

The background of the page is a photograph of a modern glass skyscraper at dusk, with other city buildings visible in the distance. Overlaid on the left side of the image are several abstract graphic elements: a network of light blue lines and dots, and a series of green circles of varying sizes connected by lines, suggesting a data flow or network structure.

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Chapter 8

What about the investors?

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Securitization Accounting 12th edition | May 2026

How do I account for my investments in plain-vanilla mortgage-backed securities (MBS) and ABS?

All interests in securitized financial assets, whether purchased for cash or obtained as consideration in a transfer accounted for as a sale, should be initially recorded at fair value. In addition, the investor, if not an entity that is required to measure investments at fair value on a recurring basis (e.g., investment companies or broker-dealers), will need to make at least one and perhaps several accounting elections immediately upon recognizing its investment.

The first accounting election is whether the investor wants to continue to report the interest in the securitized financial assets at fair value on every subsequent balance sheet, thereby recognizing unrealized gains and losses due to fair value changes currently in earnings. This “fair value option” is available for most financial instruments, including securitized financial assets. The irrevocable election generally must be made on an item-by-item basis at initial recognition. The election, however, cannot be used as an alternative to consolidation. If the investor decides not to use the fair value option, then the decision of what to do requires more thought.

Most interests in securitized financial assets (including most preferred shares issued by a securitization trust and other equity beneficial interests) will meet the definition of a debt security. Those investments, therefore, are governed by the accounting guidance in ASC 320, *Investments—Debt and Equity Securities*. Transferors, however, may at times structure a transaction so that they obtain financial interests that do not meet the definition of a debt security. Typically, this is done by leaving the transferor’s interests represented by contractual rights under the pooling and servicing agreement or other operative transfer document and not having them embodied in any book entry security or other instrument (i.e., leaving them “uncertificated”). Nonetheless, if such interests can be prepaid or otherwise contractually settled in such a way that the holder (e.g., transferor) would not recover substantially all of its recorded investment, GAAP requires that they be accounted for like a debt security and classified either as trading or available for sale (AFS). If a beneficial interest does not fall into any of the categories above, investors will need to evaluate the specific characteristics of the instrument to determine the appropriate accounting literature to apply. In all cases, if the interest in securitized financial assets is not measured at fair value on a recurring basis through earnings, it is necessary to search for possible embedded derivatives that may need to be bifurcated and accounted for separately.

An investor that does not avail itself of the fair value option must elect to classify debt securities as either trading, AFS, or held to maturity (HTM). For the most part, this initial classification cannot be changed so long as the holder retains the security. Only transfers from the AFS category to the HTM category are readily permitted.

Trading securities

Trading securities are carried at fair value with unrealized gains and losses recognized currently in earnings. Securities that are acquired to be sold in the near term, and are therefore expected to be held only for a short period of time, must be classified as trading securities. An investor may also voluntarily designate other debt securities as trading securities. Therefore, the trading category is essentially similar to the fair value option.

AFS securities

AFS securities are also carried at fair value on the balance sheet. However, some changes in fair value are recognized on the balance sheet, net of tax effects, in a separate component of equity known as other comprehensive income (OCI) rather than in current earnings. All unrealized gains are recognized in OCI. The recognition of interest income and unrealized losses depends on the specific nature of the investment and the investor’s specific facts and circumstances (e.g., if the investor intends to sell or will more likely than not be required to sell the impaired investment). Those accounting matters are discussed later in this chapter.

HTM securities

HTM securities are carried at their amortized historical cost basis, adjusted for credit losses. Like AFS securities, the recognition of interest income and measurement of credit losses depends on the nature of the investment. Those accounting matters are discussed later in this chapter.

HTM classification can only be used in limited circumstances. Certain securities cannot be classified as HTM. For example, investments such as IO strips, that can be prepaid or otherwise contractually settled in such a way that the investor would not recover substantially all of its recorded investment, may not be classified as HTM. Those investments must be classified as either AFS or trading. No specific guidance precisely defines “substantially all,” but premiums of 10 percent or more warrant consideration. The probability of prepayment is not relevant in deciding whether this provision should apply. So, the potential for the loss of a portion of the investment would not be evaluated differently for a wideband planned amortization class versus a support class, for example.



