No. 2025-13
13 November 2025

To the Point

FASB — final guidance

FASB amends ASC 326 to expand use of the gross-up approach

The guidance addresses stakeholder concerns that the accounting for non-PCD financial assets was unintuitive and did not reflect their economics.

What you need to know

- The FASB issued final guidance requiring entities to apply the gross-up approach in ASC 326 to all "purchased seasoned loans."
- Purchased seasoned loans are loans (excluding purchased financial assets with credit deterioration, credit card receivables, debt securities and trade receivables) that are (1) acquired in a business combination or (2) obtained through a transfer that is not a business combination or initially recognized through the consolidation of a variable interest entity, if certain seasoning criteria are met.
- A loan is considered seasoned if it is obtained more than 90 days after its origination date and the transferee was not involved in the origination.
- The amendments are effective for fiscal years beginning after 15 December 2026, including interim periods within those fiscal years. Entities are required to apply the guidance prospectively. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB or Board) issued a final **Accounting Standards Update** (ASU) that expands the use of the gross-up approach in Accounting Standards Codification (ASC) 326, *Credit Losses*, to all "purchased seasoned loans."

The ASU defines purchased seasoned loans as loans that are not purchased credit deteriorated (PCD) financial assets, credit card receivables, debt securities or trade receivables that are (1) acquired in a business combination or (2) obtained through a transfer that is not a business combination or initially recognized through the consolidation of a variable interest entity (VIE), if certain seasoning criteria are met.

The guidance provides quantitative and qualitative criteria to determine when a non-PCD loan that is not acquired in a business combination is deemed seasoned.

The amendments address concerns stakeholders raised during the FASB's post-implementation review of ASC 326 about the lack of comparability between PCD and non-PCD loans.

Under current US GAAP, the gross-up approach is only applied to PCD assets (i.e., purchased financial assets that have experienced a more-than-insignificant deterioration in credit quality since origination). The gross-up approach requires an entity to record an allowance for credit losses at the acquisition date offset by an addition to the amortized cost basis of the PCD asset (i.e., the initial amortized cost basis is the sum of the purchase price and allowance for credit losses).

In contrast, the allowance for credit losses for non-PCD assets (i.e., acquired assets that have not experienced a more-than-insignificant credit deterioration since origination) is separately recorded through credit loss expense at the acquisition date. Because acquired financial assets are initially recognized at fair value, this effectively results in a "double count" of the expected credit loss for non-PCD assets on their acquisition date, which is captured as a Day 1 loss on the financial statements.

Stakeholders said the existence of these two accounting approaches causes complexity and reduces comparability, and the Day 1 loss recorded for non-PCD assets is not intuitive and does not reflect the economics of the purchased assets.

The FASB had proposed requiring the gross-up approach to be applied to all purchased financial assets but decided to limit the scope of the amendments to purchased seasoned loans (as defined) given the feedback it received about the potential complexity of applying this approach to certain financial assets and because it believes that other financial assets in the scope of ASC 326 do not materially contribute to stakeholder concerns.

Key considerations

Scope

The guidance expands the use of the gross-up approach to all purchased seasoned loans. Purchased seasoned loans do not include PCD assets, credit card receivables, debt securities or trade receivables arising from transactions accounted for under ASC 606, *Revenue from Contracts with Customers*. The Board decided to exclude non-PCD credit card receivables from the scope of the guidance to address concerns about the operational complexities in applying the gross-up approach to these receivables. However, other revolving credit arrangements are in the scope of the guidance.

In addition, because the guidance does not extend the gross-up approach to other non-PCD financial assets in the scope of ASC 326, such as debt securities and trade receivables, entities will continue to record an allowance for credit losses through credit loss expense at the acquisition date for these assets.

Seasoning criteria

The ASU limits the application of the gross-up approach to purchased non-PCD loans, excluding credit card receivables and certain other financial assets, that are deemed to be seasoned. The Board included the seasoning criteria to identify acquired financial assets that are economically similar to assets originated by the acquirer based on the substance of the transaction (i.e., financial assets that are effectively originated by a third party on behalf of the acquirer). The Board decided "non-seasoned" assets should be accounted for consistently with originated financial assets and not under the gross-up approach.

Loans acquired through a business combination accounted for using the acquisition method in accordance with ASC 805-20 are considered purchased seasoned loans (i.e., the seasoning criteria does not apply to these loans). Loans acquired in an asset acquisition or recognized through the consolidation of a VIE that is not a business are deemed to be seasoned if (1) they are acquired more than 90 days after origination and (2) the transferee was not involved with their origination.

The transferee is considered to be involved with the origination of the loan when either of the following occurs:

The qualitative assessment by the acquirer of its involvement with the origination of non-PCD purchased loans will require judgment.

