Interpretation of the Emerging Accounting Issues Working Group

INT 03-05: EITF 01-7: Creditor's Accounting for a Modification or Exchange of Debt Instruments

ISSUE NULLIFIED BY SSAP NO. 91R AND SSAP NO. 103

INT 03-05 Dates Discussed

March 9, 2003; June 22, 2003; March 3, 2012; August 31, 2012

INT 03-05 References

SSAP No. 18—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SSAP No. 18)
SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SSAP No. 91R)
SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SSAP No. 103)

INT 03-05 Issue

1. When a creditor and a debtor agree to modify the terms of an existing debt instrument or to exchange debt instruments (other than in a troubled debt restructuring), each must determine whether the modification or exchange should be accounted for as (a) the creation of a new debt instrument and the extinguishment of the original debt instrument or (b) the continuation of the original debt instrument (as modified). Guidance for making that determination is provided for creditors in *FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (FAS 91) and for debtors in *EITF No. 96-19, Debtor's Accounting for a Modification or Exchange of Debt Instruments* (EITF 96-19).

Debtor Accounting

2. EITF 96-19 requires a debtor to account for a modification of the terms of an existing debt instrument or an exchange of debt instruments (other than a troubled debt restructuring) as an extinguishment of the original debt instrument if the new debt instrument is substantially different from the existing debt instrument. EITF 96-19 provides the following definition of substantially different:

> From the debtor's perspective, an exchange of debt instruments between or a modification of a debt instrument by a debtor and a creditor in a nontroubled debt situation is deemed to have been accomplished with debt instruments that are substantially different if the present value of the cash flows under the terms of the new debt instrument is at least 10 percent different from the present value of the remaining cash flows under the terms of the original instrument.
>
> EITF 96-19 also provides guidance for use in calculating the present value of the cash flows for purposes of applying the 10 percent test.

Creditor Accounting

3. Paragraph 12 of FAS 91 states that:

If the terms of the new loan resulting from a loan refinancing or restructuring other than a troubled debt restructuring are at least as favorable to the lender as the terms for comparable loans to other customers with sim

INT 03-05 Status

9. No further discussion is planned.