

Accounting and financial reporting issues for financial institutions

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Contents

A note from the author	3
From the FASB: Major final standards	4
Credit losses	4
Leases	13
Hedging activities	21
Financial instruments: Recognition and measurement	23
Revenue recognition.....	24
From the FASB: Other final standards	26
Income taxes	26
Reference rate reform	26
Consolidation and business combinations	27
Intangibles	28
Liabilities and equity	29
Compensation and benefits.....	30
Other codification improvements	31
Presentation and disclosure	33
From the FASB: News, staff guidance, and in the pipeline.....	36
New chair named.....	36
Loan modifications.....	36
FASB staff Q&A on lease concessions related to COVID-19	36
FASB staff Q&A document on cash flow hedge accounting	37
Reference rate reform	37
Disclosure and presentation	37
Income taxes	38
Freestanding equity-classified forwards and options	39
Identifiable intangible assets and subsequent accounting for goodwill.....	39
Segment reporting	40
Clarifications to derivatives and hedging guidance	40
Disclosures by business entities about government assistance	40
From the federal financial institution regulators	42
Agencies respond to COVID-19	42
Loan modifications.....	42
Credit losses	43
Leases	46
OCC's Bank Accounting Advisory Series.....	46
Other interim and final rules	47
Paycheck Protection Program.....	48
PPP legislation	48
Interim rules and guidance	48
FAQs on PPP loans.....	50
Accounting guidance for PPP lenders.....	50
Key abbreviations and acronyms	52
Appendix A: ASUs for financial institutions – effective dates for public business entities (PBEs).....	55
Appendix B: ASUs for financial institutions – effective dates for nonpublic business entities (non-PBEs)	60

A note from the author

The year 2020 has been full of unprecedented challenges – the global pandemic, related impacts to the economy, and the government's fiscal and monetary response. I hope this message finds you, your friends, your family, and your colleagues safe.

On the accounting front, some U.S. Securities and Exchange Commission (SEC) filers have had to implement a major new accounting standard for credit losses in the first quarter of 2020, while other SEC filers and nonpublic business entities (non-PBEs) have until 2023 to adopt the new credit losses standard. The Financial Accounting Standards Board (FASB) and the federal financial institution regulators have been focused on helping institutions cope with the pandemic and the related dynamic financial reporting environment.

Standards with effective dates for PBEs and non-PBEs later than Jan. 1, 2020, are covered herein along with relevant updates from other stakeholders, including the federal financial institution regulators. We hope you find this information valuable, and we welcome your feedback.

Finally, I am grateful for the significant contributions of Alissa Doherty, senior manager in the Crowe national office, to this publication. Thank you to my partners Brad Davidson, from our national office, and JP Shelly, from our audit practice. As we close out 2020, I wish you, your family, and your friends a delightful holiday season, whether it's in person or virtually.

Sydney K. Garmong

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From the FASB: Major final standards

Credit losses

The final standard, issued on June 16, 2016, Accounting Standards Update (ASU) 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” significantly changes estimates for credit losses related to financial assets measured at amortized cost and certain other contracts. For estimating credit losses, the FASB is replacing the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The largest impact will be on lenders and the allowance for loan and lease losses (ALLL). Financial reporting cannot prevent another financial crisis like the one that began in 2007, but the CECL model will require financial institutions to recognize expected losses in a timelier manner, which in turn will provide investors with information earlier than under the incurred loss model.

The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, HTM debt securities, trade receivables, reinsurance receivables, and receivables from repurchase and securities lending agreements. It also applies to off balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. The scope excludes financial assets measured at fair value, AFS debt securities, loans made to participants by defined contribution employee benefit plans, policy loan receivables of an insurance company, pledge receivables of a not-for-profit entity, receivables between entities under common control, and derivatives and hedging instruments in the scope of ASC Topic 815.

Under the CECL model, financial statement preparers should address the following guidelines included in the standard:

- Consider available information relevant to assessing the collectability of contractual cash flows – including information about past events, current conditions, and reasonable and supportable forecasts – when developing an estimate of expected credit losses. Available information includes data that is available without undue cost and effort, and it may include data solely from internal sources, or it may include data from internal and external sources.
- Consider relevant qualitative and quantitative factors that relate to the environment in which the entity operates and are specific to the borrower.
- Consider all contractual cash flows over the contractual term of the related financial assets. Expected prepayments should be incorporated into the CECL model, but expected extensions, renewals, and modifications should not (unless a troubled debt restructuring [TDR] is expected).
- Evaluate financial assets on a collective (pool) basis when similar risk characteristics exist.
- In order to avoid double-counting, if a financial asset is evaluated on an individual basis (because similar risk characteristics do not exist with other financial assets at an institution), it should not be included in a collective evaluation.
- Reflect the risk of loss, even when remote. However, a loss is not required to be measured when the expectation of nonpayment is zero. For example, if the amount of collateral is such that no loss would be recognized in the event of default, a loss need not be recognized.
- Revert to an unadjusted historical loss experience for the future periods beyond which the entity is able to make or obtain reasonable and supportable forecasts. A straight-line method is one acceptable reversion method.
 - Of the guidelines in the standard, determining the reasonable and supportable forecast period is one of the most complex as it requires significant judgement. There are no bright lines contained in the standard when it comes to selecting the length of the period, which might

introduce some diversity in practice. Banking regulators have indicated that back-testing of the period will not be required to support the length of the period, but consideration should be given to consistency with other forecasts made or used at the same institution.

- Various methods may be used, including a discounted cash flow approach, loss rate methods, probability-of-default methods, and aging schedules.

AFS debt securities

The final standard also refines the other-than-temporary impairment (OTTI) model for AFS debt securities. Debt securities classified as “available-for-sale” are excluded from the scope of the CECL model and will continue to be within the scope of ASC 320, with the following modifications:

- A valuation allowance instead of a direct write-down of cost will be used for recognizing impairment losses, which will allow an entity to recognize reversals of credit losses.
- An entity is no longer required to consider the length of time that the fair value of an AFS debt security has been less than its amortized cost basis when estimating whether a credit loss exists.
- When estimating whether a credit loss exists, an entity is no longer required to consider recoveries or additional declines in the fair value after the balance sheet date.

In addition, a fair value floor is incorporated into the credit loss model for AFS debt securities such that the credit losses are limited to the difference between the debt security’s amortized cost basis and its fair value.

The guidance about when to recognize impairment for the full difference between amortized cost and fair value is retained and requires an entity to consider whether it intends to sell the security or it more likely than not will be required to sell the security before the recovery of its amortized cost basis. In addition, the requirement to consider the historical or implied volatility is removed and is no longer a factor that must be considered when estimating whether a credit loss exists. However, an entity is not prohibited from considering the volatility.

Purchased credit deteriorated (PCD) assets

The purchased credit impaired (PCI) model will be replaced with a PCD model. At acquisition (that is, on day one), the par or principal amount, allowance, and noncredit discount are recorded for all acquired assets with evidence of credit deterioration.

