EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: April 30, 2025
Comments Due: May 30, 2025

Debt—Modifications and Extinguishments (Subtopic 470-50) and Liabilities—Extinguishments of Liabilities (Subtopic 405-20)

Accounting for Debt Exchanges

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topics 470 and 405 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. 2025-ED200, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116."

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 May 30, 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. 2025-ED200
- Sending a letter to "Technical Director, File Reference No. 2025-ED200, 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

Debt—Modifications and Extinguishments (Subtopic 470-50) and Liabilities—Extinguishments of Liabilities (Subtopic 405-20)

Accounting for Debt Exchanges

April 30, 2025

Comment Deadline: May 30, 2025

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Summary and Questions for Respondents

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

The Board is issuing this proposed Update to specify that an exchange of debt instruments that meets certain requirements should be accounted for by the debtor as the issuance of a new debt obligation and an extinguishment of the existing debt obligation.

The amendments in this proposed Update would apply to transactions that involve the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation with multiple creditors and the satisfaction of an existing debt obligation.

Under current generally accepted accounting principles (GAAP) in Subtopic 470-50, Debt—Modifications and Extinguishments, when an entity modifies an existing debt instrument or exchanges debt instruments, the entity is required to determine whether the transaction should be accounted for as (1) a modification of the existing debt obligation or (2) the issuance of a new debt obligation and an extinguishment of the existing debt obligation.

Stakeholders have expressed concerns that accounting for an exchange of debt instruments as a modification of the existing debt obligation, rather than as an extinguishment, does not reflect the economics of certain exchanges of debt instruments when the issuance of the new debt instrument and the contemporaneous repayment of the existing debt instrument are independent transactions. In addition, stakeholders have indicated that the current guidance, particularly the requirement to perform a quantitative analysis of the change in cash flows, is challenging and costly to apply.

To address stakeholders' concerns, the amendments in this proposed Update would specify that when certain requirements are met, an exchange of debt instruments should be accounted for as the issuance of a new debt obligation and an extinguishment of the existing debt obligation. When those requirements are met, an entity would not need to perform a quantitative analysis of the change in cash flows. If those requirements are not met, an entity would be required to evaluate whether the debt instruments have substantially different terms based on the guidance in Subtopic 470-50 to determine whether the transactions should be accounted for as (1) a modification of the existing debt obligation or (2) the issuance of a new debt obligation and an extinguishment of the existing debt obligation.

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

The amendments in this proposed Update would apply to all debtors that enter into transactions within the scope of the guidance in Subtopic 470-50 that involve the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation with multiple creditors and the satisfaction of an existing debt obligation.

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

The amendments in this proposed Update would apply when an existing debt obligation is contemporaneously settled using cash received from the issuance of a new debt obligation entered into with at least one of the existing creditors and multiple creditors participate in the issuance of the new debt obligation. The amendments in this proposed Update introduce new conditions that, if met, would require that an entity account for the satisfaction of an existing debt obligation as an extinguishment under Subtopic 470-50.

Specifically, the exchange of debt instruments would be accounted for as the issuance of a new debt obligation and an extinguishment of the existing debt obligation if (1) the existing debt obligation has been repaid in accordance with its contractual terms or repurchased at market terms and (2) the new debt obligation has been issued at market terms following the issuer's customary marketing process.

If the new debt obligation has a single creditor or the transactions do not meet those conditions, an entity would evaluate whether the existing debt instrument and the new debt instrument have substantially different terms under Subtopic 470-50 to determine whether the transactions should be accounted for as (1) a modification of the existing debt obligation or (2) the issuance of a new debt obligation and an extinguishment of the existing debt obligation.

The amendments in this proposed Update would differ from current GAAP because entities would account for the satisfaction of an existing debt obligation as an extinguishment without needing to analyze whether the existing debt instrument and new debt instrument have substantially different terms under Subtopic 470-50 (the quantitative analysis of the change in cash flows, which is referred to in practice as the 10 percent cash flow test). As a result, more exchanges of debt instruments would be accounted for as the issuance of a new debt obligation and an extinguishment of the existing debt obligation.

