





In today's volatile economic environment, companies with outstanding debt are increasingly navigating complex restructuring situations. Among the most significant of these is the Troubled Debt Restructuring (TDR) under ASC 470-60, where a creditor grants a concession to a debtor experiencing financial difficulty. Understanding the accounting, governance, and strategic implications of a TDR can be the difference between a company's collapse and its comeback.

### What is Troubled Debt Restructuring (TDR) (ASC 470-60-15)



A TDR occurs when a creditor grants a concession to a debtor who is experiencing financial difficulty—concessions that the creditor would not typically offer under normal lending terms. These concessions are made in an effort to preserve as much of the creditor's investment as possible. The underlying rationale is that receiving partial repayment is preferable to receiving nothing at all.

Therefore, if the only realistic way for a lender to recover any portion of the outstanding debt is by modifying the original terms, the lender may be inclined to agree to a TDR.



# Why was TDR Guidance Introduced



### Economic Challenges in the 1970s in US

The mid-1970s saw a dramatic recession in the real estate market, fiscal distress in large entities like Penn Central and New York City, and tightening financial conditions.

These factors led to an increase in loan restructurings.



#### International Lending Issues

Banks had significantly increased foreign loans, fueled by dollar deposits from oil-producing countries. Liberal lending to developing countries created predictable problems as many nations struggled to service their debts



### Lack of Consistent Accounting Practices

Before 1977, there were no guidelines for accounting for debt restructurings, leading to inconsistent practices among debtors and creditors



#### Need for Standardization

The Financial Accounting Standards Board (FASB) introduced Statement of Financial Accounting Standards No. 15 (SFAS No. 15) to address the inconsistency and comparability issues in accounting for troubled debt restructurings

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# Development of TDR Guidance



#### 1997

### Accounting by Debtors and Creditors for Troubled Debt Restructurings

- This was the first formal guidance issued by the Financial Accounting Standards Board (FASB) on TDRs.
- It established the basic framework still used today:
  - Debt restructuring qualifies as a TDR when the creditor grants a concession due to the debtor's financial difficulties.
  - Required separate accounting treatment for debtors and creditors.
  - Introduced concepts like gain recognition, modification of terms, and settlement accounting.
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#### 2009

#### **Transition to ASC 470-60 (2009)**

- In 2009, the FASB codified all U.S. GAAP into the Accounting Standards Codification (ASC).
- TDR guidance for debtors was placed in ASC 470-60



### TDR Across Frameworks: US GAAP vs IFRS vs Indian GAAP

In the realm of financial reporting, restructuring of debt arrangements due to a borrower's financial difficulties poses significant accounting challenges. Different accounting frameworks address such scenarios in varied ways, particularly when creditors grant concessions that would not otherwise be considered under normal lending terms. Under US GAAP, these situations are formally referred to as Troubled Debt Restructurings (TDRs) and are governed by detailed guidance in ASC 470-60.

In contrast, IFRS and Indian GAAP (IGAAP) approach such events from broader financial instrument or impairment perspectives, often without using the explicit terminology of TDR. The following table provides a comparative overview of how these frameworks handle debt restructuring due to borrower distress.

Criteria	US GAAP	IFRS	Indian GAAP
Defination	Concession by creditor due to debtor's financial difficulty.	No TDR term; addressed via modification of financial liabilities under IFRS 9 & credit impairment.	No direct guidance; influenced by regulatory frameworks (e.g., RBI)
Focus	Specific guidance for distressed restructurings.	Evaluates if modification is substantial and applies expected credit loss (ECL) model.	Case-by-case approach; often guided by RBI for banks.
Gain/Loss Recognition	Loss recognized if future cash flows < carrying amount; no gain.	In case of substantial modification, derecognition of financial instrument expected credit loss, otherwise, adjust carrying amount.	No consistent rule; varies by industry and materiality.
Measurement	Based on total undiscounted future cash flows.	Discounted using original effective interest rate.	No specific standard; relies on general impairment or provisioning norms.