The par amount of an asset is recorded and the noncredit discount accreted into income over the life of the asset. The noncredit-related discount or premium resulting from acquiring a pool of PCD financial assets will be allocated to each individual financial asset, removing the ability to “pool” for the unit of account. In a change to GAAP, increases in expected cash flows are recognized in the allowance immediately instead of prospectively. Consistent with existing GAAP, decreases in expected cash flows will continue to be recognized immediately in the allowance under the new model.

The existing PCI model also is changed to, at acquisition, record an allowance for credit losses by “grossing up” the acquisition price. A discounted cash flow approach is not required to measure expected credit losses on PCD assets at the acquisition date, but the expected credit losses must be measured using the previously described CECL model.

In addition, the scope is expanded from assets acquired with “significant” credit deterioration under the PCI methodology to those that are acquired with “more than insignificant” credit deterioration under the PCD methodology. The scope does not, however, include all acquired financial assets or all assets acquired in a business combination.

Troubled debt restructurings

Credit losses on TDRs should be measured using the CECL methodology – a change from existing GAAP, which limits the measurement techniques for credit losses on TDRs to a discounted cash flow technique, fair value of the collateral, or fair value of the loan. Cost-basis adjustments will not be required, and credit losses – including the concession given to the borrower from a TDR – will be

recognized using an allowance account. This will provide opportunity for reversal upon increases in cash flows.

Beneficial interests

For certain beneficial interests, an allowance for expected credit losses for which there is a significant difference between contractual and expected cash flows will be measured and recognized. Changes in expected cash flows due to factors other than credit should be accreted into interest income over the life of the asset.

Disclosures

The standard retains many existing disclosures and introduces new disclosures, including:

- A description and discussion of the factors that influenced management's current estimate of expected credit losses, including reasonable and supportable forecasts about the future
- The method applied to revert to historical credit loss experience for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts
- The policies for writing off uncollectible receivables (which is current GAAP)
- The policies for accounting for nonaccrual financial assets, including policies for placing financial assets on nonaccrual status (which is current GAAP)
- Qualitative disclosures relating to collateralized financial assets (which applies only to collateral-dependent financial assets)
- A roll-forward of the allowance for expected credit losses, for both financial assets measured at amortized cost (for example, loans held for investment by portfolio segment) and fair value through OCI (for example, AFS debt securities by major security type)
- Vintage disclosure – a disaggregation of the credit-quality indicators for all classes of financing receivables (excluding revolving lines of credit such as credit cards) that are disclosed under current GAAP, by year of the asset's origination (that is, vintage year):
 - The disaggregation year would be limited to no more than five annual reporting periods, with the balance for financing receivables originated before the fifth annual reporting period shown in aggregate.
 - For an interim reporting period, the year-to-date originations of the current annual reporting period would be considered to be current-period originations.
 - For the purpose of determining the vintage year for disaggregated credit-quality disclosures, an entity would use the guidance for determining a new loan resulting from loan refinancing or restructurings in current GAAP.
 - Certain entities would be offered relief for the vintage disclosure:
 - For PBEs that are not SEC filers (as discussed under "Effective dates"), a practical expedient in transition is available to disclose only three years of the required vintage information in the year of adoption and four years in the year after adoption. In years thereafter, these entities must comply with the full five-year disclosure requirement.
 - For entities that are not PBEs, the vintage disclosure is optional.

Transition

- For debt securities with OTTI, the guidance will be applied prospectively. That is, the amortized cost basis including previous write-downs prior to adoption is the same cost basis at adoption.
- Existing PCI assets will be grandfathered and classified as PCD assets at the date of adoption. The assets will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the

yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.

- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

Effective dates

Recognizing the pervasive impact that the final standard will have, particularly on the financial institutions industry, the board decided to depart from its definitions of “public business entity” and “all other entities” for purposes of the effective dates.

The effective dates are as follows:

- For SEC filers, excluding smaller reporting companies, the standard will be effective for fiscal years beginning after Dec. 15, 2019, including interim periods in those fiscal years. For calendar year-end SEC filers, it is effective for March 31, 2020, interim financial statements.
- For all other entities, including SRCs, PBEs that are not SEC filers and non-PBEs, the standard is effective in fiscal years beginning after Dec. 15, 2022, and interim periods within. Thus, for calendar year-end companies, CECL will be effective for the first quarter of 2023.

For all entities, the board decided to permit early adoption using the original effective date for PBEs. All entities may early adopt for fiscal years beginning after Dec. 15, 2018, including interim periods in those fiscal years, which means that calendar year-end entities may adopt as early as the March 31, 2019, interim financial statements.

CARES Act provides option to delay

On April 3, 2020, the chief accountant of the SEC issued a [statement](#) noting the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) provides the option to temporarily defer or suspend the application of two provisions of GAAP and would be in accordance with GAAP. The two provisions of the act are Section 4013 and Section 4014, “Optional Temporary Relief From Current Expected Credit Losses.”

As such, eligible registrants can elect to take the delay. Registrants must make the election for the first quarter.

During the delay, a registrant would continue to use the incurred loss model for the ALLL for each quarter. The delay ends the earlier of the termination of the national emergency or Dec. 31, 2020. Regardless of when the national emergency ends, banks will be required to adopt CECL in the fourth quarter of 2020, retrospective to Jan. 1, 2020.

The result is all calendar year registrants will reflect CECL in their 2020 Form 10-K.

Clarifications: TRG meetings and related standard-setting

Codification improvements

The Transition Resource Group (TRG) for Credit Losses met on Nov. 1, 2018, to discuss implementation issues. The TRG’s memos and meeting agendas are available on its [meetings page](#).

On Nov. 7, 2018, the board [met](#) to discuss the TRG’s recommendations. The FASB directed the staff to draft an exposure draft that incorporates the board’s tentative decisions from the Nov. 7 meeting as well as those from prior board meetings covering CECL implementation issues held on Aug. 29, 2018, and Sept. 5, 2018.

On April 25, 2019, the FASB issued ASU 2019-04, “[Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial](#)

Instruments.” The ASU includes changes to three existing ASUs on credit losses, recognition and measurement, and hedging activities.