In order to classify an investment as HTM, the holder must have the positive intent and ability to hold the security until its maturity. There are strict limits on the ability of an investor to sell HTM securities without impugning management's ability to claim the intent to hold other securities until they mature. The permissible reasons to sell or reclassify HTM securities that are most frequently applicable to holders of ABS or MBS are:

- Evidence of a significant deterioration in the issuer's creditworthiness, such as a credit downgrade.
- A significant increase in the holder's regulatory capital requirement, causing it to downsize its portfolio.
- A significant increase in the risk weights associated with the particular securities.
- A sale near enough to contractual maturity so that interest rate risk is no longer a pricing factor (e.g., within three months of contractual maturity).
- Collecting a substantial portion of the principal balance outstanding at the date the security was acquired, either due to prepayments or scheduled payments over its term.

In contrast, sales or reclassifications due to changes in interest rates, prepayment rates, liquidity needs, alternative investment opportunities, funding or foreign currency exchange rates are not permissible reasons to sell an HTM investment. The SEC staff has expressed the view that selling even one HTM security for an impermissible reason would call into question management's ability to make a credible assertion about the intent to hold other securities to maturity. In that case, the SEC staff has indicated that all other HTM securities should be reclassified to AFS and no new securities may be classified as HTM for a period of two years (commonly referred to as the "tainting period").

HTM securities, however, may be pledged as collateral in a financing transaction (including a securitization) that does not qualify for sale treatment without calling into question management's intent to hold the security to maturity.

Hedge accounting is not available for interest rate hedges of HTM securities. On the other hand, hedge accounting is permitted for interest rate hedges of the liabilities used to fund HTM securities.

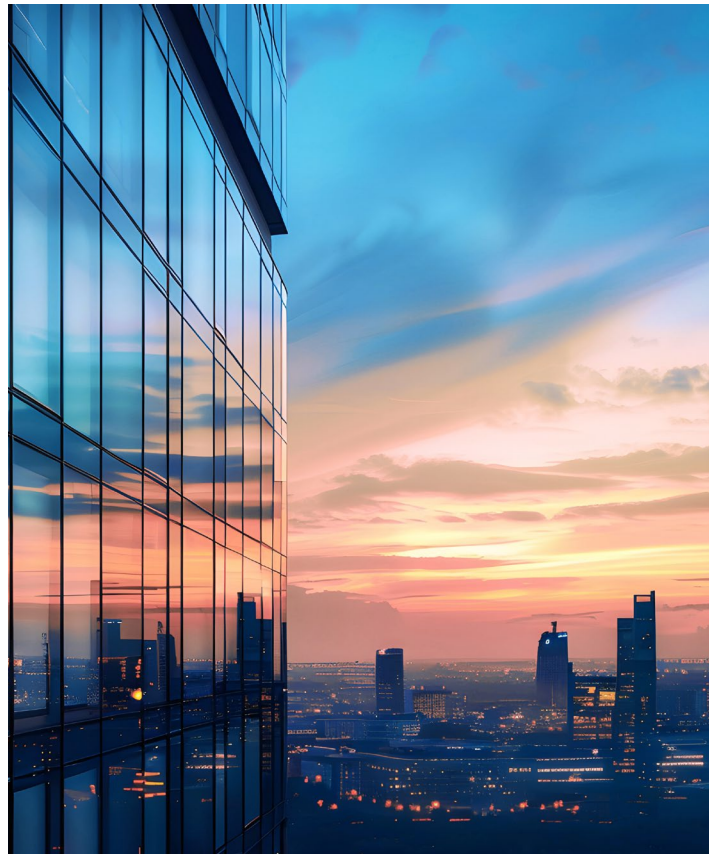
Do I have to worry about derivative accounting with MBS and ABS?

The accounting definition of a derivative is quite broad and applies to certain derivative characteristics embedded within so-called hybrid instruments. Certain beneficial interests in securitization structures must be accounted for as derivatives. Additionally, given the potential complexity of various interests in securitization transactions, it

might seem obvious that many securitization interests would be considered hybrid instruments, resulting in an accounting treatment that requires the embedded derivative to be bifurcated from the non-derivative host and accounted for separately.

Fortunately, the FASB has provided exceptions for the most common approaches used in securitization transactions to allocate both prepayment and credit risk inherent in the underlying pool of financial assets. GAAP does not require an investor in a securitization tranche to consider whether the transfer of credit risk from one securitization tranche to another merely as a result of subordination gives rise to an embedded derivative. That said, other embedded credit derivative features—for example, synthetic structures that include credit default swaps—could give rise to derivatives that potentially require separate recognition.