### Determining whether a TDR exists (ASC 470)

Based on the Codification, the following two questions must be answered to determine whether the accounting model for a TDR applies in a particular situation:

Is the borrower experiencing financial difficulties?

Yes

Has the lender granted a concession?

Yes

Apply the TDR Accounting Model

If the answer to both questions is yes, then the changes to the debt should be accounted for as a TDR.

### What constitutes financial difficulties of the borrower?

To determine whether it is experiencing financial difficulty, a borrower should first consider whether, its creditworthiness has deteriorated since its debt was issued.

Changes in an investment-grade credit rating are not considered a deterioration in the debtor's creditworthiness for purposes of this guidance. Conversely, a decline in credit rating from investment grade to noninvestment grade is considered a deterioration in the debtor's creditworthiness for purposes of this guidance.



All of the following factors are indicators that the debtor is experiencing financial difficulties:

- >> A The debtor is in default on existing debt
- >>> **B** The debtor has declared or is preparing to declare bankruptcy.
- There is substantial doubt about the debtor's ability to continue as a going concern.
- The debtor's securities are delisted, being delisted, or under delisting threat.
- Projected cash flows are insufficient to meet debt obligations.
- >>> F The debtor lacks alternative funding sources to service debt.



However, the following factors, if both are present, provide determinative evidence that the debtor is not experiencing financial difficulties:

- The company is currently servicing its old debt and can obtain funds at a rate equal to the current market interest rate for nontroubled debtors from other creditors, and
- The creditor agrees to restructure the debt solely to reflect decreases in market interest rates or improvement of creditworthiness of the debtor.

#### Is the lender granting a concession?

Under ASC 470-60-55-10, the creditor has granted a concession if the debtor's effective borrowing rate on the new restructured debt is less than the effective borrowing rate of the original debt immediately prior to the restructuring.

A restructuring of troubled debt may include, but is not necessarily limited to, one or a combination of the following concessions:

- Forgiveness of principal or interest
- Reduction in the stated interest rate
- Reduction of accrued interest
- Extension of maturity at below-market terms
- Acceptance of collateral or equity in lieu of payment



#### Situations outside the scope of the TDR:



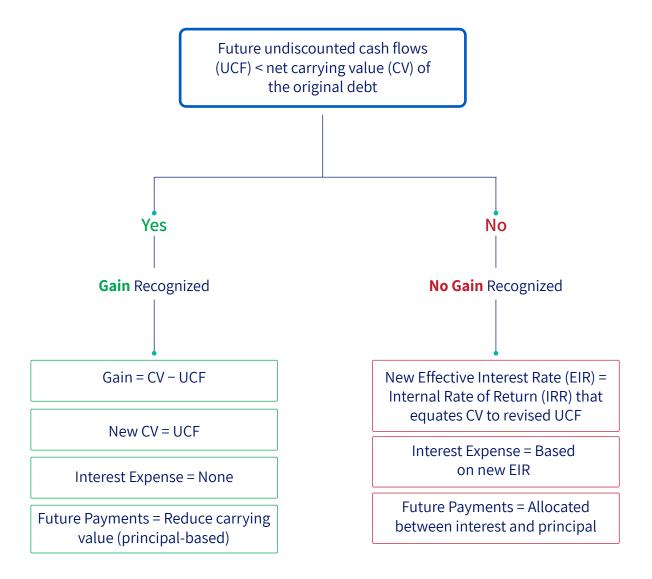
- Lease modifications under ASC 842.
- Changes in employment-related agreements (e.g., pension plans, deferred compensation contracts)
- Failure by the borrower to pay its trade accounts according to their terms without reaching an agreement with its creditors to change the terms.
- Deferral of legal action by the lender to collect past due amounts of interest and principal from the borrower without reaching an agreement with the borrower.
- Application of bankruptcy accounting by the borrower and a general restatement of its liabilities.