The amendments in this proposed Update would (1) improve the decision usefulness of financial reporting information provided to investors by requiring that economically similar exchanges of debt instruments be accounted for similarly, (2) reduce diversity in practice by specifying when an exchange of debt instruments is accounted for as the issuance of a new debt obligation and the extinguishment of an existing debt obligation, and (3) reduce the cost of applying the current guidance in Subtopic 470-50.

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

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

The effective date will be determined after the Board considers stakeholder feedback on the amendments in this proposed Update.

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.

Question 1: The amendments in this proposed Update would apply only to transactions that involve the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation with multiple creditors and the satisfaction of an existing debt obligation. The proposed amendments would not affect an exchange of debt instruments that involves a single creditor in the new debt instrument. Do you agree with the scope of the proposed amendments, including that multiple creditors must have participated in the new debt issuance? Please explain why or why not.

Question 2: For exchanges of debt instruments that are within the scope of the proposed amendments, a debtor would extinguish the existing debt instrument and recognize a new debt instrument without being required to assess whether the new debt instrument and existing debt instrument have substantially different terms (and, therefore, a debtor would not need to perform the 10 percent cash flow test). Would this result in decision-useful financial reporting information? Please explain why or why not. Would the proposed amendments reduce the cost of applying the guidance in Subtopic 470-50? Please explain why or why not.

Question 3: The proposed amendments contain the following two conditions for determining whether transactions that involve the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation with multiple creditors and the satisfaction of an existing debt obligation should be accounted for as the issuance of a new debt obligation and an extinguishment of the existing debt obligation:

a. The existing debt obligation has been repaid in accordance with its contractual terms or repurchased at market terms.
b. The new debt obligation has been issued at market terms following the issuer’s customary marketing process.

Do you agree with these two conditions? Please explain why or why not. If not, please provide alternative suggestions. Are these two conditions clear and operable? Please explain why or why not. What auditing challenges, if any, do you foresee related to these two conditions?

Question 4: Condition (b) (see Question 3 above) includes the term *customary marketing process*. Is this component of the condition necessary to demonstrate that the issuance of a new debt obligation and satisfaction of an existing debt obligation are independent transactions? Please explain why or why not. If this component of condition (b) is necessary, is the term *customary marketing process* clear and operable? Please explain why or why not. If not, please provide alternative suggestions.

Question 5: Should the proposed amendments be applied on a prospective basis to exchanges of debt instruments that occur on or after the date of initial application? If not, why not and what transition method would you recommend? Should early adoption be permitted for financial statements that have not yet been issued for public business entities or been made available for issuance for all other entities? Please explain why or why not.

Question 6: The proposed amendments would require a transition disclosure stating the nature of and reason for the change in accounting principle in the interim reporting period (if applicable) and the annual reporting period of adoption. Because this guidance is transaction based, is that transition disclosure necessary and, if so, is it clear and operable? Do you expect that it would provide decision-useful information? Please explain why or why not.

Question 7: How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? If so, how much additional time would you recommend for entities other than public business entities? Please explain your reasoning.

Question 8: The proposed amendments would permit early adoption. If an entity elects to early adopt the proposed amendments in an interim reporting period, should the entity be required to adopt those proposed amendments as of the beginning of an annual reporting period? 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 and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 470-50

2. Amend paragraphs 470-50-40-9, 470-50-40-13, and 470-50-55-4, with a link to transition paragraph 470-50-65-1, as follows:

Debt—Modifications and Extinguishments

Derecognition

> Modifications and Exchanges

470-50-40-9 Transactions involving contemporaneous exchanges of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and the satisfaction of an existing debt obligation by the debtor are accounted for as debt extinguishments if the new debt obligation has multiple creditors and both of the following conditions are met:

a. The existing debt obligation has been repaid in accordance with its contractual terms or repurchased at market terms.
b. The new debt obligation was issued at market terms following the issuer's customary marketing process for new debt issuances.