At the end of the day, whether a securitization interest will need to be bifurcated into a non-derivative host and a derivative instrument will generally come down to whether the derivative and the host instrument are considered clearly and closely related—for example, changes in a commodity index generally would not be considered closely related to a debt instrument. Given the fairly detailed nature of the guidance that governs the analysis for derivatives, we recommend you refer to ASC 815.



How are discounts and premiums amortized?

Frequently, the initial carrying value of an interest in a securitization will not be exactly par (e.g., due to purchase discounts or premiums, or other factors). Any difference between the initial carrying value and par affects interest income, including for those investors that account for investments at fair value (to the extent that interest income is separately presented).

The most straightforward method applies to circumstances when credit and prepayment risks are not substantial (e.g., the investment is highly rated and cannot be prepaid such that the investor would not recover substantially all of its initial investment). In those circumstances, the method used to accrete interest income depends on whether the debt security is a beneficial interest backed by a pool of prepayable financial assets. Generally, for purposes of amortization, an investor can only consider the contractual terms of the investment. However, if the investment is a beneficial interest backed by a group of prepayable financial assets and the timing and amount of prepayments can be reasonably estimated, estimates of future principal prepayments may be considered in the calculation of the effective yield.

If an investor chooses not to estimate prepayments, or is precluded from estimating prepayments, the premium or discount is amortized over the maximum contractual life of the investment. If prepayments cause the principal balance to decay more quickly, then a pro rata portion of the unamortized amount would be recognized in earnings in order to catch up with actual prepayments. Alternatively, if an investor elects to estimate prepayments, any premium or discount is amortized or accreted based on an initial estimate of prepayments. That estimate is periodically revised as actual prepayments run faster or slower.

Adjustable interest rates add an additional level of complexity. In addition to dealing with prepayments, the investor needs to deal with changes in the coupon interest rate over time. For interest rates indexed to the market index or rate, the amortization schedule for the premium or discount can be established based on the projected cash flows using either the index or rate in effect at inception, or the amortization schedule can be recalculated periodically as that index or rate changes over the life of the security. If there is an artificially high or low contractual rate in effect during the early periods, that would be leveled out over the security's life so long as the accreted balance does not rise to exceed the amount that would be immediately recognizable if the borrower elected to prepay (considering any prepayment or similar penalties).

Again, the various-level yield methods just mentioned do not cover securities and uncertificated interests that are of lower credit quality or could be contractually repaid in a way that the holder would recover less than substantially all of its initial investment, nor do they cover positions purchased after they have experienced significant credit deterioration. Read on for additional questions and answers covering those types of positions.

When do I need to write down underwater positions?

The recognition of credit losses and other impairments depends on the classification of the investment. There is no need to consider impairment guidance for investments accounted for at fair value through earnings (i.e., those investments classified as trading or for which the investor has otherwise elected to account for at fair value). Said differently, recognition and measurement of credit losses and other impairments are only necessary for investments classified as AFS or HTM. Additionally, the recognition of interest income and credit losses for many investments in beneficial interests can be intertwined and, therefore, more complex.

AFS investments

At every balance sheet date, the investor needs to identify individual security positions whose fair values are underwater (i.e., below their amortized cost basis), even if they are already carried at fair value as AFS securities. Once these impaired positions are identified, the next step is to determine whether all or a portion of the impairment should be recognized in earnings.

For debt securities such as securitization interests, an impairment comes in two basic varieties. If the investor either intends to sell a security or is more likely than not to be required to sell the underwater security before it recovers (e.g., for regulatory or liquidity reasons), then the investor must write down the security to its fair value. The entire write-down is charged to earnings. Thereafter, the investor accounts for the security as if it were purchased at fair value at the date of the write-down.

If the investor does not intend to sell a security and it is not more likely than not that it will be required to sell the security, the investor will need to consider whether the decline in fair value is related to a credit loss. Any credit loss, measured as the amount, if any, that the amortized cost basis exceeds the present value of the investor's best estimate of the cash flows expected to be collected from the security, is recognized as an allowance for credit losses. The allowance, however, cannot exceed the amount by which the amortized cost basis of the investment exceeds fair value. The allowance should be remeasured each period on the basis of new expectations and facts and circumstances. Further, there are certain additional considerations for investments in beneficial interests that are of low credit quality or that expose the investor to significant prepayment risk, and those acquired after credit indicators suggest that a credit loss has already occurred, or there is a significant difference between contractual cash flows and expected cash flows at initial recognition (purchased credit deteriorated [PCD] investments).

