On March 27, 2020, President Trump signed into law the CARES Act (Act), commonly referred to as a stimulus package. The Act has provisions which impact financial reporting under U.S. generally accepted accounting principles (U.S. GAAP).

Financial institutions and the firms that audit them should pay particular attention to Section 4013 of the Act that provides an option to elect out of troubled debt restructuring accounting related to COVID-19 modifications. Also, particular attention should be paid to Section 4014 of the Act related to optional temporary relief from current expected credit losses model for recognizing impairment on most financial assets.

Section 4013 provides an option for financial institutions to suspend the requirements under U.S. GAAP for loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a troubled debt restructuring and suspend any determination of a loan modified as a result of the effects of the COVID-19 pandemic as being a troubled debt restructuring, including impairment for accounting purposes.

This option for financial institutions is available beginning March 1, 2020 and extends 60 days following the end of the COVID-19 national emergency but no later than December 31, 2020. Section 4013 also indicates that the option shall be applicable for the term of the loan modification, but solely with respect to any modification, including a forbearance arrangement, an interest rate modification, a repayment plan, and any other similar arrangement that defers or delays the payment of principal or interest, that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. The option is not available for modifications that are not related to COVID-19.

Section 4014 gives insured depository institutions and bank holding companies (or affiliates) the option to delay the implementation of the current expected credit loss standard (ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements) until the conclusion of the national emergency or December 31, 2020, whichever comes first.
The full text of the final bill can be found online. As always, the CPEA technical inquiry service is available to answer your inquiries on this topic as well as most other accounting and assurance topics. The inquiry service can be accessed on our website.

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