If both of these conditions are met, an entity shall not apply the guidance in paragraphs 470-50-40-17 and 470-50-40-18. If the new debt obligation has a single creditor or the transactions do not meet these conditions, the transactions would only be accounted for as debt extinguishments if the debt instruments have substantially different terms, as defined in this Subtopic. To evaluate whether transactions involving third-party intermediaries represent a single creditor, see paragraphs 470-50-40-19 through 40-20.

> Subsequent Accounting for Modifications and Exchanges If Extinguishment Accounting Is Applied

470-50-40-13 If it is determined that the original and new debt instruments are substantially different or the exchange of debt instruments meets the conditions in paragraph 470-50-40-9, the new debt instrument shall be initially recorded at fair value, and that amount shall be used to determine the debt extinguishment gain or loss to be recognized and the effective rate of the new instrument.

Implementation Guidance and Illustrations

> Implementation Guidance

• > Exchanges or Modifications of Debt Involving a Third-Party Intermediary

470-50-55-4 In transactions involving a third-party investment banker acting as agent on behalf of the debtor, the activity of the investment banker is treated as if it were the activity of the debtor. Thus, if the investment banker acquires debt instruments from holders for cash, the debtor has an extinguishment even if the investment banker subsequently transfers a debt instrument with the same or different terms to the same or different investors. If the investment banker acting as agent on behalf of the debtor acquires instruments from holders by exchanging those instruments for new debt, the guidance in this Subtopic shall be applied. If the investment banker acquires debt instruments from holders for cash and contemporaneously issues new debt instruments for cash, an extinguishment has occurred only if the conditions in paragraph 470-50-40-9 are met or the two debt instruments have substantially different terms, as defined in Section 470-50-40.

3. Add paragraph 470-50-65-1 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2025-XX, *Debt—Modifications and Extinguishments (Subtopic 470-50) and Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Accounting for Debt Exchanges*

470-50-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2025-XX, *Debt—Modifications and Extinguishments (Subtopic 470-50) and Liabilities—Extinguishments of Liabilities (Subtopic 405-20): Accounting for Debt Exchanges*:

Effective date and early adoption

a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after [date to be inserted after exposure] and interim reporting periods [within or beginning after] those annual reporting periods.
b. Early adoption of the pending content that links to this paragraph is permitted.

Transition method

c. An entity shall apply the pending content that links to this paragraph prospectively to exchanges of debt instruments that occur on or after the date of initial application of the pending content.

Transition disclosures

d. An entity that applies the pending content that links to this paragraph shall disclose in both the interim reporting period (if applicable) and the annual reporting period of adoption the nature of and reason for the change in accounting principle.

Amendments to Subtopic 405-20

4. Add paragraph 405-20-15-3, with a link to transition paragraph 470-50-65-1, as follows:

Liabilities—Extinguishments of Liabilities

Scope and Scope Exceptions

> Transactions

405-20-15-2 The guidance in this Subtopic applies to extinguishments of all liabilities, including both financial and nonfinancial liabilities, unless derecognition of a financial or nonfinancial liability is addressed in another Topic (for example, the derecognition guidance for gaming chips in Subtopic 924-405 on casinos or the breakage guidance in Topic 606 on revenue from contracts with customers). Derivative instruments that are nonfinancial liabilities (for example, a written commodity option) are included in the scope of this Subtopic.

<u>**405-20-15-3** Subtopic 470-50 provides guidance on debt modifications and extinguishments, including exchanges of debt instruments between the same debtor and creditor. This Subtopic provides the general guidance for the extinguishment of debt instruments and defines transactions that a debtor shall recognize as an extinguishment of a debt instrument that are not specifically addressed in Subtopic 470-50 and other Subtopics.</u>

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 Emerging Issues Task Force (EITF) Agenda Committee added a project to the EITF's agenda to specify when transactions that involve the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation with multiple creditors and the satisfaction of an existing debt obligation should be accounted for as the issuance of a new debt obligation and an extinguishment of the existing debt obligation without requiring a quantitative analysis of whether the debt instruments have substantially different terms. Stakeholders have noted that for these transactions, the guidance in Subtopic 470-50 can be challenging and costly to apply (see further discussion in paragraph BC20).