For beneficial interests that are not of high credit quality, or expose the investor to significant prepayment risk, an investor must initially estimate the timing and amount of all future cash inflows from the investment by employing assumptions used in the determination of fair value upon recognition. The excess of those expected future cash flows over the initial investment is the accretable yield. Investors recognize that excess as interest income over the life of the investment by using the effective interest method. Subsequent to initial recognition, an adjustment to expected cash flows is recognized as a yield adjustment affecting interest income or, if related to credit, may be recognized through earnings by means of an allowance for credit losses. In other words, a cumulative adverse change in expected cash flows would be recognized as an allowance, and a cumulative favorable change in expected cash flows would be recognized as a prospective yield adjustment.

For PCD investments, at initial recognition the investor would present an allowance for expected credit losses equal to the estimate of expected credit losses and add that allowance to the purchase price to determine the initial amortized cost basis of the PCD investment. Subsequently, cumulative adverse changes in expected cash flows would be recognized currently as an increase to the allowance for credit losses. However, the allowance is limited to the difference between the investment's fair value and its amortized cost. Favorable changes in expected cash flows would first be recognized as a decrease to the allowance for credit losses (recognized currently in earnings), and as a prospective yield adjustment only when the allowance is reduced to zero. A change in expected cash flows that is attributable solely to a change in a variable interest rate on a plain-vanilla debt investment does not result in a credit loss and would be accounted for as a prospective yield adjustment.

HTM investments

Credit loss accounting for HTM investments is like that for loans—the current expected credit loss (CECL) model. That is, an allowance will be recognized on the basis of expected credit losses. The CECL model does not have a recognition threshold. Investors, therefore, are required to recognize expected credit losses upon initial recognition of an HTM investment without regard to fair value. Additionally, if investments share similar risks, then expected losses are evaluated on a collective basis. Like AFS investments, there are special considerations for certain investments (e.g., PCD investments).

When can I put my investments on non-accrual status?

GAAP does not explicitly address when investments should be put on non-accrual status. Regulated entities, however, should refer to regulatory guidance in determining when non-accrual status is appropriate. In all cases, the non-accrual designation should not be used to circumvent the requirements to recognize impairment.

How does international accounting compare?

For investors applying IFRS, IFRS 9 supersedes IAS 39 and governs the accounting for investments in financial assets, including investments in securitized financial assets. Subsequent to initial recognition, all assets within the scope of IFRS 9 are measured at either:¹

- Amortized cost;
- Fair value through other comprehensive income (FVTOCI); or
- Fair value through profit or loss (FVTPL);

IFRS 9 classification is based on both:

- The entity's business model of managing financial assets; and
- The contractual cash flow characteristics of the financial assets.

Like GAAP, IFRS 9 provides an option for investors to account for their interests at FVTPL (i.e., a fair value option). However, unlike GAAP, IFRS permits use of the FVTPL designation in situations where the election eliminates or significantly reduces an accounting mismatch that would have occurred if the financial asset had been measured at amortized cost or FVTOCI, respectively.

