A comparison of accounting policies. Registrants should compare their current accounting policies to the expected accounting policies under the new accounting standard(s).
- ▶ Status of implementation. The status of the process should be disclosed, including significant implementation matters not yet addressed or if the process is lagging.
- ▶ Consideration of the effect of new footnote disclosure requirements in addition to the effect on the balance sheet and income statement. A new accounting standard may not be expected to materially affect the primary financial statements; however, it may require new significant disclosures that require significant judgments.
- ▶ Disclosure of the quantitative impact of the new accounting standard if it can be reasonably estimated.
- ▶ Disclosure that the expected financial statement impact of the new accounting standard cannot be reasonably estimated.
- ▶ Qualitative disclosures. When the expected financial statement impact is not yet known by a registrant, a qualitative description of the effect of the new accounting standard on the registrant's accounting policies should be disclosed.

While each entity will have a different timeline for adoption and, therefore, will have different levels of disclosure within the periodic filings that are made prior to adoption, the overarching theme from the above guidance is that there should be transparency for the users of the financial statements as to the progress that has been made from period to period as well as an estimate for the potential impact once the entity has made sufficient progress and is able to provide a reasonable estimate of what the impact of adoption might be.

**BDO Observation:** Management and the audit committee may wish to discuss with its auditor whether adopting CECL will result in the disclosure of a critical audit matter (CAM).



# Appendix A - Example Disclosures

## EXAMPLE SAB 74 DISCLOSURE

### ACCOUNTING FOR FINANCIAL INSTRUMENTS – CREDIT LOSSES

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326). The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL Methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. For available-for-sale securities where fair value is less than cost, credit related impairment, if any, will be recognized through an allowance for credit losses and adjusted each period for changes in credit risk.

The CECL methodology represents a significant change from existing US GAAP and may result in material changes to the Company’s accounting for financial assets. The Company is evaluating the effect that ASU 2016-13 will have on its Consolidated Financial Statements and related disclosures. The impact of the ASU will depend upon the state of the economy and the nature of the Company’s portfolios at the date of adoption. Based on a preliminary analysis performed in third quarter of 2019 and forecasts of macroeconomic conditions and exposures at that time, the overall impact was estimated to be an approximate 20% to 30% increase in credit reserves. The ASU will be effective as of January 1, 2020. This increase would be reflected as a decrease to opening Retained earnings, net of income taxes, at January 1, 2020. The Company does not plan to early adopt the ASU. The Company does not expect that the adoption of the ASU will significantly impact regulatory capital ratios or cause the Company to no longer be well capitalized.

Implementation efforts are underway, including model development, identification of impact of applying the applicable practical expedients for purchase credit impaired assets as well as certain collateral dependent assets, fulfillment of additional data needs for new disclosures and reporting requirements, and drafting of accounting policies. Substantial progress has been made in model development. Model validations and user acceptance testing commenced in the third quarter of 2019, with parallel runs also taking place in the third quarter. The FASB recently issued two ASUs that clarified treatment of several topics in the CECL standard, including recoveries and accrued interest, which the Company plans to implement. The Company will use models and other estimation techniques that are sensitive to changes in forecasted economic conditions, to interpret borrower and economic factors in order to estimate the reserve. The estimate will include a three-year reasonable and supportable forecast period, and thereafter will revert to a long-run average derived from historical information. The Company will also apply qualitative factors that could be related to distinctive risk factors, changes in current economic conditions that may not be reflected in quantitatively derived results, or other relevant factors to ensure the reserve reflects our best estimate of current expected credit losses.

## EXAMPLE PRESENTATION AND DISCLOSURES UPON ADOPTION

The following disclosures present one illustration of how an entity may comply with certain of the disclosure requirements and is not meant to address all possible scenarios. The example is intended to highlight certain of the new or amended disclosure requires upon adoption of ASC 326.

### Background

For purposes of this example, we have assumed that Bank Holding Company ("BHC") is a registered bank holding company that offers a broad range of commercial and retail banking products through its subsidiaries throughout the United States. The Bank is presenting its annual financial statements after the adoption of Topic 326 in its December 31, 2020 consolidated financial statements. Comparatives are not presented in this illustration.