The changes to credit losses include:

- Topic 1: Codification improvements resulting from the June 11, 2018, and Nov. 1, 2018, Credit Losses TRG meetings
 - Issue 1A: Accrued interest
 - Measure the allowance on accrued interest receivable (AIR) balances separately from other components of the amortized cost basis and net investments in leases.
 - Make an accounting policy election to present AIR and the related allowance from the associated financial assets and net investments in leases on the balance sheet. If the AIR and related allowance are not presented as a separate line item on the balance sheet, an entity would disclose the AIR and related allowance for credit losses and where the balance is presented.
 - Elect a practical expedient to separately disclose the total amount of AIR included in the amortized cost basis as a single balance for certain disclosure requirements.
 - Make an accounting policy election to write off AIR by either reversing interest income or adjusting the allowance for credit losses.
 - Make an accounting policy election not to measure an allowance on AIR if an entity writes off the uncollectible accrued interest receivable balance in a timely manner.
 - Issue 1B: Transfers between classifications or categories for loans and debt securities
 - Reverse any allowance for credit losses or valuation allowance previously measured on a loan or debt security, transfer the loan or debt security to the new classification or category, and apply the applicable measurement guidance in accordance with the new classification or category.
 - Issue 1C: Recoveries
 - Include recoveries when estimating the allowance.
 - Recoverable amounts included in the allowance should not exceed the aggregate of amounts previously written off and expected to be written off. For collateral-dependent financial assets, an allowance that is added to the amortized cost basis should not exceed amounts previously written off.
- Topic 2: Codification improvements to ASU 2016-13 identified by stakeholders
 - Issue 2A: Conforming amendment to Subtopic 310-40, “Receivables – Troubled Debt Restructurings by Creditors” – corrects a cross-reference such that an entity is required to use the fair value of collateral when foreclosure is probable.
 - Issue 2B: Conforming amendment to Subtopic 323-10, “Investments – Equity Method and Joint Ventures (Topic 323)” – clarifies the equity method losses allocation guidance Subtopic 323-10 by adding cross-references to Subtopics 326-20 and 326-30 for subsequent accounting when the investor has other investments, such as loans and debt securities, in the equity method investee.
 - Issue 2C: Clarification that reinsurance recoverables are within the scope of Subtopic 326-20 – clarifies the board’s intent to include all reinsurance recoverables in the scope.
 - Issue 2D: Projections of interest-rate environments for variable-rate financial instruments – clarifies the board’s intent to provide flexibility by removing the prohibition of using projections of future interest-rate environments when using a discounted cash flow method to measure expected credit losses on variable-rate financial instruments. An entity should use the same projections or expectations of future interest-rate environments both in estimating expected cash flows and in determining the effective interest rate used to discount those expected cash flows.
 - Issue 2E: Consideration of prepayments in determining the effective interest rate (EIR) – permits an accounting policy election to adjust the EIR used to discount expected future cash flows for expected prepayments to appropriately isolate credit risk in determining the allowance.

- Issue 2F: Consideration of estimated costs to sell when foreclosure is probable – specifically requires that an entity consider the estimated costs to sell if it intends to sell, rather than operate, the collateral when foreclosure is probable.
- Topic 5: Proposed changes resulting from the Nov. 1, 2018, Credit Losses TRG meeting
 - Issue 5A: Vintage disclosures – line-of-credit arrangements converted to term loans – present the amortized cost basis of line-of-credit arrangements that are converted to term loans in a separate column as presented in example 15.
 - Issue 5B: Contractual extensions and renewals – clarifies that an entity should consider extension or renewal options (excluding those that are accounted for as derivatives in accordance with Topic 815) that are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the entity.

For entities that have not yet adopted ASU 2016-13, topics 1, 2, and 5 of ASU 2019-4 are effective on the same dates as ASU 2016-13. For entities that have already adopted ASU 2016-13, these amendments are effective for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.

Final ASU on negative allowances for PCD assets and other clarifications

On Nov. 26, 2019, the FASB issued ASU 2019-11, “Codification Improvements to Topic 326, Financial Instruments – Credit Losses,” to make improvements to the credit losses standard. Most significantly the standard permits entities to recognize expected recoveries (negative allowances) of previously written-off or expected-to-be-written-off PCD assets. However, recoveries or expected recoveries of the unamortized noncredit discount or premium would not be included in the allowance for credit loss. The ASU retains existing guidance that prohibits entities from recognizing a negative allowance on available-for-sale debt securities.

Other technical improvements include:

- For troubled debt restructurings, transition relief is provided to permit entities to calculate the prepayment-adjusted effective interest rate using prepayment assumptions as of the date of adoption.
- As a practical expedient, entities would be allowed to exclude the accrued interest receivables component of amortized cost basis from certain disclosures when the accrued interest receivables are measured and presented separately from the other components of amortized cost basis.
- For the collateral maintenance practical expedient, the scope and methodology for estimating credit losses when applying the collateral maintenance practical expedient in paragraph 326-20-35-6 are clarified.

Vintage disclosures: Gross write-offs and gross recoveries

At its Nov. 7, 2018, meeting, the board decided to clarify that gross recoveries and gross write-offs should be presented by vintage year and by class of financing receivable within the credit quality information vintage disclosure described in paragraph 326-20-50-6. This question was posed in response to the illustrative disclosure in example 15 in the ASU. The board had decided to issue a separate proposed ASU with a 60-day comment period.

At its Dec. 19, 2018, meeting, the board directed the staff to perform additional research. The topic was discussed at the Jan. 28, 2019, roundtable. Preparers expressed concern with obtaining the information given system limitations.

At its April 3, 2019, [meeting](#), the board also decided that the disclosure of gross charge-offs and recoveries within the vintage disclosures is not required as illustrated in example 15 of ASC 326-20-55-79 and that entities should follow the requirements in ASC 326-20-50-4 through 50-9.

The board plans to monitor the disclosures made upon adoption and consider additional outreach with investors to determine if changes should be made after the standard is effective.

Electing the fair value option at adoption

On May 15, 2019, the FASB issued ASU 2019-05, [“Financial Instruments – Credit Losses \(Topic 326\): Targeted Transition Relief.”](#) Upon adoption of the new credit losses standard, this ASU allows entities to make an irrevocable one-time election to use the fair value option to measure financial assets measured at amortized cost (except for held-to-maturity securities). The election is to be applied on an instrument-by-instrument basis.

For entities that have not yet adopted the credit losses standard, the new ASU will be effective upon adoption. For entities that have already adopted the credit losses standard, the ASU is effective for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years. Early adoption is permitted.

Incorporating SEC SAB 119

The FASB issued, on Feb. 6, 2020, ASU 2020-02, [“Financial Instruments – Credit Losses \(Topic 326\) and Leases \(Topic 842\): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases \(Topic 842\).”](#) This ASU inserts a paragraph to address the Nov. 19, 2019, issuance of SEC Staff Accounting Bulletin (SAB) 119, [“Accounting for Loan Losses by Registrants Engaged in Lending Activities Subject to FASB ASC Topic 326.”](#) The SAB updates existing staff guidance on developing a systematic methodology for estimating credit losses, and it explains the documentation the staff typically would expect from registrants in support of estimates of CECL for lending activities, when material.

FASB staff Q&As

Staff Q&A document: WARM method

On Jan. 10, 2019, the FASB staff released a question-and-answer (Q&A) document, [“Topic 326, No. 1, Whether the Weighted-Average Remaining Maturity Method Is an Acceptable Method to Estimate Expected Credit Losses,”](#) to address questions the staff has received about whether the weighted-average remaining maturity (WARM) method is an acceptable method to estimate expected credit losses. The WARM method was first introduced in a Feb. 27, 2018, webinar, [“Community Bank Webinar: Implementation Examples for the Current Expected Credit Losses Methodology \(CECL\),”](#) as an approach for smaller, less complex portfolios.