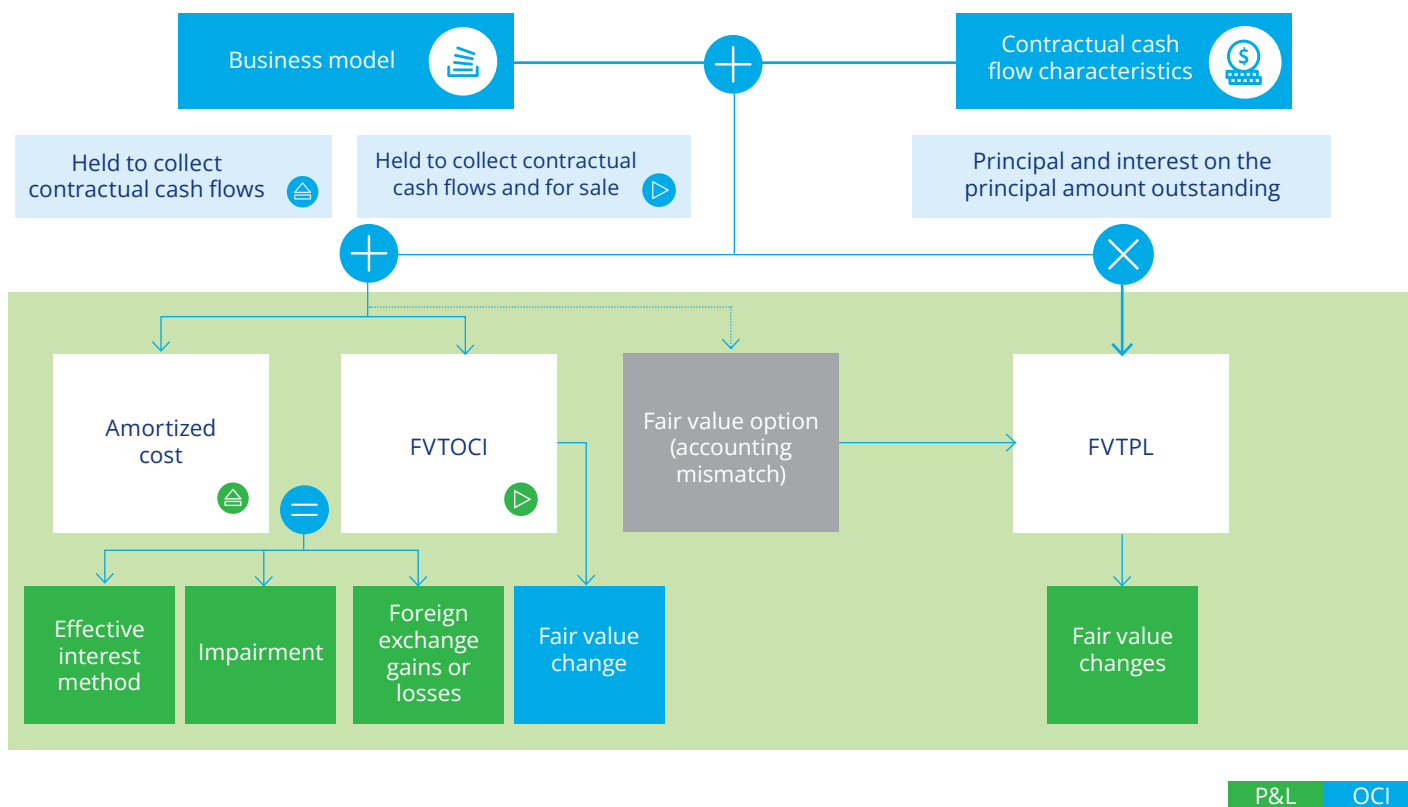
A debt instrument that meets the business model and contractual cash flow characteristics (discussed in detail below) must be measured at amortized cost unless the asset is designated as FVTPL under the fair value option.

A debt instrument that meets the cash flow characteristics test and is not designated at FVTPL under the fair value option must be measured as FVTOCI if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and sell financial assets.

For debt instruments that are measured at amortized cost or FVTOCI, interest income (calculated using the effective interest rate method), foreign currency gains or losses, and impairment gains or losses are recognized directly in profit or loss.

¹ Unlike US GAAP, IFRS 9 precludes the separation of any embedded derivative investments; instead, the investment, inclusive of the embedded derivative, follows one of the identified measurement approaches.





Business model test

An assessment of business models for managing financial assets is fundamental to the classification of financial assets. For a financial asset to be measured at amortized cost, it must be held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. For a financial asset that is a debt instrument to be measured at FVTOCI, it must be held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets held in a business model that is not “hold to collect” or “hold to collect and sell” are required to be measured at FVTPL, unless the instrument is a non-held for trading investment in an equity instrument designated at FVTOCI at initial recognition.

The business model assessment is performed at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

Hold to collect contractual cash flows business model

Financial assets are held with the objective to collect the contractual cash flows over their life. The intention is to collect the contractual cash flows of the assets instead of managing the overall return on the portfolio by both holding and selling assets. However, the entity need not hold all of those instruments until maturity. Thus, an entity’s business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur or are expected to occur in the future.

Hold to collect contractual cash flows and for sale business model

Financial assets are held with the objective of maximizing the return on the portfolio to meet the liquidity needs of the entity by both collecting contractual cash flows and selling financial assets.

Other business model

This is the residual business model (i.e., the entity’s objective of holding financial assets does not meet either of the business models discussed above).

Contractual cash flows characteristic test

For a financial asset that is a debt instrument to be measured at amortized cost or FVTOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding—derivative assets and investments in equity instruments will not meet this test. For the purpose of applying this requirement, principal is the fair value of the financial asset at initial recognition; however, that principal amount may change over the life of the financial asset (e.g., prepayment). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time, and for other basic lending risks and costs, as well as a profit margin. Contractual cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding are consistent with a basic lending arrangement.