We have assumed that the BHC has presented the following captions (in millions) within its financial statements:

### Balance Sheet

#### Assets

Loans to Customers (Net of Allowance for Credit Losses of \$257)	\$ 1,934
------------------------------------------------------------------	----------

Available-for-Sale Debt Securities Carried at Fair Value (Amortized Cost of \$3,086 and Net of Allowance for Credit Losses of \$117)	2,548
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Accrued Interest Receivable	218
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#### Liabilities

Liability for Unfunded Commitments	55
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### Comprehensive Income

Credit Loss Expense	\$ 92
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#### Other Comprehensive Income:

Unrealized Gains/(Losses) During the Period	(175)
---------------------------------------------	-------

Credit Expense Recognized During the Period (Included in "Credit Loss Expense" in the Statement of Comprehensive Income)	(36)
--------------------------------------------------------------------------------------------------------------------------	------

Tax Effect	44
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Other Comprehensive Income	\$ (167)
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The following are illustrative disclosures relating to BHC.

### **ADOPTION OF NEW ACCOUNTING STANDARDS**

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326). The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU.

The CECL methodology utilizes a lifetime “expected credit loss” measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current GAAP, which generally require that a loss be incurred before it is recognized. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, is recognized through an allowance for credit losses and adjusted each period for changes in credit risk.

On January 1, 2020, BHC adopted the guidance prospectively with a cumulative adjustment to retained earnings. BHC has not restated comparative information for 2019 and, therefore, the comparative information for 2019 is reported under the old model and is not comparable to the information presented for 2020.

At adoption, the BHC recognized an incremental allowance for credit losses on its loans to customers of approximately \$24 million, an allowance for credit losses related to its available-for-sale debt securities of approximately \$37 million, and a liability for off-balance sheet unfunded commitments of approximately \$53 million. Additionally, BHC recorded an approximately \$114 million decrease in retained earnings associated with the increased estimated credit losses. Management will apply the provisions of the ASU to debt securities that have an other-than-temporary impairment on a prospective basis. Accordingly, the amortized cost basis will remain the same before and after adoption and the effective interest rate was not changed at the time of adoption. Amounts recognized previously in AOCI as of the adoption date will be accreted into income over the remaining life of the security. Recoveries will be recorded when received.

### **ALLOWANCE FOR CREDIT LOSSES (SIGNIFICANT ACCOUNTING POLICIES)**

The Company recognizes an allowance for credit losses for financial assets carried at amortized cost to present the net amount expected to be collected as of the balance sheet date. Such allowance is based on the credit losses expected to arise over the life of the asset (contractual term) which includes consideration of prepayments and based on our expectation as of the balance sheet date, TDRs that will be executed.

Assets are written off when BHC determined that such financial assets are deemed uncollectible or based on regulatory requirements, whichever is earlier. Write-offs are recognized as a deduction from the allowance for credit losses. Expected recoveries of amounts previously written off, not to exceed the aggregate of the amount previously written off, are included in determining the necessary reserve at the balance sheet date.

BHC pools its loans based on similar risk characteristics in estimating the its expected credit losses. In situations where a loan does not share the same risk characteristics with other loans, the Company measures those loans individually. BHC also continuously evaluates such pooling decisions and adjusts as needed from period to period as risk characteristics change.

## CREDIT QUALITY INDICATORS

BHC pools its loans based on the internal credit risk grading process. Internal credit risk grading process includes a process that evaluates, among other things: (i) the borrower's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates.

BHC has a process where all loan relationships of \$500 thousand or larger are reviewed at least annually to determine if there is a change in the risk rating. Additionally, BHC performs a review of the risk ratings on 50% of the remaining population at least annually.

This also include consideration with regulatory classifications and considers the following risk characteristics:

- ▶ 1 internal grade (pass) - Loans not classified in any of the below are rated pass.
- ▶ 2 internal grade (special mention) - Loans classified special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects.
- ▶ 3 internal grade (substandard) - Loans classified substandard (3 internal grade) have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.
- ▶ 4 internal grade (doubtful) - Loans classified doubtful (4 internal grade) have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable.
- ▶ 5 internal grade (loss) - Loans classified as a loss (5 internal grade) are considered uncollectible and are charged to the allowance for loan losses.

