

Snapshot

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SNAPSHOT 2020-14

CARES Act addresses TDRs and CECL for banks

On March 27, the [Coronavirus Aid, Relief, and Economic Security \(CARES\) Act](#) was signed into law providing relief from the economic impact of COVID-19 to a variety of sectors of the U.S. economy, including businesses, individuals, health care, education, and state and local governments. The CARES Act also includes provisions that provide optional relief from certain accounting requirements related to

- Loan restructurings by creditors
- ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*, which introduced the current expected credit loss (CECL) model into U.S. GAAP

This optional relief is only available to entities that qualify under the provisions of each respective section of the CARES Act. Whether an entity qualifies is a legal determination.

The Consolidated Appropriations Act, 2021 (CAA), which was signed into law on December 27, 2020, extends these provisions under the CARES Act.

Impact on U.S. GAAP

On April 3, 2020, the SEC's Chief Accountant Sagar Teotia released a [statement](#) in which he noted that the SEC staff will not object to the conclusion that an election to apply Sections 4013 and 4014 of the CARES Act by entities that are eligible for the narrow and temporary relief provided by those sections would be deemed to be in accordance with U.S. GAAP.

Loan restructurings

Section 4013, *Temporary Relief from Troubled Debt Restructurings*, of the CARES Act provides optional, temporary relief from certain accounting and financial reporting requirements that apply to a lender's accounting for troubled debt restructurings (TDRs). Section 4013 states that a financial institution, including an insurance company as clarified by the CAA, may elect to suspend either of the following requirements under U.S. GAAP:

- Guidance for loan modifications related to COVID-19 that would otherwise be categorized as a TDR
- Guidance regarding a determination that a loan modified as a result of COVID-19 is a TDR, including for impairment accounting purposes

This optional relief in Section 4013 is only available to financial institutions.

The provisions in Section 4013 of the CARES Act apply to restructurings of loans that were not more than 30 days past due as of December 31, 2019 and which occur between March 1, 2020 and the earlier of 60 days after the president terminates the COVID-19 national emergency and January 1, 2022 (the latter date as amended by the CAA). The restructuring of a loan, including a forbearance arrangement, an interest-rate modification, a repayment plan, and any other similar arrangement that defers or delays the payment of principal and interest, should be related to COVID-19. The exception in Section 4013 does not apply to any adverse impact on a borrower's credit that is not related to COVID-19.

Banking regulator guidance on TDRs

On March 22, 2020, various federal and state financial institution regulatory agencies issued an [Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus](#). The Interagency Statement provides an interpretation of the guidance in ASC 310-40, *Receivables: Troubled Debt Restructurings by Creditors*, and specifically the guidance on whether a restructuring constitutes a TDR. The FASB has concurred with the accounting interpretation promulgated in the Interagency Statement.

However, the accounting interpretations in the Interagency Statement and in the provisions of Section 4013 of the CARES Act are not consistent.

For instance, the Interagency Statement and Section 4013 differ with regard to when the past due status of a borrower is assessed for purposes of determining the applicability of the respective guidance (at the inception of the modification or modification program under the Interagency Statement, and at December 31, 2019 under the CARES Act). Additionally, the accounting interpretation in the Interagency Statement applies to any restructuring related to COVID-19, no matter when the restructuring takes place, whereas the relief provided by Section 4013 only applies to restructurings occurring between defined dates.

See [Snapshot 2020-10](#) for a summary of the Interagency Statement and the accounting for restructured loans that are not TDRs.

ASU 2016-13 and the CECL model

Section 4014, *Optional Temporary Relief from Current Expected Credit Losses*, of the CARES Act provides optional temporary relief from applying the CECL model. Section 4014 states that no financial institution will be required to comply with ASU 2016-13, including the CECL methodology for estimating allowances for credit losses.

The optional relief in Section 4014 is only available to

- Insured depository institutions (as defined in Section 3 of the Federal Deposit Insurance Act)
- Bank holding companies
- Affiliates of insured depository institutions or bank holding companies
- Credit unions regulated by the National Credit Union Administration

The provisions in Section 4014 apply during the period beginning March 27, 2020 to the earlier of (1) the first day of an eligible financial institution's fiscal year that begins after the date when the COVID-19 national emergency is terminated, or (2) January 1, 2022 (as amended by the CAA).

For more on the CECL model in ASU 2016-13, please see [NDS 2016-10](#).

For in-depth coverage of the economic impact of COVID-19, visit Grant Thornton's [COVID-19 Resource Center](#).

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