Working Draft:

Allowance for Credit Losses Implementation Issue

(with a focus on Lending Institutions and Insurance Companies)

Issue #28: Scope Exception for Loans and Receivables between Entities under Common Control

Wording to be Included in the Allowance for Credit Losses- Audit and Accounting Guide (with a focus on Lending Institutions and Insurance Companies):

Background:

1. The FASB staff provided their response to the technical inquiry, "Loans and Receivables between Entities under Common Control," in the "Cover Memo" for the meeting materials of the FASB TRG meeting held on June 11, 2018. The FASB TRG members supported the FASB staff's interpretation.

Conclusion:

2. It is rare in practice for an entity under common control to pursue collection efforts for a related-party loan due from another entity under common control. Consequently, the FASB Board agreed with the FASB staff's recommendation that these receivables should be exempt from the CECL model despite the presence of credit risk at a standalone level.

3. Additionally, the FASB staff noted that the FASB Board created this scope exception to address concerns raised by the FASB Private Company Council that some related party loans may be viewed as capital contributions rather than loans to be repaid.

4. In response to this inquiry, the FASB staff stated that it was the FASB Board's intent during deliberations for the scope exception to apply to all reporting levels (that is, for both parent and subsidiary).

Comments should be received by October 15, 2019, and sent by electronic mail to Jason Brodmerkel at Jason.Brodmerkel@aicpa-cima.com, or you can send them by mail to attention: Jason Brodmerkel, 1455 Pennsylvania Avenue NW, 10th Floor, Washington D.C., 20004.