

Early Impressions

FASBs' Accounting Standard Update (ASU-2025-08)

Financial Instruments – Credit Losses (Topic 326)



EXECUTIVE SUMMARY

On November 12, 2025, the FASB issued ASU 2025-08, introducing targeted changes to ASC 326 for the accounting of certain acquired loans. The FASB's issuance of **ASU 2025-08, Financial Instruments- Credit Losses (Topic 326)**, marks a meaningful evolution in the accounting for acquired financial assets under **ASC 326**. While the Current Expected Credit Loss (CECL) model was designed to introduce greater transparency and timeliness in recognizing credit losses, stakeholders have long highlighted inconsistencies in how it treats acquired loans—particularly the disparity between **purchased credit-deteriorated (PCD)** assets and other acquired loans, which often results in a **Day-1 credit loss expense**. This inconsistency not only created volatility in acquisition-period earnings but also obscured the economic intent of purchase transactions.

ASU 2025-08 introduces the concept of **Purchased Seasoned Loans (PSLs)** and aligns their accounting with the long-standing gross-up approach applied to PCD assets. By eliminating the Day-1 credit-loss charge for PSLs and incorporating expected credit losses into the amortized cost basis, the ASU provides a more intuitive and economically faithful outcome. The resulting model enhances comparability across acquisition types, reduces earnings distortion at the acquisition date, and improves decision-usefulness for investors and regulators.

Beyond the technical refinements, the ASU reflects a broader regulatory theme: a shift toward **operational simplicity, conceptual consistency, and reduced volatility** in financial reporting. For preparers, this update carries operational implications—ranging from enhanced data capture on loan acquisition characteristics to renewed scrutiny of CECL model design, policy elections, and internal controls. For users of financial statements, the ASU promises clearer visibility into credit performance and acquisition economics.

In this **Early Impressions** publication, we share our initial perspectives on the amendment: what has changed, why it matters, and what finance leaders should consider now. While the effective date may seem distant, early assessment and planning will be critical — not only to ensure compliance, but also to leverage the opportunities this change presents to simplify processes and enhance communication with stakeholders.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to clarify our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

Yours faithfully

For Uniquis Consultech Inc.



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BACKGROUND

Since the introduction of the **Current Expected Credit Losses** model under **ASC 326**, stakeholders have raised persistent concerns about the inconsistent accounting outcomes for acquired financial assets. Under the pre-existing guidance, entities were required to distinguish between **PCD** assets and other acquired loans (commonly referred to as non-PCD). This distinction often produced results that were misaligned with the underlying economics of purchase transactions.

While PCD assets followed a **gross-up approach**—where expected credit losses were embedded in the initial amortized cost basis—most non-PCD assets required recognition of a Day-1 credit loss expense. This difference created two key challenges:

- **Earnings volatility** at the acquisition date, driven by immediate loss recognition for non-PCD assets.
- **Limited comparability** across acquisitions that were similar in substance but accounted for differently due to technical definitions rather than credit risk profiles.

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These issues became increasingly prominent as CECL matured and as acquisition activity involving loan portfolios, fintech originations, and specialty finance platforms accelerated. Users of financial statements provided feedback that the model did not always accurately reflect purchase economics, and operational complexity increased as entities applied two different measurement approaches to similar acquired assets.

Responding to this feedback, the FASB issued **ASU 2025-08**, introducing the concept of **PSLs** and aligning their initial measurement with the PCD gross-up model. The update aims to enhance consistency, reduce acquisition-date volatility, and simplify aspects of the CECL framework while maintaining its forward-looking intent.



KEY HIGHLIGHTS OF AMENDMENT IN ASU

Purchased Seasoned Loans (PSLs)- What They Are and Why They Matter

ASU 2025-08 expands the use of the gross-up method beyond PCD assets to a specific subset of non-PCD loans referred to as “purchased seasoned loans.” The standard introduces a two-step framework:

- 01 First, assess whether an acquired loan is a PCD asset.
- 02 If it is not, assess whether the loan qualifies as a purchased seasoned loan.