BC2. The EITF discussed the issue, developed a proposed solution, and recommended that the Board add a project to its technical agenda to amend the guidance in Subtopic 470-50 and Subtopic 405-20, Liabilities—Extinguishments of Liabilities. Specifically, the EITF recommended that exchanges of debt instruments that meet certain conditions should be accounted for as the issuance of a new debt obligation and an extinguishment of the existing debt obligation. If those conditions are not met, an entity should evaluate whether the debt instruments have substantially different terms to determine whether the transaction should be accounted for as (a) a modification of the existing debt obligation or (b) the issuance of a new debt obligation and an extinguishment of the existing debt obligation under current guidance in Subtopic 470-50.

BC3. The following summarizes the EITF's considerations in reaching its recommendation and the Board's basis for supporting the amendments in this proposed Update. To the extent that the Board's conclusions differed from the EITF's recommendation, the following also summarizes the Board's basis for those decisions. It also includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC4. The amendments in this proposed Update would address stakeholder feedback that the current guidance in Subtopic 470-50, which often results in an exchange of debt instruments being accounted for as a modification of the existing debt obligation, does not provide decision-useful information for investors when the issuance of the new debt obligation and the contemporaneous satisfaction of the existing debt obligation are, in substance, independent transactions. Furthermore, the proposed amendments would result in more consistent accounting for similar transactions and reduce existing diversity in practice.

BC5. The amendments in this proposed Update would require that transactions involving contemporaneous exchanges of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and the satisfaction of an existing debt obligation be accounted for by the debtor as debt extinguishments if the new debt obligation has multiple creditors and both of the following conditions are met:

a. The existing debt obligation has been repaid in accordance with its contractual terms or repurchased at market terms.
b. The new debt obligation was issued at market terms following the issuer’s customary marketing process for new debt issuances.

BC6. If the new debt obligation has a single creditor or the transactions do not meet these conditions, the transactions only would be accounted for as debt extinguishments if the debt instruments have substantially different terms, as defined within Subtopic 470-50 (and described further in paragraph BC7). Consistent with the existing scope of Subtopic 470-50 (specifically, in paragraph 470-50-15-3), the amendments in this proposed Update would not apply to exchanges of debt instruments in a transaction that is (a) a troubled debt restructuring, (b) a conversion of debt instruments, or (c) between a debtor (or its agent) and a third party that is not a creditor.

Background Information

BC7. The guidance in Subtopic 470-50 requires that an exchange of debt instruments with substantially different terms be accounted for as the issuance of a new debt obligation and an extinguishment of the existing debt obligation. Debt instruments are deemed substantially different if the present value of the cash flows under the terms of the new debt instrument are at least 10 percent different from the present value of the remaining cash flows under the terms of the existing debt instrument. This assessment is required to be performed on a creditor-by-creditor basis and is referred to as the *10 percent cash flow test*.

BC8. If the application of the 10 percent cash flow test results in a conclusion that the new debt instrument and existing debt instrument have substantially different terms, the existing debt instrument is derecognized, and an extinguishment gain or loss equal to the difference between the carrying amount of the existing debt instrument and the fair value of the new debt instrument is recognized. Any new fees paid to, or received from, the creditor(s) and any remaining costs (including debt issuance costs or a debt discount or premium) included in the existing debt instrument's net carrying amount are included in determining the extinguishment gain or loss to be recognized. Third-party costs incurred are amortized as an adjustment of interest expense over the term of the new debt instrument.

BC9. By contrast, if the application of the 10 percent cash flow test results in a conclusion that the new debt instrument and existing debt instrument do not have substantially different terms, the debtor is required to determine a new effective interest rate for the modified debt instrument based on the carrying amount of the existing debt instrument and the revised cash flows of the modified debt instrument. No extinguishment gain or loss is recognized, and any new fees paid to or received from the existing creditor(s) are amortized as an adjustment of interest expense over the remaining term of the modified debt instrument. Third-party costs incurred are recognized immediately in earnings.