The Q&A addresses five questions specific to the WARM method:

1. Is the WARM method an acceptable method to estimate allowances for credit losses under Subtopic 326-20?

2. What factors should an entity consider when determining whether to use the WARM method?
3. How can an entity estimate the allowance for credit losses using a WARM method?
4. Are there other ways to perform the WARM estimation?
5. When an entity implements CECL using a loss rate method such as the WARM method, is it acceptable to adjust historical loss information for current conditions and the reasonable and supportable forecasts through a qualitative approach as was done in the example rather than a quantitative approach?

Second staff Q&A document and planned workshops

On July 17, 2019, the FASB staff issued its second Q&A document focusing on ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” Within the Q&A document, the staff provides answers to 16 frequently asked questions on the development of an estimate of expected credit losses. Topics covered include modeling requirements, using historical loss information, internal and external data sources, developing reasonable and supportable forecasts, the reversion to historical loss information, and qualitative factor adjustments among others.

On Oct. 21, 2019, the FASB announced a series of workshops to help community banks and credit unions implement the CECL standard. Presented by FASB staff experts at conferences and other venues, these workshops are interactive sessions focusing on credit loss reserve estimation techniques, including the weighted average remaining maturity method; answers to frequently asked questions; and common implementation issues identified by community banks and credit unions.

The FASB is working with the Conference of State Bank Supervisors to plan additional workshops based on each state’s training needs. Newly scheduled workshops will be announced on the FASB website as they become available.

Previous meetings of the Transition Resource Group for Credit Losses

The FASB formed a TRG for Credit Losses to assist the staff with the remaining transition and implementation issues for the credit loss standard. The TRG for Credit Losses solicits, analyzes, and discusses issues related to implementation of the CECL standard. The TRG for Credit Losses is led by Hal Schroeder, a FASB member, and comprises industry experts including banks, credit unions, insurance companies, and auditors. Financial institution regulators, the SEC, the Private Company Council (PCC), and the Public Company Accounting Oversight Board (PCAOB) serve as observers to the TRG’s activities.

The TRG’s memos and meeting agendas are available on its meetings page.

AICPA credit losses task force and Depository Institutions Expert Panel

The American Institute of CPAs (AICPA) is working with key stakeholders, including regulators and standard-setters, to facilitate discussion and resolution of CECL implementation issues. The AICPA’s objective is to document and communicate resolutions by the TRG, the Depository Institutions Expert Panel, or other stakeholders with the ultimate goal of producing an AICPA CECL accounting and audit guide. The AICPA has a CECL implementation page.

Auditing

On Sept. 9, 2019, the AICPA issued a practice aid, “Allowance for Credit Losses – Audit Considerations,” to assist auditors when communicating with management and audit committees on ASC 326. The practice aid addresses key considerations in auditing the allowance for credit losses related to loans under the ASU. Highlights of key areas within the auditing process include:

- Obtaining an understanding of the entity
- Assessing the risks
- Identifying the controls relevant to the audit
- Designing an audit response
- Performing audit procedures
- Evaluating the audit and disclosure considerations

While primarily written for auditors, the practice aid will be directly beneficial to lenders preparing to implement the new standard. The practice aid is part of a broader AICPA initiative and will be included in the AICPA Credit Losses A&A Guide planned for release next year.

Accounting

Additional guidance has been provided by the AICPA's Financial Reporting Executive Committee (FinREC) on the following issues:

- Zero Expected Credit Losses – Types of assets with an expected nonpayment of zero (such as agencies). This expands upon the guidance in ASU 2016-13, "Financial Instruments – Credit Losses," related to financial instruments where the expected credit loss determination is zero. Specifically, it covers example 8 in the ASU for U.S. Treasury securities and provides two additional examples – one for Ginnie Mae (GNMA) mortgage-backed securities and one for U.S. agency mortgage-backed securities.
- Reversion Method: Estimation vs. Accounting Policy. This provides FinREC's view that the reversion method that an entity selects in applying the CECL standard is an estimation technique and not an accounting policy election.
- Reasonable and Supportable Forecast – Developing the Period and Use of Historical Information. This covers FinREC's views on two issues: 1) considerations an entity would use to determine its reasonable and supportable forecast period and 2) how an entity would determine the historical loss information (that is, long-term average versus other methods) it will revert to once it is beyond a period in which it can make or obtain reasonable and supportable forecasts of future conditions that affect expected credit losses.
- Inclusion of Future Advances of Taxes and Insurance Payments in Estimates. Issues include whether a lender's expectations of future losses on payments of tax, insurance premiums, and other "costs" (that is, payments made by lenders that may not be recovered from borrowers) should be included in the estimate of expected lifetime credit losses prior to the lender advancing the funds or incurring the costs.
- Zero Expected Credit Loss Factors for Secured Financial Assets Secured by Collateral. Included are circumstances and factors appropriate to have no allowance for credit losses on secured financial assets.
- Scope Exception for Loans and Receivables Between Entities Under Common Control. Scope exception for loans and receivables between entities under common control apply to U.S. GAAP reporting at the subsidiary stand-alone level.

Discussions about CECL at the AICPA Banking Conference

Similar to prior years at the AICPA National Conference on Banks and Savings Institutions, which was held virtually Sept. 14-16, 2020, CECL was a focal point. Key takeaways from the CECL presentations include the following:

- SEC Association Chief Accountant of the Division of Corporation Finance Stephanie Sullivan commented that it is inappropriate to present non-GAAP metrics that adjust earnings to exclude the impact of CECL. However, she said the SEC does not object to institutions disclosing "pre-provision net revenue," as the metric is grounded in bank regulatory reporting.

- The FASB noted that the unfunded commitment expense geography is not addressed in the standard, which means the expense can be included in either the provision or noninterest expense.

Crowe issued a comprehensive report covering key takeaways from the conference and insights on economic, accounting, and regulatory updates as well as other banking hot topics.

Post-implementation review

At its quarterly meeting on Sept. 24, 2020, the Financial Accounting Standards Advisory Council (FASAC) discussed post-implementation review (PIR) of ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” with a focus on the initial costs and benefits of the standard.

This is the first in a series of discussions as part of the FASB’s PIR on the CECL standard and focused on trade receivables. Specifically, members noted that the adoption of the standard had an insignificant financial impact on the allowance for credit losses related to trade receivables. Given the minimal impact, FASAC members discussed whether the standard should be amended to either exclude trade receivables or provide an option to not apply the guidance to trade receivables. It was also noted that there might be a benefit for private companies applying the standard to trade receivables as it might provide more standardization in how entities calculate their trade receivables allowance for credit losses.

At its board meeting on Dec. 2, 2020, as part of its post-implementation review process, the FASB discussed feedback received on the post-issuance date implementation monitoring and post-effective date evaluation of costs and benefits related to ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” From the feedback, the board identified and discussed four issues for which it could consider making certain targeted improvements:

- Issue 1: Accounting for assets that do not qualify as purchased financial assets with credit deterioration (non-PCD financial assets)
- Issue 2: Accounting for troubled debt restructurings by creditors
- Issue 3: Amending the scope of financial assets included in ASU 2016-13
- Issue 4: Enhancing disclosures for ASU 2016-13

While no tentative decisions were made, the staff concluded that it will take these actions:

- Perform additional research and outreach on the accounting for non-PCD financial assets and TDRs for consideration as part of future request activities.
- Continue to monitor feedback related to the scope of financial assets included in ASU 2016-13.
- Continue to monitor feedback on disclosures under ASU 2016-13.
- Perform additional general outreach with stakeholders and accumulate feedback for presentation to the board at future meetings.