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Purchased Credit-Deteriorated asset

Under existing CECL guidance (ASC 326), an acquired loan is classified as a **Purchased Credit-Deteriorated** asset if **both** of the following conditions are met at the acquisition date:

a. The loan has experienced more-than-insignificant credit deterioration since origination

To evaluate this, entities typically consider:

- Significant decline in credit score / internal risk grade
- Material deterioration in the probability of default or expected cash flows
- Adverse changes in the borrower’s financial condition
- Past-due status, non-accrual history, or recent modifications
- Collateral value decline impacting recoverability

No single factor is determinative; the assessment is **principles-based**, focused on whether the overall level of credit risk has meaningfully worsened since the loan was originally issued.

b. The deterioration must be since origination, not merely relative to current market benchmarks

The test compares the loan’s credit quality **at origination versus at acquisition**, not versus peer loans or market pricing.

Purchased a Season loan

A purchased seasoned loan is defined as a loan that meets either of the following pathways:

Pathway 1

Business Combination

The loan is acquired as part of a business combination accounted for under the acquisition method.

Example:
A bank acquires another financial institution. All loans acquired as part of the business combination—including mortgages, auto loans, and personal loans—are considered purchased seasoned loans unless already identified as PCD.

Pathway 2

Other Transfers or Consolidations

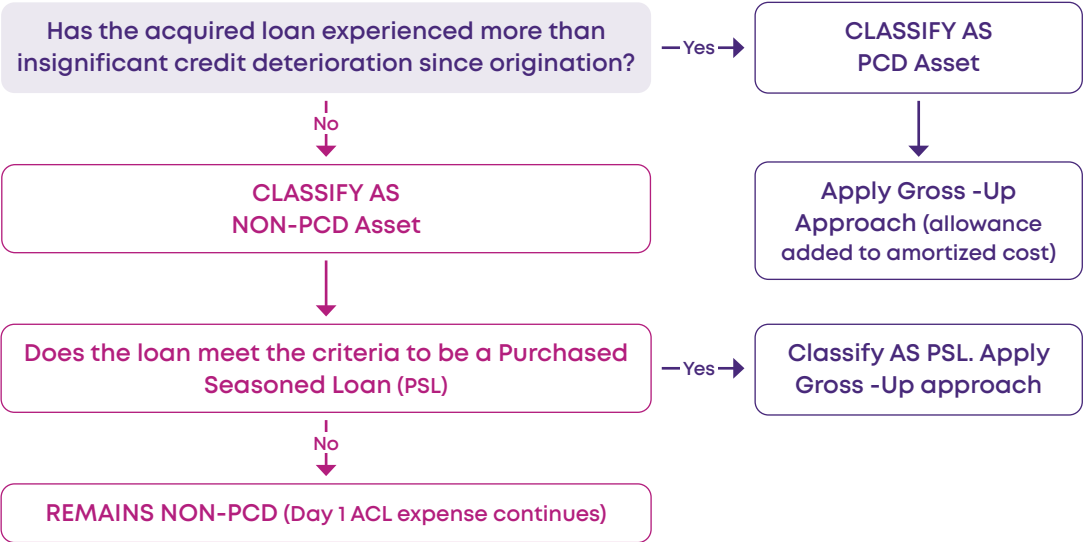
The loan is acquired in a transaction that is not a business combination, or the loan is initially recognized through consolidation of a VIE, and the loan meets both of these conditions:

- It is obtained more than 90 days after its origination, and
- The buyer/transferee had no involvement in the loan’s origination

Example:
A bank purchases a pool of performing mortgages from another lender.