BC10. Stakeholders noted that the application of Subtopic 470-50 often results in an exchange of debt instruments being accounted for as a modification of the existing debt obligation because the results of the 10 percent cash flow test often indicate that the terms of the existing debt instrument and new debt instrument are not substantially different. In addition, since the 10 percent cash flow test is performed on a creditor-by-creditor basis, the current guidance in Subtopic 470-50 often results in different accounting outcomes among a group of creditors depending on whether the creditor participated in the existing debt instrument. This results in a debtor reflecting different effective interest rates for creditors that only participate in the new debt instrument compared with creditors that also participated in the existing debt instrument, which is not intuitive for investors.

BC11. Stakeholders also noted that under current GAAP, unless the terms of the existing debt instrument and new debt instrument are substantially different, when cash proceeds from the issuance of the new debt instrument are used to satisfy an existing debt instrument and the same creditor participated in both debt instruments, the transactions are generally considered to be negotiated in contemplation of each other. Therefore, the contemporaneous issuance and satisfaction of the debt instruments are evaluated together and accounted for as a modification of the existing debt obligation.

BC12. Some stakeholders question whether in all instances evaluating these transactions together results in decision-useful information for investors. Those stakeholders assert that if certain requirements are met, the issuance of the new debt obligation and the satisfaction of the existing debt obligation should be accounted for separately without applying the 10 percent cash flow test in Subtopic 470-50. However, other stakeholders assert that debtors should always be required to evaluate exchanges of debt instruments under the 10 percent cash flow test in Subtopic 470-50 and account for the satisfaction of the existing debt obligation as an extinguishment only when the terms of the new debt instrument and existing debt instrument are substantially different. These differing interpretations have resulted in diversity in practice in the accounting for an exchange of debt instruments.

Benefits and Costs

BC13. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the benefits and costs of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC14. The Board believes that the amendments in this proposed Update would (a) improve the decision usefulness of financial reporting information provided to investors by requiring that economically similar exchanges of debt instruments be accounted for similarly and (b) reduce diversity in practice in the accounting for an exchange of debt instruments by specifying when the exchange is accounted for as the issuance of a new debt obligation and the extinguishment of the existing debt obligation. Stakeholder feedback indicates that requiring the 10 percent cash flow test to be performed may not result in accounting outcomes that best reflect the economics of certain exchanges of debt instruments when facts and circumstances support that the satisfaction of the existing debt obligation is independent from the issuance of the new debt obligation. The Board expects that the proposed amendments would enhance comparability, better reflect the economics of these transactions, and provide more decision-useful information to investors.

BC15. The Board does not anticipate that entities would incur significant costs to implement the amendments in this proposed Update. In many circumstances, the Board expects that the proposed guidance would be less costly to apply than the current guidance in Subtopic 470-50 because fewer exchanges of debt instruments would need to be analyzed under the 10 percent cash flow test, which can be challenging and costly to apply (see further discussion in paragraph BC20). In addition, the Board does not anticipate that entities would incur significant costs to evaluate the proposed conditions added to paragraph 470-50-40-9 because the analysis is intended to be qualitative in nature and generally would be based on observable information.

BC16. Therefore, the Board concluded that the expected benefits of the amendments in this proposed Update would justify the expected costs. The Board's specific considerations about the benefits and costs of these proposed amendments are discussed further in the sections below.

Basis for Conclusions

Why the EITF Added the Project to Its Agenda

BC17. The EITF considered several reasons to specify when a transaction involving the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and the satisfaction of an existing debt obligation should be accounted for by the debtor as the issuance of a new debt obligation and an extinguishment of the existing debt obligation. EITF members observed that when an existing creditor also participates in the new debt issuance, there is diversity in practice in evaluating whether the 10 percent cash flow test should be performed.