Financial assets may have contractual cash flows that vary in amount and/or timing. Judgment is needed in assessing whether a payment (or nonpayment) of a contractual cash flow that only arises as a result of the occurrence or non-occurrence of a contingent event leads to the instrument failing the contractual cash flow characteristics test.

Contractually linked subordinated instruments

In some securitized products, an issuer may prioritize payments to the holders of financial assets using multiple contractually linked instruments that create concentrations of credit risk (tranches). Each tranche has a subordination ranking that specifies the order in which any cash flows generated by the issuer are allocated to the tranche. In such situations, the holders of a tranche have the right to payments of principal and interest only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches.

Agency RMBS are securities issued, or guaranteed, by Government National Mortgage Association (Ginnie Mae), Federal National Mortgage Association (Fannie Mae), or Federal Home Loan Mortgage Corporation (Freddie Mac). The guarantee pertains to the timely payment of principal and interest regardless of whether the underlying mortgagors make their payments. As a result, holders of agency RMBS, regardless of the tranche held, may have little or no credit risk arising from the underlying pools of assets. The underlying pools of assets can be composed of various types of US mortgages and agency securities (e.g., pass-through certificates or other CMOs and REMICs).

Accordingly, while all tranches have little or no exposure to credit risk because of the guarantee issued (Ginnie Mae, Fannie Mae, or Freddie Mac), they have different exposures to other risks, notably prepayment and liquidity risks. Accordingly, for the purpose of the SPPI analysis, it would be appropriate to apply the requirements of IFRS 9, with respect to contractually linked instruments, to such instruments. In particular, a look-through analysis should be conducted to determine whether the nature of the cash flows of the underlying pool of assets meets the SPPI criterion.

An investment in a tranche of contractually linked instruments meets the contractual cash flow characteristics test only if *all* of the following three criteria are met:

1. The tranche must only have contractual cash flow characteristics that are solely payments of principal and interest without looking through to the underlying pool of instruments.

In many instances, tranches—such as investments in CDOs—have a fixed and/or floating contractual interest return and, therefore, may meet this condition. In cases where the tranche has contractual cash flows linked to risks or indices that are not based on interest rates (e.g., equity price risks or commodity price risks), the investor's tranche will not pass the contractual cash flow characteristics test and would need to be measured through FVTPL.

2. The underlying pool of instruments held by the entity issuing the tranche must contain one or more financial assets whose contractual cash flows are only payments of principal and interest. The underlying pool of instruments can contain other instruments as well (e.g., derivatives) for specified purposes.

It is a requirement for the investor in the tranche to understand the operations of the structured entity, and to be able to “look through” the structured entity in order to pass the contractual cash flow characteristics test.

SPPI test—Derivatives included in underlying pool of investments

It is common for a structured entity that issues tranches to enter into derivative financial instruments in order to align the contractual cash flows of its pool of financial assets (e.g., loans, credit card receivables, corporate bonds) with the contractual cash flows of the tranches it issues. Derivatives that merely align the cash flows of the pool of assets with the tranches (e.g., interest rate and currency swaps) do not generally cause a tranche to fail the contractual cash flow characteristics test. However, if derivatives result in leverage in the structure (e.g., the notional of the interest rate swaps or currency swaps is larger than the aggregate notional of the pool of financial assets), the tranches are exposed to cash flows from derivatives that do not merely align the cash flows on the pool of assets with the tranches.

If an issuer of a tranche invests exclusively in derivative financial instruments, the investor's tranche would not meet the contractual cash flow characteristics test because the pool of financial instruments does not contain financial assets whose contractual cash flows are only payments of principal and interest on the principal outstanding.

Contractually linked instruments with nonfinancial assets as the underlying pool

A SPE may hold, as its underlying pool, one nonfinancial asset (e.g., a single commercial real estate property with operating lease arrangements with third parties) along with a financial asset. If an investor holds an investment in one of the senior tranches that

derives its cash flows from the nonfinancial asset (i.e., cash flows received on operating leases), it may not meet the SPPI test—as the cash flows from an operating lease are not solely payment of principal and interest—but may also depend on other factors such as the real estate market.