- The loans were originated 18 months ago (i.e., > 90 days), and
- The purchasing bank had no role in underwriting them

Flow diagram for Determining PCD vs Non-PCD and PSL Classification



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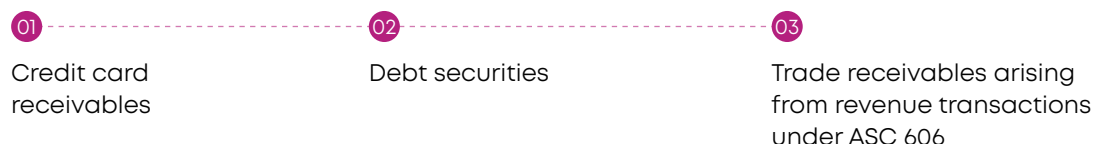
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Application Guidance or Implementation matters

What's Not Included in PSLs

The following are not considered purchased seasoned loans:



When Is a Transferee Considered Involved in Loan Origination?

ASU 2025-08 emphasizes that determining whether a loan qualifies as a purchased seasoned loan depends on whether the transferee participated—directly or indirectly—in the loan's origination. This assessment is key because loans in which the transferee had origination involvement cannot be treated as purchased seasoned loans.

The standard clarifies that a transferee is more likely to be viewed as involved when the transfer occurs under an existing contractual relationship, such as a purchase commitment, pipeline financing agreement, or any arrangement that ties the transferee economically to the originator.

A transferee is considered involved in origination when either of the following conditions is met:

01. Early Economic Exposure (Within 90 Days)

The transferee has direct or indirect exposure to the economic risks and rewards of the loan within 90 days after origination.

This suggests the transferee was effectively part of the initial lending decision.

02. Substantive Influence Over Lending Activities

The transferee has a meaningful influence over key non-administrative lending activities performed by the originator, such as offering, structuring, arranging, or underwriting the loan.

Illustrative Examples

Example 1:

Pipeline Purchase Arrangement

- Bank A enters into a forward purchase agreement requiring it to buy mortgages originated by Bank B within 60 days of origination.
- Bank A is exposed to economic risks early.
- The purchase occurs through an existing contractual commitment.

Conclusion: Bank A is considered involved in origination

Loan is not a purchased seasoned loan.

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Illustrative Examples

Example 2:

Influence on Underwriting Standards

- An investment firm collaborates with an originator to design underwriting criteria for small business loans and commits to buying a portion of the portfolio once originated.
- The firm influences underwriting decisions.

Conclusion: Transferee is involved

Loan is not a purchased seasoned loan.

Practical Considerations

Determining whether a transferee was involved in the origination of a loan will often require significant judgment. Because this is a new evaluation requirement introduced by ASU 2025-08, entities will need to establish robust policies, procedures, and internal controls to consistently assess both contractual and non-contractual arrangements. These frameworks should enable management to identify situations that may constitute origination involvement and ensure that loans are appropriately classified under the new model. Entities should consider:

- **Enhanced Monitoring of Contractual Arrangements:** Implement controls to track existing purchase commitments, forward-flow arrangements, and other agreements that may create early economic exposure or influence over origination activities.
- **Periodic Review and Calibration:** Given the judgmental nature of the assessment, entities should perform periodic reviews—supported by internal audit or second-line functions—to validate that conclusions remain consistent and aligned with evolving practice.

Overall, the new model places greater emphasis on governance structures that enable entities to demonstrate thoughtful, well-supported judgments in applying ASU 2025-08.

Key Accounting Considerations for Purchased Seasoned Loans

Initial Recognition principles

ASU 2025-08 aligns the initial accounting for purchased seasoned loans with the existing model for PCD assets. At the acquisition date, the acquirer grosses up the amortized cost basis by recording an allowance for expected credit losses, with no Day-1 impact to the income statement.

This ensures that the acquired loan reflects both the purchase price and the estimated lifetime credit losses as of the date of acquisition.