BC18. EITF members observed that transactions involving the contemporaneous exchange of cash between the same debtor and creditor in connection with the issuance of a new debt obligation and the satisfaction of an existing debt obligation occur regularly and that it is common that some, but not all, existing creditors also participate in the new debt instrument. This may occur because there are a limited number of creditors that are able to lend the amounts needed by the debtor or because the debtor may be in an industry or sector that has a limited number of creditors that generally lend to that industry. Furthermore, EITF members indicated that this issue arises regardless of whether the existing debt instrument and the new debt instrument are syndicated debt, public debt, private placement debt, or debt issued to a group of specific creditors.

BC19. EITF members observed that, in certain fact patterns, the issuance of a new debt obligation and contemporaneous satisfaction of an existing debt obligation are, in substance, independent transactions. For example, (a) the debtor repays the existing debt instrument and is economically indifferent to the identity of the creditors involved in the new debt instrument or (b) the creditors that participated in the existing debt instrument and new debt instrument are economically indifferent to the use of proceeds received from the issuance of the new debt instrument.

BC20. Furthermore, EITF members observed that it can be challenging to perform the 10 percent cash flow test because the test is required to be performed on a creditor-by-creditor basis. In some cases, it is difficult for the debtor to determine the identity of some or all of the creditors. For example, the debtor may not have access to creditor information (because the debt instrument is held by a custodian) or a significant number of creditors might be involved in the existing debt instrument and new debt instrument.

BC21. In addition, because the 10 percent cash flow test is required to be performed on a creditor-by-creditor basis, it may result in a modification of the existing debt obligation for certain creditors and an extinguishment of the existing debt obligation for other creditors. That often results in different effective interest rates being recognized for new creditors than for creditors that participated in the existing debt instrument, which may not provide decision-useful information to investors.

BC22. Therefore, the EITF added a project to its agenda to address the issues raised while minimizing the potential for unintended consequences in other transactions.

Evaluation of Potential Conditions

BC23. For an exchange of debt instruments that is within the scope of the amendments in this proposed Update, the EITF considered a number of potential conditions and concluded that the two conditions in paragraph 470-50-40-9(a) through (b) would, in combination, demonstrate that the issuance of a new debt obligation and the contemporaneous satisfaction of the existing debt obligation are in substance independent transactions and support that the satisfaction of the existing debt obligation should be accounted for as an extinguishment.

Condition in Paragraph 470-50-40-9(a)

BC24. The EITF considered that if the existing debt obligation was repaid in accordance with its contractual terms or repurchased at market terms, it would demonstrate that the satisfaction of the existing debt obligation is an independent transaction that is not connected to the issuance of the new debt obligation. Furthermore, if an exchange of debt instruments meets this condition, that also would demonstrate that the repayment of the existing debt obligation was not negotiated between the debtor and the existing creditors in connection with the issuance of the new debt obligation.

BC25. The EITF considered whether this condition should require that the existing debt instrument be repurchased at fair value rather than at market terms. The EITF acknowledged that, in most cases, a repurchase at market terms would equal fair value. However, some EITF members noted that the fair value of the existing debt instrument may not incorporate a sweetener (for example, the issuance of a warrant) that may be negotiated to consummate the repayment of the existing debt obligation at market terms. Additionally, one EITF member noted that using the term *fair value* could result in additional cost and complexity because preparers and practitioners could interpret the use of the term *fair value* as a requirement to perform a formal valuation of the existing debt instrument. Therefore, the EITF decided to use the term *market terms* rather than *fair value* to enhance the operability of this condition.

BC26. One EITF member provided an example in which the original contractual terms of the existing debt instrument permit the debtor to repurchase the debt instrument at par; however, at the time the existing debt instrument is to be repaid using proceeds from the contemporaneous issuance of the new debt instrument, the existing debt instrument is trading at a price less than par. The EITF member noted that, in this fact pattern, the existing debt instrument would meet this condition because it was repaid in accordance with its original contractual terms. However, that EITF member questioned whether this condition should be met because it may be uneconomical for the debtor to repay the existing debt instrument at par when it is trading at a lower price. That EITF member indicated that this could call into question whether the debtor is providing favorable repayment terms to the creditor because the creditor also participated in the issuance of the new debt obligation. The EITF discussed this concern but ultimately decided to require a condition in which the existing debt obligation is repaid in accordance with its original contractual terms or repurchased at market terms.