Reference [ASC 326-20-50-5a](#)  
and [ASC 326-20-50-8](#)

BHC determines its estimated credit losses for the following financial assets as follows:

#### Loans to customers

BHC utilizes a loss rate approach in determining its lifetime expected credit losses on its loans to customers. This method is used for calculating an estimate of losses based primarily on BHC historical loss experience. In determining its loss rates, BHC evaluates information related to its historical losses, adjusted for current conditions and further adjusted for the period of time that we can reasonably forecast. For the period of time beyond which we can reasonably forecast we apply immediate reversion based on the facts and circumstances as of the reporting date. We have concluded that we can reasonably support a forecast period of all loan segments for two years after the balance sheet date.

Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all of the following: the borrower's creditworthiness, changes in lending policy and procedures, changes in nature and volume of the loan portfolio and in the terms of loans, changes in experience, ability and depth of lending management and staff, changes in the quality of the loan review system, changes in the value of underlying collateral for collateral-dependent loans, existence and effect of any concentration of credit and changes in the level of such concentrations, effect of other external forces such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing portfolio, and the current and forecasted direction of the economic and business environment. Such forecasted information includes: GDP growth, unemployment rates, interest rates and house price indexes amongst others.

The Company engages in a variety of lending activities, including commercial, real estate-commercial, real estate-residential and consumer loans. The Company focuses its lending activities on individuals, and small to medium sized businesses.

The Company originates into commercial business loans with professionals, sole proprietorships and small businesses in our primary market areas. Commercial business loans are extended on a secured and unsecured basis. Secured commercial loans are generally collateralized by residential and nonresidential real estate, marketable securities, accounts receivable, inventory, industrial/commercial machinery and equipment and furniture and fixtures. These loans are made on both lines of credit and fixed-term basis typically ranging from 1 to 10 years in duration. When making commercial business loans, we consider the financial statements and/or tax returns of the borrower, the borrower's payment history along with the principal owners' payment history, the debt service capabilities of the borrower, the projected cash flows of the business, and the value of the collateral and the financial strength of the guarantor.

Real estate-commercial loans are made to local commercial, retail and professional firms and individuals for the construction and acquisition of new property or the refinancing of existing property. These loans are typically related to commercial businesses and secured by the underlying real estate used in these businesses or real property of the principals. Commercial real estate loans typically require a loan to value ratio of not greater than 80%. These loans are generally offered on a fixed or variable rate basis, subject to rate re-adjustments every ten years and amortization schedules ranging from 10 to 30.

Reference [ASC 326-20-50-11a](#) and [50-11b](#)

Reference [ASC 326-20-50-11c](#) and [ASC 326-20-50-20](#)

The Company also offers a full range of residential real estate and consumer loans. These loans consist of residential mortgages, home equity lines of credit, equity loans, personal loans, automobile loans and overdraft protection. Each residential mortgage loan is evidenced by a promissory note secured by a mortgage or deed of trust creating a first lien on one-to-four family residential property. Residential real estate properties underlying residential mortgage loans consist of single-family detached units, individual condominium units, two-to-four family dwellings units and townhouses. Our home equity revolving lines of credit come with a floating interest rate tied to the prime rate. Lines of credit are available to qualified applicants in amounts up to \$500,000 for up to 10 years. We also offer fixed rate home equity loans in amounts up to \$500,000 for a term of up to 30 years. The majority of these home equity loans are secured by second liens on the property. Credit is based on the income and cash flow of the individual borrowers, real estate collateral supporting the mortgage debt and past credit history.

Consumer loans may entail greater risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate in value rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

There have been no significant changes to the types of collateral securing our collateral-dependent loans.

#### **Purchased Financial Assets with Credit Deterioration (PCD)**

Purchased financial assets with credit deterioration are financial assets that as of the date of acquisition have experienced more-than-insignificant deterioration in credit quality since origination. These assets are evaluated similar to evaluation of BHCs financing receivables as discussed above depending on its risk characteristics using a loss rate approach.

#### **Unfunded commitments**

BHC also has off-balance sheet financial instruments, which include commercial and standby letters of credit. BHC minimize these risks through underwriting guidelines and prudent risk management techniques.

BHC estimates a liability for loan commitment that we have determined are not unconditionally cancellable by us based on the likelihood of funding and an estimate of estimate of credit losses over the life after funding.

Management methodology is based on a loss rate approach that starts with the probability of funding based on historical experience. Similar to the methodology discussed above related to our loans receivable portfolio we adjust the historical losses for current conditions and further adjust for the period of time that we can reasonably forecast. For the period of time beyond which we can reasonably forecast we apply immediate reversion based on the facts and circumstances as of the reporting date. We have concluded that we can reasonably support a forecast period of all loan segments for two years after the balance sheet date.