# Accounting Treatment When **TDR Is Applied**

In a TDR in which the borrower and lender agree to change the terms of the debt (and not transfer assets or equity), the accounting depends on whether the total undiscounted cash outflows (UCF) required under the restructured debt are more or less than the carrying value (CV) of the debt prior to the restructuring. Under ASC 470-60-35-5 to 6, the debtor in a TDR that involves a modification of the terms of the debt should perform the following steps:

Determine the undiscounted future cash flows on the restructured debt including principal, interest, and any other payments exchanged between the debtor and creditor.





### U.S. GAAP Disclosure Requirements by the Troubled Borrower (ASC 470-60)

ASC 470-60-50 provides specific disclosures for a troubled debt restructuring. It requires that a troubled borrower disclose the following, either in the financial statements or the footnotes:

- The circumstances and causes of financial difficulty leading to the restructuring and whether the restructuring was voluntary or legally mandated, such as bankruptcy or formal insolvency proceedings.
- 2 Summarize key changes in debt terms such as principal, interest, maturity, or covenants.
- State whether the transaction is a modification or extinguishment and how it was measured.
- Highlight effects on financials, including gain recognition, liability changes, and cash flow impacts.
- Disclose any substantial doubt about going concern and describe management's mitigation plans.
- Report any defaults on modified terms and the corrective actions or renegotiation efforts.

#### The Auditor's Role in TDR

- Evaluating financial difficulty by identifying signs such as recurring losses, negative cash flows, covenant breaches, or actual/probable defaults.
- Determining whether a concession was granted involves assessing lender actions like interest rate reductions, term extensions, or principal write-downs provided in response to the borrower's distress.
- Reviewing GAAP compliance through examination of modification agreements, board approvals, and correspondence to ensure accurate accounting treatment.
- Verifying Disclosure requirements to confirm that financial statements transparently reflect the restructuring's nature, impact, and associated risks.
- Communicating going concern risks to stakeholders by assessing the company's ability to continue operations and determining the need for related disclosures or a modified audit opinion.





## From Restructuring to Recovery: The Post-TDR Path

Beyond the accounting treatment and disclosures, the true test lies in what companies do next. Following a TDR, companies face a critical inflection point where disciplined execution and strategic planning are essential to long-term survival. While auditors ensure compliance and transparency during a TDR, post-restructuring success depends on management's operational execution. The immediate priority is to stabilize liquidity through rigorous cash flow forecasting, active working capital management, and cost containment measures. Companies must honor the terms of the restructured debt to rebuild trust with creditors and investors—consistent compliance and transparent reporting are crucial in restoring credibility.

A prime example of this is General Motors (GM), which underwent a significant TDR in 2009 amid severe financial distress. Following its Chapter 11 filing, GM executed a comprehensive restructuring that included debt-for-equity swaps, government-backed financing, and operational streamlining. By adhering to the terms of its restructured obligations and adopting fresh-start accounting, GM regained financial stability, returned to profitability by 2010, and raised over \$23 billion in a successful IPO. The GM case illustrates how disciplined financial management, transparent reporting, and strategic restructuring can turn a distressed company into a resilient and growth-ready enterprise.



For companies experiencing financial strain, **Troubled Debt Restructuring (TDR)** can serve as a valuable tool to regain stability and preserve stakeholder confidence. When approached thoughtfully and in compliance with the accounting and disclosure requirements under **ASC 470-60**, TDRs can help manage cash flows, avoid default, and create a path toward recovery. Clear documentation, accurate measurement, and transparent reporting are key to ensuring that the restructuring is not only compliant but also strategically advantageous. When done right, a TDR can be more than just a financial adjustment—it can be a critical step toward long-term sustainability.



### Pierag Consulting

Pierag Consulting was founded in February 2021 by Abhishek Gupta, Thomas Raffa and Pierian Services as a unique business model to serve clients globally by blending domestic proficiency with global expertise. Since then, we have been serving prominent clients across the US, SEA, India and UK in the field of Audit & Assurance, Accounting Advisory, Business Risk and Technology Risk Advisory Services.

With more than 300+ team members operating out of our offices in Gurugram, Jaipur, Chandigarh and Bengaluru, we are fueled by our purpose of 'Inspiring people to do things that inspires them' and our values of 'Excellence, Equity & Empathy'.

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