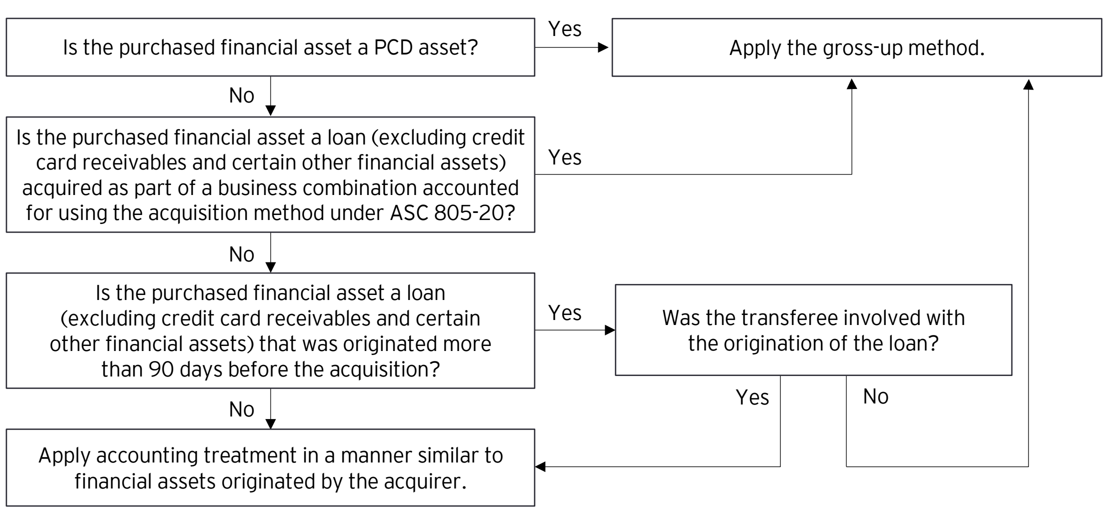
- The transferee has direct or indirect exposure to the economic risks and rewards of ownership within 90 days after the loan origination date.
- The transferee has substantive influence on the offering, arranging, underwriting or other nonadministrative lending activity performed by the originator (the transferor) related to the initial extension of credit to the debtor.

How we see it

The seasoning criteria include both a quantitative and qualitative element. While the 90-day brightline threshold may be relatively simple to apply for many acquired loans, it could be more complex for revolving arrangements.

Additionally, the qualitative assessment of an acquirer's involvement with the origination of loans purchased more than 90 days after origination will require judgment and the consideration of all facts and circumstances.

The following decision tree shows when to account for a purchased financial asset using the gross-up approach.



Recognition and measurement

The amendments do not change the accounting for PCD assets. For purchased seasoned loans, entities will follow the initial measurement guidance that is applied to PCD assets.

However, the Board decided to tailor certain aspects of the gross-up approach for purchased seasoned loans to reflect the fact that these assets have not experienced a more-than-insignificant deterioration in credit quality since origination. This includes clarifying that purchased seasoned loans are subject to the same accrual policies that the acquirer applies to originated financial assets. In addition, purchased seasoned loans are not subject to the guidance limiting expected recoveries that exists for PCD assets (i.e., expected recoveries for purchased seasoned loans are not limited to the noncredit discount for these loans).

The guidance also provides entities with the option to make an irrevocable accounting policy election to subsequently measure the allowance for credit losses on purchased seasoned loans using their amortized cost basis, instead of the unpaid principal balance typically required by the gross-up approach when the allowance for credit losses is estimated using a method other than a discounted cash flow method. Entities need to elect this option on an acquisition-by-acquisition basis in the period that the acquisition occurs and apply it to all purchased seasoned loans recognized in that acquisition.

Providing the option to subsequently measure the allowance for credit losses using the amortized cost basis allows purchased seasoned loans accounted for under the gross-up approach to be pooled with other originated loans that share similar risk characteristics.

How we see it

As highlighted in the flow chart, entities are still required to determine whether purchased financial assets are PCD or non-PCD, since all PCD assets, not just loans, are subject to the gross-up approach. This distinction also determines whether the seasoning criteria needs to be applied to certain acquired loans.

Additionally, this determination is important because certain subsequent measurement and disclosure requirements apply only to PCD assets.

Effective date and transition

The amendments are effective for fiscal years beginning after 15 December 2026, including interim reporting periods within those fiscal years. Early adoption is permitted. An entity that adopts the guidance in an interim reporting period has the option to apply it as of the beginning of that interim period or the annual reporting period that includes that interim period. Entities are required to apply the amendments prospectively.