Reference [ASC 326-20-50-11c](#) and [ASC 326-20-50-20](#)

Reference [ASC 326-20-50-21](#)

### Accrued Interest Receivables

BHC elected to present the accrued interest receivable balance, separately in its consolidated balance sheets from the amortized cost of the loan and available for sale securities. Accrued interest receivable was \$210 and \$18 as of December 31, 2020 relating to loans and available for sale securities, respectively.

Reference [ASC 326-20-50-3A](#) and [ASC 326-30-50-3A](#)

BCH also elected not to measure an allowance for credit losses for accrued interest receivables. For all classes of loans receivable and available for sale securities, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due, unless the loan is well secured and in the process of collection or management has doubts about further collectability of principal or interest even though the instrument is performing.

Reference [ASC 326-20-50-3C](#) and [ASC 326-30-50-3C](#)

Interest received on nonaccrual loans, generally is either applied against principal or reported as interest income, according to management's judgement as to the collectability of principal.

Reference [ASC 326-20-50-17a](#)

Write-off of accrued interest receivables are recognized by reversing interest income. BHC wrote off \$21 thousand of loan accrued interest receivables and \$0 of available for sale accrued interest receivable during the year ended December 31, 2020.

Reference [ASC 326-20-50-3D](#), [ASC 326-30-50-3D](#), and [ASC 326-20-50-17c](#)



## NOTE 1. LOANS TO CUSTOMERS

### ROLLFORWARD OF ALLOWANCE FOR CREDIT LOSSES

The following tables present information related to allowance for credit losses that relates to loans to customer as of December 31, 2020 (in millions).

	Beginning Balance	Additional Allowance Recognized Due to Adoption of Topic 326	Credit Loss Expense for the Period	Additions Due to Purchased Financial Assets with Credit Deterioration	Writeoffs During the Period	Recoveries During the Period	Ending Balance
Real Estate:							
Residential	\$ 16	\$ 2	\$ 6	\$ -	(\$ -)	\$-	\$ 24
Commercial	24	4	8	-	(-)	-	36
Consumer	65	10	16	10	(4)	-	97
Commercial	78	8	24	-	(10)	-	100
Total	\$183	\$24	\$54	\$10	(\$14)	\$-	\$257

Reference [ASC 326-20-50-13](#)

### PURCHASED FINANCIAL ASSETS WITH CREDIT DETERIORATION (PCD)

As discussed in Note 14, "Business Combination," as part of the acquisition of certain assets and liabilities of Bank Acquiree Company ("BAC"), BHC acquired consumer loans that had a purchase price of \$27 million at the acquisition date and par amount of \$37.2 million. These consumer loans meet the definition of PCD loans and at acquisition date. The Company estimated that the expected credit loss relating to these PCD loans was \$10.0 million at the time of purchase. The related noncredit discount of \$200 thousand will be recognized into interest income using an effective yield over the life of the loans. The following table below presents a reconciliation of the Company's purchase price with the par value of the purchased financial assets.

Reference [ASC 326-20-50-19](#)

Purchase Price	\$27.0
Allowance for Credit Losses at Acquisition Date	10.0
Noncredit Discount	0.2
Par Value	\$37.2

## AGING OF PAST DUE FINANCING RECEIVABLES

The past due status of all classes of loans receivable is determined based on the contractual due dates for loan payments. A loan is deemed past due when payment hasn't been received 30 days after the contractual due date.

The following tables present aging information of our loans to customers as of December 31, 2020 (in millions):

	Current (30 Days or Less Past Due)	31 – 59 Days Past Due	60 – 89 Days Past Due	Greater Than 90 Days Past Due	Greater Than 90 Days and Accruing*
Real Estate:					
Residential	\$ 327	\$ 15	\$ 3	\$ 348	\$-
Commercial	451	12	8	476	-
Consumer	529	25	12	573	-
Commercial	718	35	25	794	1
Total	\$2,025	\$87	\$48	\$2,191	\$1

Reference [ASC 326-20-50-17b](#)

Reference [ASC 326-20-50-14](#)  
\*[ASC 326-20-50-16c](#)

## NONACCRUAL STATUS FINANCING RECEIVABLES

The following tables present amortized cost information of non-accrual status (in millions):