Subsequent Recognition

While the initial recognition mirrors the PCD approach, the ASU introduces targeted differences in subsequent measurement, including:

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Measurement Basis Election

For purchased seasoned loans, entities may elect an accounting policy (when using a method other than discounted cash flows) to measure expected credit losses based on amortized cost (i.e., the carrying amount after adjusting for purchase discount, fees, and accretion), not unpaid principal (i.e., the full amount the borrower still owes).

In contrast, for PCD assets, expected credit losses—both initially and thereafter—must always be measured using the unpaid principal balance.

Guidance on Expected Recoveries

When estimating credit losses, entities may also expect to **recover** some amounts that were previously charged off or deemed uncollectible.

The accounting rules for how you treat these **expected recoveries** are different for:

- **PCD assets**, and
- **Purchased seasoned loans**

PCD assets follow **detailed, specific rules** for measuring and recording expected recoveries, such as

- How to estimate amounts you may recover from previously charged-off balances
- When recoveries can increase the allowance vs. when they should increase the asset's basis
- Limits on recognizing recoveries that exceed expected losses
- Consideration of purchase discounts vs. non-credit-related amounts

Purchased seasoned loans do **not** get those special rules. Instead, they follow the **general CECL framework**, which is simpler and less prescriptive. In other words,

- Entity can **include expected recoveries** in determining the allowance for credit losses
- Entity don't apply the PCD-specific constraints and calculations
- Entity does not need to worry about special treatment of recoveries related to purchase discount vs. credit discount
- Recoveries are simply part of the overall loss estimation process

Interest Income Recognition

Purchased seasoned loans do not follow the PCD-specific model that ties income recognition to whether the entity has a reasonable expectation of collection.

Under PCD rules:

An entity can recognize interest only if it reasonably expects to collect the cash. So, income recognition is tied to the **borrower's ability to pay**.

For purchased seasoned loans:

The entity **does not** check whether it will collect **before** recognizing interest.

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This results in a more streamlined approach compared with the PCD framework.

Illustrative Examples

Fact Pattern

Bank A purchases a pool of auto loans that are 18 months seasoned and qualify as purchased seasoned loans.

- Purchase price: USD 88 million
- Unpaid principal balance: USD 100 million
- Expected credit losses at acquisition: USD 12 million

Initial Recognition

Bank A records:

- Loan amortized cost basis: USD 100 million (grossed up)
- Allowance for credit losses: USD 12 million
- Purchase discount: USD 12 million (contra asset, reflecting the net purchase price)
- No impact to the income statement on Day 1
- **Journal entry for Initial Recognition – Gross-up Model**

Dr Loan Amortized cost	USD 100 million
Cr Allowance for Credit Loss	USD 12 million
Cr Cash	USD 88 million

(Gross-up the amortized cost to UPB and cash payment for acquiring the loan)

Subsequent Measurement

Bank A elects the policy to measure credit losses using amortized cost (since it uses a non-DCF method).

- At the next reporting date, the amortized cost (after accretion of the discount) is USD 94 million
- Expected credit losses are re-estimated at USD 10 million
- Allowance is adjusted to USD 10 million, with the change flowing through credit loss expense
- Entry to adjust allowance:

Dr Allowance for Credit Losses	USD 2 million
Cr Credit Loss Expense	USD 2 million

*(A reduction in ACL produces a **credit-to-credit** loss expense.)*

If these same loans had been classified as PCD assets, Bank A would have been required to:

- Measure expected credit losses using unpaid principal (USD 100 million), and
- Apply the broader recovery-recognition guidance applicable to PCD assets

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EFFECTIVE DATE AND TRANSITION

Applicability

The amendment in ASU is applicable to all entities.

Effective Date

- ASU 2025-08 is effective for fiscal years beginning after December 15, 2026, including interim periods within those years.
- **Early adoption:**
 - Entities may early adopt the amendments in any annual or interim reporting period as long as the related financial statements have not yet been issued or made available for issuance.
 - If adopted in an interim period, the amendments must be applied as of the **initial application date**, which can be either:
 - the **beginning of that interim reporting period**, or
 - the **beginning of the annual reporting period** that includes the interim period.