Leases

On Feb. 25, 2016, the FASB issued its standard on leases. ASU 2016-02, “Leases (Topic 842),” is the culmination of a joint project of the FASB and the IASB.

The lease standard applies to all lease contracts. A lease contract is defined as a contract, or part of a contract, that conveys the right to control the use of an asset for a time period in exchange for consideration. Under the standard, the right to control the use of an asset includes an assessment of the customer’s rights to obtain substantially all of the economic benefits from the asset and to direct the use of the asset.

Consistent with current GAAP, lessees will be permitted to make an accounting policy election to not recognize lease assets and liabilities for short-term leases (that is, lease terms that are 12 months or less, subject to certain conditions that are included in the definition of “short-term lease” and “lease term”) under the new standard. The “lease term” includes periods subject to an option to extend the lease if the lessee is reasonably certain to exercise that option. This means leases of 12 months or less with extension options that meet those criteria will come on balance sheet.

Lessees

Most leases today are considered operating leases, which are not accounted for on the lessees’ balance sheets. The significant change under the new standard is that those operating leases will be recorded on the balance sheet. All leases, whether finance or operating, will be on balance sheet unless they are subject to the short-term lease accounting policy election. A right-of-use (ROU) asset will be recorded to represent the right to use the leased asset, and a liability will be recorded to represent the lease obligation.

Most capital leases under existing GAAP will be accounted for as finance leases under the new standard (that is, recognizing amortization expense on the asset separately from interest expense on the liability). Most operating leases under existing GAAP will remain operating (that is, recognizing lease expense that consists of amortization expense on the asset and interest on the liability).

Under the new standard, after determining that a contract contains a lease, a lessee will need to evaluate whether the lease is finance or operating at the commencement of a new lease and upon change in the lease term or change in the lessee’s option to purchase the asset.

Generally consistent with existing GAAP, a lessee will assess whether it has met any of the five criteria in the new standard that are based on whether the lessee obtains control of the leased asset rather than merely control over the use of the leased asset, and if so, the lease will be classified as a finance lease (see paragraph BC56 of the ASU).

The differences in lease classification are outlined in the following table.

Lessee lease classification

Lease type	Finance lease	Operating lease
Has control of the leased asset passed to the lessee?	• Yes	• No
Lease type	• Financing approach	• Operating approach
Balance sheet	• Right-of-use asset • Lease liability	• Right-of-use asset • Lease liability
Income statement (characterization)	• Interest expense • Amortization expense	• Lease expense
Pattern of expense	• Front-loaded	• Straight-line
Cash flow statement	• Operating – cash paid for interest • Financing – cash paid for principal	• Operating – cash paid for lease payments

Lessors

Lessor accounting for direct-finance, sales-type, and operating leases is similar under existing GAAP and the new standard with a few differences. One change is to align the lessor income recognition model with the new revenue recognition standard, and another is to align the lessor classification model with that of the lessee.

A lessor will determine whether a lease should be classified as sales-type based on applying the same five criteria as lessees, and if any are met (that is, the lessee effectively obtains control of the leased asset), the lease will be classified as a sales-type lease. If the lease does not meet any of those initial five criteria, a lessor will determine if the lease meets the two criteria that trigger direct-finance lease classification. Those two criteria are 1) the present value of the sum of the lease payments and any additional guaranteed residual value equals or exceeds substantially all of the fair value of the leased asset, and 2) it is probable that the lessor will collect the lease payments and any guaranteed residual value.

Leases that do not meet any of the initial five criteria to be sales-type leases and that do not meet both criteria to be classified as direct-finance leases will be classified as operating leases.

Lessor lease classification

Lease type	Direct-finance or sales-type lease	Operating lease
Balance sheet	<ul style="list-style-type: none"> Net investment in the lease (unless for sales-type lease, collectibility is not probable, and the leased asset is not derecognized) 	<ul style="list-style-type: none"> Continue to recognize underlying asset
Income statement	<ul style="list-style-type: none"> Direct-finance: interest and profit over lease term, loss at commencement Sales-type: interest over lease term, profit/loss at commencement if collectibility is probable 	<ul style="list-style-type: none"> Lease income, typically straight-line
Cash flow statement	<ul style="list-style-type: none"> Operating – cash received for lease payments 	<ul style="list-style-type: none"> Operating – cash received for lease payments

Sale and leaseback transactions

Parties to a sale and leaseback transaction will be required to assess whether the sale of the property in question meets the criteria for a sale in the new revenue recognition standard, which focuses on elements of control. Because usually an operating lease conveys a right to control the use of an asset for the lease period and does not transfer control of the asset itself to the lessee, the existence of the leaseback will not prevent the buyer-lessor from obtaining control of the asset.

The new standard establishes that if the buyer-lessor in a sale and leaseback transaction determines that the leaseback should be classified as a sales-type or direct-finance lease, then no sale has occurred because control has not transferred to the buyer-lessor (see ASC 842-40-25-2). In that case, the buyer-lessor would not account for a purchase of the asset, and the seller-lessee would not account for a sale. In addition, repurchase options contained in a leaseback would preclude sale treatment – unless the repurchase option is exercisable only at the then-prevailing fair value and the lease asset is not specialized (see ASC 842-40-25-3).

Given the changes to sale and leaseback transactions under the new leases standard, the FASB has provided implementation guidance that addresses whether a sale has occurred in the context of a sale and leaseback transaction (see ASC 842-40-55).

In general, accounting by both parties – the buyer-lessor and the seller-lessee – will be consistent with the accounting for the purchase and sale of any other similar nonfinancial asset, and the leaseback will be consistent with that of any other lease. However, the standard does address sale and leaseback transactions entered into at off-market terms for which there is a difference between either 1) the sale price and the fair value of the underlying asset or 2) the present value of the contractual lease payments and the present value of market value lease payments, whichever is more readily determinable. For such off-market transactions, any deficiency will be accounted for in the same manner as a prepayment of rent, while any excess will be accounted for as additional financing provided by the buyer-lessor to the seller-lessee (see ASC 842-40-30-1 and 30-2).

Sale and leaseback transition guidance

Previously qualified as a sale under existing GAAP

Sale and leaseback transactions that occurred prior to the effective date and qualified as a sale under existing GAAP (ASC 840) should not be reassessed to determine whether they would have been a sale under the new guidance in ASC 842. There should be no change in the determination of previous transactions that qualified as sales prior to the effective date of ASC 842. The related leaseback transactions for those previous sales should be accounted for in transition in the same manner as required upon transition for other operating or capital leases by a lessee, or operating, direct financing, or sales-type leases by a lessor. In addition, any deferred gain or loss on previous sales should be accounted for as summarized here:

Previously a sale and capital leaseback: For sale and capital leaseback transactions under existing GAAP (ASC 840), the deferred gain or loss recorded by seller-lessees, at the later of the beginning of the earliest period presented or the date of sale, should continue to be amortized. If the underlying asset is land only, the deferred gain or loss should be amortized on a straight-line basis over the remaining lease term. If the underlying asset is not land only and the leaseback is a finance lease, the deferred gain or loss should be amortized in proportion to the ROU asset amortization. If the underlying asset is not land only and the leaseback is an operating lease, the deferred gain or loss should be amortized in proportion to the total lease cost recognized in the income statement.