	Amortized Cost of Loans on Nonaccrual Status		Interest Income recognized during 2020 on nonaccrual loans	Non-accrual loans with no allowance for credit losses as of Dec 31, 2020
	Jan 1, 2020	Dec 31, 2020		
Real Estate:				
Residential	\$ 5	\$ 3	\$-	\$ 3
Commercial	9	5	-	5
Consumer	11	7	-	-
Commercial	12	15	-	2
Total	\$37	\$30	\$0	\$10

Reference [ASC 326-20-50-16a](#), [ASC 326-20-50-16b](#), and [ASC 326-20-50-16d](#)

The Company's loans to customers as of December 31, 2020 based on year of origination within each credit quality indicator are as follows (in millions):

	Term loans (amortized cost basis by origination year)						Revolving Loans*	Total
	2020	2019	2018	2017	2016	Prior		
Residential								
Real estate:								
1 Internal Grade	\$187	\$ 15	\$ 27	\$ 13	\$ 5	\$ 3	\$-	\$250
2 Internal Grade	25	5	8	2	2	3	-	\$ 45
3 Internal Grade	-	2	5	7	1	2	-	\$ 17
4 Internal Grade	-	6	5	3	2	10	-	\$ 26
5 Internal Grade	-	-	2	1	2	5	-	\$ 10
Subtotal	\$212	\$ 28	\$ 47	\$26	\$12	\$23	\$-	\$348
Current Period Gross Writeoffs	-	-	-	-	-	-	-	-
Current Period Recoveries	-	-	-	-	-	-	-	-
Current Period Net Writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$-	\$ -
Commercial								
Real Estate								
1 Internal Grade	\$ 83	\$ 78	\$ 66	\$52	\$42	\$ 5	\$-	\$326
2 Internal Grade	35	22	18	-	-	-	-	\$ 75
3 Internal Grade	5	7	12	5	3	1	-	\$ 33
4 Internal Grade	2	5	8	6	4	2	-	\$ 27
5 Internal Grade	-	-	-	5	5	5	-	\$ 15
Subtotal	\$125	\$112	\$104	\$68	\$54	\$13	\$-	\$476
Current Period Gross Writeoffs	-	-	-	-	-	-	-	-
Current Period Recoveries	-	-	-	-	-	-	-	-
Current Period Net Writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$-	\$ -

\*Amortized cost basis

Reference [ASC 326-20-50-5b](#),  
[ASC 326-20-50-6](#), and  
[ASC 326-20-50-6A](#)

Continued from prior page.

	Term loans (amortized cost basis by origination year)						Revolving Loans*	Total
	2020	2019	2018	2017	2016	Prior		
Consumer								
1 Internal Grade	\$287	\$ 19	\$ -	\$ -	\$ -	\$ -	\$ 150	\$456
2 Internal Grade	10	35	15	4	-	-	-	\$ 64
3 internal Grade	5	10	5	2	-	-	-	\$ 22
4 Internal Grade	-	-	10	5	1	-	-	\$ 16
5 Internal Grade	-	-	-	3	8	4	-	\$ 15
Subtotal	\$253	\$112	\$30	\$14	\$ 9	\$ 4	\$ 150	\$573
Current Period								
Gross Writeoffs	-	-	-	-	-	4	-	\$ 4
Recoveries	-	-	-	-	-	-	-	\$ -
Net Writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ 4
Commercial								
1 Internal Grade	\$150	\$ 85	\$64	\$ 2	\$ -	\$ -	\$320	\$621
2 Internal Grade	78	22	5	-	-	-	-	\$105
3 Internal Grade	25	5	-	15	7	-	-	\$ 52
4 Internal Grade	-	-	-	-	6	10	-	\$ 16
5 Internal Grade	-	-	-	-	-	-	-	\$ -
Subtotal	\$253	\$112	\$69	\$17	\$13	\$10	\$230	\$794
Current Period								
Gross Writeoffs	-	-	-	-	-	10	-	\$ 10
Recoveries	-	-	-	-	-	-	-	-
Net Writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$10	\$ -	\$ 10

\*Amortized cost basis

Reference [ASC 326-20-50-5b](#),  
[ASC 326-20-50-6](#), and  
[ASC 326-20-50-6A](#)