- The exposure to credit risk in the underlying pool of financial instruments inherent in the tranche is equal to or lower than the exposure to credit risk of the underlying pool of financial instruments (e.g., the credit rating of the tranche being assessed for classification is equal to or higher than the credit rating that would apply to a single tranche that funded the underlying pool of financial instruments).

The credit risk assessment is an attempt to differentiate between tranches that have average, or less than the average, exposure to credit losses of the pool of financial instruments held by the issuer and those that have more than the average exposure to credit losses. Those that have an exposure equal to the average credit losses, or less, may pass the contractual cash flow characteristics test, while those tranches that have more than the average are required to be measured subsequent to initial recognition at FVTPL.

To perform this assessment, a detailed instrument-by-instrument analysis of the pool may not be necessary. However, an investor must use judgment and perform sufficient analysis to determine whether the instruments in the pool meet the conditions.

If any of the three conditions specified above is not met, the contractually linked subordinated instrument will not meet the contractual cash flow characteristics test and, therefore, the investor will be required to measure the instrument subsequent to initial recognition at FVTPL.



Comparison between IFRS and GAAP

Topic	IFRS	GAAP
FVTPL	The assets have contractual cash flows that are not SPPI or are not held within a business model with the objective to: (1) collect contractual cash flows or (2) both collect contractual cash flows and sell financial assets.	Financial assets that are acquired with the intent of selling them within hours or days; or the investor otherwise elects to account for the financial asset at fair value (e.g., as a trading security, or pursuant to a fair value option).
Amortized cost	The assets are held within a business model with the objective to collect contractual cash flows that are SPPI.	Financial assets that are debt securities and for which the investor has both the positive intent and ability to hold the security until maturity.
FVTOCI	The assets have contractual cash flows that are SPPI and are held within a business model with the objective of both collecting contractual cash flows and selling financial assets.	Financial assets that are classified as AFS.

Application of general impairment approach

The general approach to recognizing impairment is based on a three-stage process that is intended to reflect the deterioration in credit quality of a financial instrument.

Stage 1: Covers instruments that have not deteriorated significantly in credit quality since initial recognition or (where the optional low credit risk simplification is applied) that have low credit risk.

Stage 2: Covers financial instruments that have deteriorated significantly in credit quality since initial recognition (unless the low credit risk simplification has been applied and is relevant) but that do not have objective evidence of a credit loss event.

Stage 3: Covers financial assets that have objective evidence of impairment at the reporting date.

Twelve-month expected credit losses are recognized in stage 1, while lifetime expected credit losses are recognized in stages 2 and 3.

The terms “default” and “a significant increase in credit risk” are not defined under IFRS, and investors will need to apply significant judgment in practice.

An investor will have to establish its own policy for what it considers a default and apply a definition consistent with that used for internal credit risk management purposes for the relevant financial instrument. This should consider qualitative indicators (e.g., financial covenants) when appropriate. IFRS 9 includes a rebuttable presumption that a default does not occur later than when a financial asset is 90 days past due unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Because the assessment of significant increase in credit risk is performed at the reporting date, it is important that entities make use of information that is available without undue cost and effort up to the reporting date. Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable

presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Individual versus collective assessment

Depending on the financial instrument and the information available about its credit risk, it may not be possible to identify significant changes in credit risk at the individual instrument level before the financial instrument becomes past due. It may therefore be necessary to assess significant increases in credit risk on a collective or portfolio basis. This is particularly relevant to financial institutions with a large number of relatively small exposures such as retail loans. In practice, the lender may not obtain or monitor forward-looking credit information about each customer. In such cases, the lender would assess changes in credit risk for appropriate portfolios, groups of portfolios, or portions of a portfolio of financial instruments. Any instruments that are assessed collectively must possess shared credit risk characteristics. This is to prevent significant increases in credit risk being obscured by aggregating instruments that have different risks. When instruments are assessed collectively, it is important to remember that the aggregation may need to change over time as new information becomes available.

Examples of shared credit risk characteristics may include, but are not limited to, instrument type, credit risk ratings, collateral type, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower, and the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring.