Previously a sale and operating leaseback: For sale and operating leasebacks under existing GAAP, the deferred gain or loss recorded by seller-lessees should be recognized as an adjustment to the financial statements based upon whether the gain or loss resulted from off-market terms. Deferred gains or losses resulting from market terms should be recognized as a cumulative-effect adjustment at the later of the date of initial application (to equity) or the date of sale (to earnings of the comparative period presented).

Deferred losses resulting from off-market terms (that is, the consideration for the sale of the asset is not at fair value or the lease payments are not at market rates) should be reclassified by adjusting the leaseback ROU asset at the date of initial application. Deferred gains resulting from off-market terms should be reclassified to a financial liability at the date of initial application.

Failed sales under existing GAAP

Sale and leaseback transactions that occurred prior to the effective date and do not qualify as a sale under existing GAAP (that is, they were accounted for as failed sales under ASC 840) should be reassessed to determine whether the transactions would qualify as sales under the new guidance in ASC 842 during the transition period (that is, on or after the beginning of the earliest comparative period presented upon adoption of the new guidance).

No longer a failed sale: If the transaction now qualifies as a sale under the new guidance in ASC 842, it should be accounted for on a modified retrospective basis on the date of sale, and on that date, the related leaseback would be recognized in the same manner as required upon transition for other leases by a lessee or lessor.

Remains a failed sale: If the transaction continues to be a failed sale under the new guidance in ASC 842, there is no accounting upon transition, as no gain or loss is recorded and no leaseback is recognized.

Clarifications

1. Codification improvements

On March 5, 2019, the FASB issued ASU 2019-01, "[Leases \(Topic 842\): Codification Improvements](#)," which provides two clarifications for lessors that are not manufacturers or dealers, such as financial institutions and captive finance companies. The ASU also exempts lessees and lessors from certain interim disclosure requirements in the period of adoption of Topic 842.

The first clarification relates to the fair value of leased property and provides an exception, previously included in Topic 840, for lessors that are not manufacturers or dealers to measure the value of leased property at the underlying asset's cost, reflecting any volume or trade discounts, instead of applying Topic 820 for fair value measurement (that is, exit price). If a significant lapse of time occurs between the asset acquisition and lease commencement, the exception would not apply, and a fair value measurement consistent with Topic 820 would be required.

The second clarification provides that for financial institutions, the presentation of lease principal payments received from sales-type and direct financing leases should be presented within investing activities on the statement of cash flows.

Lastly, the ASU provides an exception to paragraph 250-10-50-3 interim disclosure requirements in the fiscal year in which an entity adopts the new lease standard.

The amendments, other than the exception to interim disclosure requirements, are effective for PBEs for fiscal years beginning after Dec. 15, 2019, and interim periods within those fiscal years. For all other entities, the effective date is for years beginning after Dec. 15, 2019, and interim periods within years beginning after Dec. 15, 2020. Early application is permitted.

The amendments related to the exception to interim disclosures are effective on the same dates as the requirements in Topic 842, as described under "Effective dates."

2. Improvements for lessors

On Dec. 10, 2018, the FASB issued ASU 2018-20, "Leases (Topic 842): Narrow-Scope Improvements for Lessors," to provide the following improvements to the lease accounting guidance for lessors:

- Lessors are allowed, as an accounting policy election, to not evaluate whether certain sales taxes and other similar taxes are lessor costs and instead account for those costs as if they are lessee costs by excluding them from lease revenue and expense.
- Lessors will exclude from variable payments, and therefore revenue and expenses, lessor costs paid by lessees directly to third parties. Lessors will account for costs that are reimbursed by lessees as variable payments and will record the amounts as revenue.
- Lessors will allocate, rather than recognize (as required in the initial guidance of Topic 842), variable payments to lease and nonlease components. The variable payments allocated to lease components will be recognized in accordance with Topic 842, and those allocated to nonlease components will be recognized in accordance with other guidance, including Topic 606, "Revenue From Contracts With Customers."

For entities that have not adopted Topic 842, this ASU has the same effective date as ASU 2016-02. See "Effective dates" later.

For entities that have adopted Topic 842, this ASU is effective at the original effective date of Topic 842 for those entities. Alternatively, early adoption is allowed in either the first reporting period ending after the issuance of this ASU or the first reporting period beginning after its issuance; for calendar year-end entities, that would be either the reporting period ending Dec. 31, 2018, or the period beginning Jan. 1, 2019.

3. Technical corrections and improvements

On July 18, 2018, the FASB issued ASU 2018-10, “Codification Improvements to Topic 842, Leases,” which corrects inconsistencies in the guidance and clarifies how to apply certain provisions of the leases standard. The amendments in ASU 2018-10 target 16 issues:

- Residual value guarantees
- Rate implicit in the lease
- Lessee reassessment of lease classification
- Lessor reassessment of lease term and purchase option
- Variable lease payments that depend on an index or a rate
- Investment tax credits
- Lease term and purchase option
- Transition guidance for amounts previously recognized in business combinations
- Recognition of certain transition adjustments in earnings rather than equity
- Transition guidance for leases previously classified as capital leases under Topic 840
- Transition guidance for modifications to leases previously classified as direct financing or sales-type leases under Topic 840
- Transition guidance for sale and leaseback transactions
- Impairment of net investment in the lease
- Unguaranteed residual asset
- Effect of initial direct costs on rate implicit in the lease
- Failed sale and leaseback transaction

ASU 2018-10 amends the guidance in Topic 842 issued in ASU 2016-02, and the effective date and transition requirements are consistent with ASU 2016-02. For entities that early adopted ASU 2016-02, the amendments are effective upon issuance.

4. Simplifications for transition and component separation

The FASB issued, on July 30, 2018, ASU 2018-11, “Leases (Topic 842): Targeted Improvements,” to provide an optional transition method for adopting the new leases guidance in Topic 842 that will eliminate comparative period reporting under the new guidance in the year of adoption. This option addresses preparer feedback about the related costs of presenting comparative periods. Under the optional transition method, only the most recent period presented will reflect the adoption with a cumulative-effect adjustment to the opening balance of retained earnings, and the comparative prior periods will be reported under the previous guidance in Topic 840.

In addition, the ASU offers lessors a practical expedient that mirrors the practical expedient already provided to lessees in ASU 2016-02, “Leases (Topic 842).” The new practical expedient will allow lessors to elect, by class of underlying asset, to not separate nonlease components from the associated lease component when specified conditions are met. The practical expedient must be applied consistently for all lease contracts.