## NOTE 2. AVAILABLE FOR SALE DEBT SECURITIES

The following table below indicates the gross unrealized losses and fair value of BHC available for sale debt securities with unrealized losses that do not have an allowance for credit losses, aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020:

	Less than Fair Values	12 Months Unrealized Losses	12 Months or Greater Fair Values	Unrealized Losses	Fair Values	Total Unrealized Losses
U.S. Government Agencies	\$ 456	\$ 5	\$ 579	\$ 80	\$1,035	\$ 85
Federal Agencies Mortgaged-Backed Securities	215	14	541	243	756	257
Corporate Bonds	559	172	-	-	559	172
Total	\$1,230	\$191	\$1,120	\$323	\$2,350	\$514

Reference [ASC 326-30-50-4a](#)  
and [ASC 326-30-50-5](#)

We had 12 securities in an unrealized loss position at December 31, 2020 for which there was no allowance for credit losses recorded.

U.S. Government Agencies - The unrealized losses on BHC's investments in direct obligations of U.S. government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. BHC does not intend to sell the investments and it is not more likely than not that BHC will be required to sell the investments before recovery of their amortized cost bases.

Federal agency mortgage-backed securities - The unrealized losses on BHC's investment in federal agency mortgage-backed securities were caused by interest rate increases. BHC purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by the federal agencies. BHC does not expect that the securities would be settled at a price less than the amortized cost bases of Entity B's investments. BHC does not intend to sell the investments and it is not more likely than not that BHC will be required to sell the investments before recovery of their amortized cost bases.

Corporate bonds – BHC's unrealized loss on investments in corporate bonds relates to a \$731 investment in a Fortune 500 company Series A Bonds. This security was underwritten in accordance with the Company's investment standards prior to the decision to purchase. The unrealized loss was primarily caused by a recent decrease in profitability and near-term profit forecasts by industry analysts resulting from intense competitive pricing pressure in its industry and a recent sector downgrade by several industry analysts. The contractual terms of this investment do not permit the issuer to settle the security at a price less than the amortized cost basis of the investment. BHC currently does not expect the issuer to settle the debentures at a price less than the amortized cost basis of the investment. BHC does not intend to sell the investment and it is not more likely than not that BHC will be required to sell the investment before recovery of its amortized cost basis.

Reference [ASC 326-30-50-4b](#)



The following table below presents the rollforward of the allowance for credit losses by major security type as of December 31, 2020 (in millions):

	U.S Government Agencies	Federal agencies mortgaged- backed securities	Corporate bonds	Total
Beginning Balance	\$-	\$-	\$ 44	\$ 44
Increase in Allowance for Credit Losses Due to Initial Adoption of ASU 326	-	-	37	37
Credit Loss Expense Relating to Securities for Which Credit Losses Were Not Previously Recognized	-	-	-	-
Additional Credit Loss Expense for the Year Relating to Securities for Which Credit Losses Were Previously Recognized	-	-	36	36
Additions for Purchased Available-for-Sale Securities with Credit Deterioration	-	-	-	-
Credit Losses Relating to Securities Sold During the Year	-	-	-	-
Write-offs During the Year	-	-	-	-
Recoveries During the Year	-	-	-	-
Ending Balance	\$-	\$-	\$117	\$117

Reference [ASC 326-30-50-9](#)

BHC uses a discounted cash flow model in determining its lifetime expected credit losses on available for sale corporate debt securities. This includes determining the present value of expected future cash flows discounted at an effective interest rate applicable to the security. The expected cash flow assumptions used are based on management's best estimates of reasonable and supportable assumptions and projections. The allowance for credit losses is the difference between the amortized cost basis and the present value of the expected cash flows. Management considered the credit rating of the corporation that issued the debt as well as forecasts based on credit rating analysts. A write-off is recorded when we conclude that collection of the amount is not probable, based on individual facts and circumstances.

Reference [ASC 326-30-50-7](#)

### NOTE 3. CREDIT LOSS EXPENSE

The following are the composition of BHC credit loss expense for the year ended December 31, 2020 (in millions).

Loans to Customers	\$54
Unfunded Commitments	2
Available-for-Sale Debt Securities	36
Total	<u>\$92</u>

BHC recognized \$3 in available for sale interest income for the year ended December 31, 2020 that relates to a change in the allowance for credit losses due to passage of time.

Reference [ASC 326-30-50-8](#)

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