Transition Provisions

Prospectively for acquisitions on or after the initial application date.

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UNIQUE PERSPECTIVE OF AMENDMENTS IN ASU

We see this as...

1

Sharper definition of purchased seasoned loans

ASU 2025-08 introduces a clear framework to distinguish purchased seasoned loans from other acquired loans, reducing diversity in practice and improving comparability.

2

New concept of “involvement with origination”

Entities must evaluate contractual and non-contractual arrangements to determine whether they were involved in a loan’s origination—an assessment that now directly affects classification and subsequent measurement.

3

Differences from the PCD model

While initial recognition aligns with PCD assets, purchased seasoned loans follow a distinct path in subsequent measurement—impacting credit-loss estimates, expected recoveries, and income recognition.

4

Policy elections become critical

The ASU allows an accounting policy election for measuring expected credit losses based on amortized cost (in specific cases), necessitating strong documentation and governance.

5

Operational upgrades required

Entities should revisit CECL models, acquisition due diligence processes, and internal controls to incorporate the ASU’s new judgment areas and classification requirements.

6

Early adoption strategy can shape results

The ASU provides flexibility in determining the initial application date; entities should assess acquisition timelines and financial reporting implications when deciding on early adoption.

7

Opportunity to enhance discipline

With clearer rules and expectations, institutions can use the ASU as a catalyst to strengthen credit-risk evaluation, deal structuring, and cross-functional alignment across accounting, risk, and business teams.

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Companies' Action Points...

Review your current portfolio of acquired loans

Do any qualify as “purchased seasoned loans” under the new definition?

Assess your policies and model(s) for estimating expected credit losses

Will the Company adopt the election to measure based on amortized cost for non-DCF methods?

Update acquisition diligence and documentation

Companies will need to assess whether the acquirer was “involved” in origination, when origination occurred, whether the acquisition was a business combination, etc.

Disclosures and internal controls

Ensure appropriate disclosures and update controls around loan origination/ acquisition, model changes, etc.

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For more information on the proposed Accounting Standard Update, see the [press release](#) on the FASB's website.



About Uniquis Consultech:

Uniquis Consultech is a global tech-enabled consulting company that specializes in Accounting & Reporting, Governance, Risk & Compliance, Sustainability & Climate, and Tech Consulting. The Company is co-founded by consulting veterans Jamil Khatri and Sandip Khetan and backed by marquee investors such as Nexus Venture Partners, Sorin Investments, and UST. Anu Chaudhary, a global sustainability and climate specialist with over 25 years of experience, serves as the Global Head of Sustainability & Climate Consulting. Abhijit Varma, a veteran technology specialist, leads Tech Consulting globally.

Uniquis has a global team of 600+ professionals led by 65+ Partners & Directors across eleven offices in the USA, the Middle East, and India. The company serves more than 350 clients, including marquee names in each of the markets it operates in.

Uniquis is committed to leveraging technology and an integrated global delivery model to provide best-in-class consulting services to its clients.

About Our Accounting & Reporting Consulting Services:

In today's dynamic business environment, organizations are continuously required to adapt to the dynamic shifts in accounting & reporting standards and regulations. Enhanced management reporting requirements and accelerated reporting timelines necessitate increased automation within the finance function. Special events, such as preparing for an IPO/capital market transaction or fulfilling the reporting requirements arising from an M&A transaction, introduce additional complexities and challenges for the finance function.

As a result, organizations need to transform their finance functions from time to time with a focus on people, processes, and technology. Our Accounting & Reporting Consulting (ARC) practice is designed to partner with the finance function through these challenges. Our teams function as an extension of your finance teams to execute your plans seamlessly.

We bring the necessary technical expertise, skills, technology, and bandwidth, enabling you to navigate your plans in real time without adding additional manpower costs within the organization.

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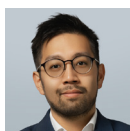
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