For lessors electing the practical expedient related to separating components of a contract, the effective date and transition requirements are the same as the requirements for Topic 842 issued in ASU 2016-02. For entities that have early adopted Topic 842, the ASU provides specific transition guidance for lessors electing the practical expedient.

5. Practical expedient for land easements

In its first standard of the year, issued Jan. 25, 2018, ASU 2018-01, “Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842,” the FASB simplified transition to the lease accounting guidance specifically for land easements. A land easement is “a right to use, access, or cross another entity’s land for a specified purpose,” often referred to as a “right-of-way.” The simplification is for entities that apply existing accounting guidance other than Topic 840, “Leases.” Some entities use Topic 350, “Intangibles – Goodwill and Other,” or Topic 360, “Property, Plant, and Equipment,” to account for land easements, and for those entities, assessing whether existing or expired land easements meet the definition of a lease under the new guidance in Topic 842 would be costly and complex.

With the simplification in ASU 2018-01, entities may elect a practical expedient in transition for land easements that were not previously accounted for under Topic 840. For those existing or expired land easements only, the practical expedient allows entities to forego the lease evaluation under Topic 842 and continue applying current accounting policies. New or modified land easements will be evaluated prospectively under Topic 842.

This ASU is effective consistent with ASU 2016-02, “Leases (Topic 842).” See the next section, “Effective dates.”

Effective dates

For PBEs and certain not-for-profit entities and employee benefit plans, the lease accounting standard is effective for interim and annual periods beginning after Dec. 15, 2018, which first applies to March 31, 2019, interim financial statements for calendar year-end PBEs.

For PBEs that qualify as a PBE solely due to the requirement to include or the inclusion of its financial statements or financial information in another entity’s SEC filing (“certain PBEs”), the SEC will allow those certain PBEs to elect to apply the non-PBE effective dates for the lease accounting standard. See ASU 2017-13, which codifies the SEC staff announcement from the July 20, 2017, EITF meeting.

Further, codified in ASU 2020-02, the SEC will not object to these “certain PBEs” adopting ASU 842 for fiscal years beginning after Dec. 15, 2020, and interim periods within fiscal years beginning after Dec. 15, 2021, in accordance with ASU 2019-10.

For private companies, ASU 2020-05 delays the effective date of Topic 842 to annual reporting periods beginning after Dec. 15, 2021, and to interim periods within fiscal years beginning after Dec. 15, 2022, which first applies to Dec. 31, 2022, annual financial statements for calendar year-end entities.

Early adoption is permitted upon issuance.

Transition

- Lessees will have a modified retrospective transition for finance and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented.
- Lessors will have a modified retrospective transition for sales-type, direct-finance, and operating leases existing at, or entered into after, the date of initial application.

Under the modified retrospective transition, the earliest historical periods presented will need to be revised. Practical expedients have been provided for transition, including the option to make an accounting policy election that provides relief from reassessing the existence and classification of leases in contracts that commence before the effective date, as discussed in the next section.

Practical expedients for transition

Practical expedient package: An entity may elect to apply three practical expedients as a package to all of its leases as follows:

1. Any expired or existing contract that commences before the effective date need not be reassessed to determine whether it is or contains a lease.
2. The classification of any expired or existing lease that commences before the effective date need not be reassessed. Thus, all operating leases will remain classified as operating, and all capital leases will be classified as finance.
3. Initial direct costs need not be reassessed for any existing lease.

Use of hindsight: Separately, an entity may elect to use hindsight in determining the lease term for all leases (that is, when considering lessee options to extend or terminate the lease and to purchase the lease asset) and in assessing impairment of the ROU assets.

Center for Audit Quality (CAQ) resource

On April 4, 2018, the CAQ released a new tool, "[Preparing for the Leases Accounting Standard: A Tool for Audit Committees](#)," that can be used by audit committees to enhance their oversight of management's implementation of the leases accounting standard. The tool includes questions that audit committees can ask management and their auditors, and it is organized into four sections:

- **Understanding the new leases standard**, including identification of all contracts with leases and for lessees, measurement of the new ROU asset, and lease liability
- **Evaluating the company's impact assessment**, including disclosure of the expected impact on the financial statements as well as the impact on debt covenants, regulatory compliance, and other considerations
- **Evaluating the implementation project plan**, including an evaluation of the timeline, the corporate culture, involvement of key stakeholders, accounting policies and judgments, and systems and controls
- **Other implementation considerations**, such as transition methods and disclosure requirements

Proposed changes to lease guidance

On Oct. 20, 2020, the FASB issued a proposed ASU, "[Leases \(Topic 842\): Targeted Improvements](#)," intended to improve three areas of the leases guidance.

The amendments in the proposed ASU target the following areas:

- For lessors, it would amend lease classification requirements for leases in which the lease payments are predominantly variable by requiring lessors to classify and account for those leases as operating leases.
- For lessees, it would provide the option to remeasure lease liabilities for changes in a reference index or a rate affecting future lease payments at the date that those changes take effect.
- For both lessees and lessors, it would provide that when a separate lease component within a contract is terminated and the economics of the remaining lease components remain substantially the same as before the partial termination of that contract, a lessee or lessor would not apply modification accounting to the remaining lease components.

Comments were due Dec. 4, 2020.

Roundtable discussion on leases implementation

On Sept. 18, 2020, the FASB [held](#) its public roundtable discussion on its leases accounting standard implementation. The discussion focused on broad technical issues that organizations have found challenging. The virtual roundtable was held in two sessions, and the [recording](#) was archived for later viewing on the FASB website.

Hedging activities

In what the FASB is calling “targeted improvements,” the board issued guidance to simplify hedge accounting that significantly expands the ability of entities to qualify for hedge accounting. On Aug. 28, 2017, the FASB issued ASU 2017-12, “[Derivatives and Hedging \(Topic 815\): Targeted Improvements to Accounting for Hedging Activities](#),” to simplify certain aspects of hedge documentation, effectiveness assessments, and accounting and disclosures. This update, several years in the making, offers simplification, opens the doors to new strategies, and may entice nonhedgers to become hedgers.

These are the most significant changes applicable to financial institutions:

Fair value hedges

- Allows cash flows based on benchmark interest rates to be used in assessment of effectiveness, substantially reducing ineffectiveness in hedges of interest rates
- Permits partial-term hedging (for example, hedging of first two years of 10-year instrument) without causing ineffectiveness
- Introduces a new hedge method (“last-of-layer”), which allows for simplified hedging of pools of fixed-rate financial instruments (for example, mortgage loans)
- Provides for a reclassification of certain debt securities from held-to-maturity to available-for-sale only if the debt security is eligible to be hedged using the last-of-layer method (Any unrealized gain or loss existing at the time of transfer is recorded in accumulated other comprehensive income. As a permitted activity, the reclassification of securities will not taint future held-to-maturity classification so long as the securities transferred are eligible to be hedged under the last-of-layer method.)