Instruments measured at FVTOCI

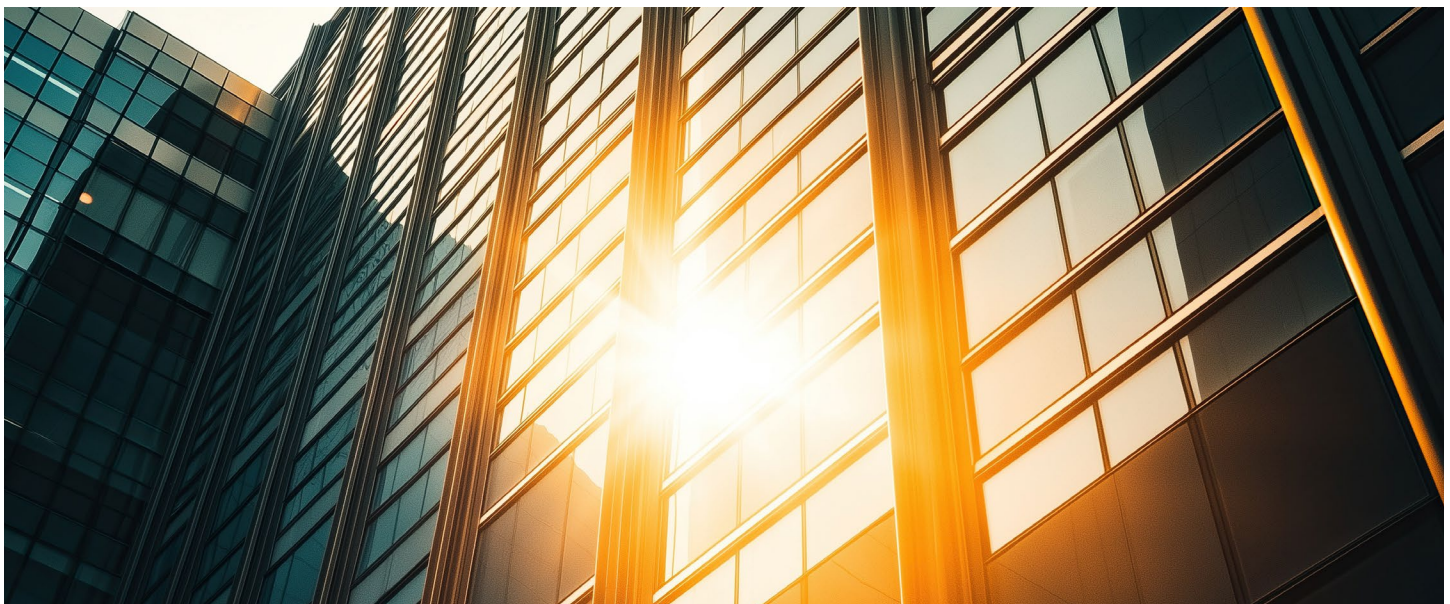
For debt instruments measured at FVTOCI, the general approach for recognizing and measuring a loss allowance is the same for financial instruments measured at amortized cost, but the loss allowance should be recognized in other comprehensive income and should not reduce the carrying amount of the financial asset in the statement of financial position. This ensures that the carrying amount of the asset is always measured at fair value in the statement of financial position.



Comparison of the requirements of IFRS 9 and ASC 326

Both the ECL model under IFRS and CECL model under US GAAP are expected credit loss models; however, there are differences in the approach followed under each GAAP.

	IFRS 9	ASC 326
Amortized cost	<p>An impairment loss on a financial asset accounted for at amortized cost or at FVTOCI is recognized immediately on the basis of ECLs. Depending on the financial asset's credit risk at inception and changes in credit risk from inception, as well as the applicability of certain practical expedients, the measurement of the impairment loss will differ. The impairment loss would be measured as either: (1) the 12-month credit loss or (2) the lifetime expected credit loss.</p> <p>Further, for financial assets that are credit impaired at the time of recognition, the impairment loss will be based on the cumulative changes in the lifetime expected credit losses since initial recognition.</p>	<p>For financial assets measured at amortized cost (e.g., HTM investments), an estimate of the ECLs generally should be recognized as an allowance immediately, upon either origination or acquisition of the asset, and adjusted as of the end of each subsequent reporting period. There is no specified threshold for the recognition of an impairment. The ECLs should: (1) reflect losses expected over the contractual life of the asset and (2) consider historical loss experience, current conditions, and reasonable and supportable forecasts.</p> <p>An allowance for credit losses may be measured by using various methods. Use of the discounted cash flow model is not required.</p>
Available for sale securities	N/A	<p>For debt securities held as AFS, an allowance for credit losses should be recognized when the present value of cash flows expected to be collected from the debt security is less than the security's amortized cost basis. The allowance for credit losses is limited by the difference between the debt security's fair value and its amortized cost basis.</p>



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