BC27. When the EITF discussed the condition in paragraph 470-50-40-9(a), the condition included the term *original contractual terms*. During the Board's discussion of the EITF's recommendation, certain Board members questioned whether including the word *original* in this term could introduce complexity if the existing debt instrument was modified before the debtor entered into the exchange of debt instruments. Given that this condition is intended to focus on whether the debt is repaid in accordance with the terms of the existing debt instrument, the Board decided to use the term *contractual terms* rather than *original contractual terms*.

Condition in Paragraph 470-50-40-9(b)

BC28. The EITF considered that if the new debt instrument is issued at market terms following a normal marketing process for issuing the new debt, that would indicate that new creditors were given the opportunity to participate at market terms and that existing creditors that chose to participate were not given preferential treatment or incentives to participate. Therefore, the EITF decided to require a second condition (that the new debt obligation was issued at market terms following the issuer's normal marketing process for new debt issuances) to further support that the issuance of the new debt obligation is an independent transaction that is not connected to the repayment of the existing debt obligation.

BC29. In its discussions, some EITF members indicated that evaluating this second condition may be judgmental and would require evidence to determine whether the marketing process was *normal* if the new debt issuance only involved a small number of creditors. However, the EITF observed that the concept of a *normal marketing process* (for example, a debt roadshow or an electronic data room for due diligence to market certain debt issuances) is generally well understood in practice and a debtor's process for issuing a new debt instrument is generally observable. Therefore, the EITF does not expect that debtors would incur significant costs and challenges in evaluating and making judgments about whether this condition is met.

BC30. Some Board members questioned whether the term *normal marketing process* would introduce complexity or be judgmental to apply. They also questioned whether this condition is necessary because the issuance of the new debt obligation at terms that reflect current market conditions and the debtor's creditworthiness would be sufficient to indicate that the issuance of the new debt obligation and the repayment of the existing debt obligation are independent transactions. Other Board members observed that requiring an evaluation of the marketing process for the issuance of a new debt obligation would provide additional evidence that the new debt instrument is issued at market terms, but they suggested using the term *customary* (which is currently used in other areas of GAAP), rather than *normal*.

BC31. Overall, the Board supported including this condition in the amendments in this proposed Update and using the term *customary* instead of the term *normal* because the Board preferred to utilize a term more commonly used in the Codification. The Board discussed that the term *customary marketing process* is intended to convey that the debtor did not negotiate the exchange of debt instruments solely with its existing lenders and that a *customary marketing process* may be different across entities based on the specific facts and circumstances of each transaction. While a *customary marketing process* may be different on a transaction-by-transaction basis, some Board members believe that examples of a *customary marketing process* would include the debtor soliciting new creditors to potentially participate in the issuance and the debtor following a similar marketing process as it did for previous debt issuances.

Other Conditions Considered, but Not Recommended

BC32. EITF members considered but did not recommend requiring that the following other conditions be met:

a. The issuance of the new debt obligation and repayment of the existing debt obligation were not negotiated collectively.
b. If the debtor used an agent, the contractual terms of any agreements with that agent are consistent with the issuance of a new debt obligation.

BC33. Some EITF members expressed concern about the operability of these conditions. While one EITF member acknowledged that evaluating whether the issuance of the new debt obligation and repayment of the existing debt obligation were negotiated collectively would require judgment, that EITF member explained that this condition was suggested to effectively limit the scope of the proposed guidance to an exchange of debt instruments with multiple creditors. That EITF member indicated that it would be difficult to meet the condition that the issuance of the new debt obligation and repayment of the existing debt obligation were not negotiated collectively if there is only one creditor and that creditor participates in both the existing debt instrument and the new debt instrument.

BC34. The EITF considered this feedback and decided to address this concern by requiring that the proposed guidance apply only when there are multiple creditors. The Board discussed whether the EITF's recommended solution was intended to apply to an exchange of debt instruments with multiple creditors in both the existing debt instrument and the new debt instrument or only multiple creditors in the new debt instrument. The Board decided that the amendments in this proposed Update should apply to transactions with multiple creditors in the new debt instrument and included a specific question to solicit additional feedback.

BC35. Furthermore, one EITF member suggested including an additional condition that would require that a more-than-insignificant new creditor participate in the new debt issuance. That EITF member noted that the participation of a new creditor with a more-than-insignificant participation in the new debt instrument would indicate that the new debt instrument was issued at market terms and, therefore, would support the conclusion that the transactions are independent. After further discussing potential challenges in applying this condition, such as accurately identifying related party relationships among creditors and potential subjectivity in determining what constitutes *more-than-insignificant* new creditors, the EITF decided not to recommend including this condition.

BC36. The EITF also considered, but did not recommend, including an additional condition whereby a contemporaneous exchange of debt instruments would be required to be settled on a gross basis to qualify as the issuance of a new debt obligation and an extinguishment of the existing debt obligation.

Other Considerations in Developing the Proposed Amendments

BC37. The amendments in this proposed Update were supported by investor EITF members because, in their view, the proposed amendments would result in more exchanges of debt instruments accounted for as extinguishments of the existing debt instrument. Those EITF members also noted that accounting for the exchange of debt instruments as the issuance of a new debt obligation and the extinguishment of the existing debt obligation provides greater transparency than if the exchange of debt instruments was accounted for as a modification of the existing debt obligation.

BC38. Furthermore, several Board members expressed a preference for more exchanges of debt instruments to be accounted for as the issuance of a new debt obligation and an extinguishment of the existing debt obligation and noted that the EITF's recommendation was consistent with that preference.

Additional Alternative Considered

BC39. The EITF also considered, but did not recommend, another potential solution whereby an entity would account for the satisfaction of the existing debt obligation as an extinguishment only if the existing debt instrument and the new debt instrument were public debt issuances or widely held private placement debt. Some stakeholders noted that (a) if the existing debt instrument and the new debt instrument are both public debt issuances (or widely held private placement debt), then all of the creditors involved in the new debt instrument should be considered new creditors given that the debt is widely held, (b) it is generally understood that public debt issuances are not collectively negotiated between the debtor and the individual existing creditors, and (c) recent expansion of private debt markets raises similar challenges in identifying individual creditors in widely held private placement debt as those in public debt issuances.

BC40. EITF members considered this alternative but determined that this potential solution was too narrow to address the broader issue highlighted in the agenda request.

Transition, Early Adoption, and Effective Date

BC41. An entity would be required to apply the amendments in this proposed Update prospectively to exchanges of debt instruments that occur on or after the date of initial application. The EITF concluded that the expected benefits of requiring retrospective application would not justify the expected costs.

BC42. The Board decided that, consistent with the disclosures generally required by Topic 250, Accounting Changes and Error Corrections, an entity would be required to disclose the nature of and reason for the change in accounting principle in the interim reporting period (if applicable) and the annual reporting period of adoption. However, the Board observed that the transactions affected by the amendments in this proposed Update are typically not recurring transactions; therefore, it is possible that an entity might *adopt* the proposed amendments at the effective date but not have any transactions for which the accounting applies until a later date. The Board decided to solicit stakeholder input about whether the transition disclosure is necessary and whether it would provide investors with decision-useful information.

BC43. Early adoption of the amendments in this proposed Update would be permitted. The EITF supported early adoption of the proposed amendments because the guidance is expected to specify when it is appropriate to account for the satisfaction of an existing debt obligation in an exchange of debt instruments as an extinguishment and provide investors with more decision-useful information. After considering stakeholder feedback on the proposed amendments, the Board will decide the effective date and whether early adoption should be permitted for financial statements that have not yet (a) been issued for public business entities or (b) been made available for issuance for all other entities.

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.