Cash flow hedges

- Replaces benchmark rate concept with contractually specified rate (for example, permits direct hedging of prime interest rate)

Both fair value and cash flow hedges

- Permits certain hedges to use qualitative quarterly effectiveness assessments instead of quantitative assessments (for example, regression analysis), even if not 100% effective
- Allows migration to long-haul method if shortcut method is determined to be inappropriate
- No longer measures or records ineffectiveness; if effective (80 to 125%), records hedges as if fully effective

Clarifications

1. Update to permissible U.S. benchmark interest rates for hedge accounting

On Oct. 25, 2018, the FASB issued ASU 2018-16, “[Derivatives and Hedging \(Topic 815\): Inclusion of the Secured Overnight Financing Rate \(SOFR\) Overnight Index Swap \(OIS\) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes](#),” to expand the number of benchmark interest rates that can be used in accounting hedge designations. The ASU adds the OIS rate based on SOFR as a U.S. benchmark interest rate to facilitate the transition from the London Interbank Offered Rate (LIBOR) to SOFR and provides sufficient lead time to prepare for changes to interest-rate risk hedging strategies for both risk management and hedge accounting purposes.

Existing benchmarks under Topic 815 include U.S. Treasury, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate. The OIS rate based on SOFR would be the fifth U.S. benchmark rate. Similar to the Fed Funds OIS rate, which is a swap rate based on the underlying overnight Fed Funds Effective Rate, the OIS rate based on SOFR will be a swap rate based on the underlying overnight SOFR rate.

Including the OIS based on SOFR as a benchmark interest rate will help institutions transition away from LIBOR by providing an alternative rate.

For entities that have not adopted ASU 2017-12, this standard, ASU 2018-16, will be effective concurrent with ASU 2017-12. See the section "Effective dates." If ASU 2017-12 was early adopted, then ASU 2018-16 can be early adopted, including in an interim period. If ASU 2017-12 has been adopted, the effective date for ASU 2018-16 is:

- For PBEs, fiscal years beginning after Dec. 15, 2018, and interim periods within
- For non-PBEs, fiscal years beginning after Dec. 15, 2019, and interim periods within

2. Hedge accounting clarifications

On April 25, 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." The ASU includes changes to hedging activities, in addition to two other existing ASUs. The eight changes for hedging are:

- Issue 3A: Partial-term fair value hedges of interest-rate risk
 - Clarifies that an entity may designate and measure the change in fair value of a hedged item attributable to both interest-rate risk and foreign exchange risk in a partial-term fair value hedge. The proposal also clarifies that one or more separately designated partial-term fair value hedging relationships of a single financial instrument can be outstanding at the same time.
- Issue 3B: Amortization of fair value hedge basis adjustments
 - Clarifies that an entity may, but is not required to, begin to amortize a fair value hedge basis adjustment before the fair value hedging relationship is discontinued. If an entity elects to amortize the basis adjustment during an outstanding partial-term hedge, that basis adjustment should be fully amortized on or before the hedged item's assumed maturity date in accordance with paragraph 815-25-35-13B.
- Issue 3C: Disclosure of fair value hedge basis adjustments
 - Clarifies that available-for-sale debt securities should be disclosed at their amortized cost and that fair value hedge basis adjustments related to foreign exchange risk should be excluded from the disclosures required by paragraph 815-10-50-4EE.
- Issue 3D: Consideration of the hedged contractually specified interest rate under the hypothetical derivative method
 - Clarifies that an entity should consider the contractually specified interest rate being hedged when applying the hypothetical derivative method.
- Issue 3E: Scope for not-for-profit entities
 - Clarifies that a not-for-profit entity that does not separately report earnings may not elect the amortization approach for amounts excluded from the assessment of effectiveness for fair value hedging relationships. Also updates the cross-references in paragraph 815-10-15-1 to further clarify the scope of Topic 815 for entities that do not report earnings separately.
- Issue 3F: Hedge accounting provisions applicable to certain private companies and not-for-profit entities
 - Clarifies that a private company that is not a financial institution as described in paragraph 942-320-50-1 should document the analysis supporting a last-of-layer hedge

designation concurrently with hedge inception. Also clarifies that not-for-profit entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market) should be provided with the same subsequent quarterly hedge effectiveness assessment timing relief provided to certain private companies in paragraph 815-20-25-142.

- Issue 3G: Application of a first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments
 - Clarifies that application of the first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments continues to be permitted.
- Issue 3H: Update 2017-12 transition guidance
 - Provide clarification about the three transition requirements in ASU 2017-12:
 1. Clarifies that when an entity modifies a fair value hedge to measuring the hedged item using the benchmark rate component of the contractual coupon, the hedging relationship can be rebalanced, but new hedged items and hedging instruments cannot be added to the hedge.
 2. Clarifies that an entity may transition from a quantitative method of hedge effectiveness assessment to a method comparing critical terms without dedesignating an existing relationship.
 3. Clarifies that debt securities reclassified from held-to-maturity (HTM) to available-for-sale following paragraph 815-20-65-3(e)(7) would not call into question an entity's assertion to hold to maturity those securities that continue to be classified as HTM, are not required to be designated in a last-of-layer hedge relationship and may be sold after reclassification.

Effective dates

For PBEs, the update is effective for fiscal years beginning after Dec. 15, 2018, and interim periods within. For non-PBEs, it is effective for fiscal years beginning after Dec. 15, 2020, and interim periods beginning after Dec. 15, 2021.

For ASU 2019-04, entities that have not yet adopted ASU 2017-12, the effective dates and transition requirements are the same as those for ASU 2017-12. For entities that have adopted ASU 2017, the effective date is as of the beginning of the first annual period beginning after the issuance date of ASU 2019-04.

Transition

Certain items must be applied using the modified retrospective method with an adjustment to opening retained earnings, while others may be applied only prospectively. Caution should be used when adopting as certain elections are permitted only during adoption.

Under ASU 2019-04, entities that have already adopted ASU 2017-12 can elect to either retrospectively apply all of the amendments in ASU 2019-04 or to prospectively apply all of the amendments, with a few exceptions.

Financial instruments: Recognition and measurement

The FASB issued ASU 2016-01, "[Financial Instruments – Overall \(Subtopic 825-10\): Recognition and Measurement of Financial Assets and Financial Liabilities](#)," on Jan. 5, 2016.

The final standard, currently effective for all entities, includes substantial changes for equity investments, including securities and certain partnership interests, deferred-tax assets (DTAs) on available-for-sale (AFS) securities, and certain disclosures.

Clarification between accounting standards

On Jan. 16, 2020, the FASB issued ASU 2020-01, "[Investments – Equity Securities \(Topic 321\)](#),"

Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815 (a Consensus of the Emerging Issues Task Force).” The ASU clarifies the interaction between ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” and the ASU on equity method investments.

ASU 2016-01 provides companies with an alternative to measure certain equity securities without a readily determinable fair value at cost, minus impairment, if any, unless an observable transaction for an identical or similar security occurs. ASU 2020-01 clarifies that for purposes of applying the Topic 321 measurement alternative, an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting under Topic 323 immediately before applying or upon discontinuing the equity method.

In addition, the new ASU provides direction that a company should not consider whether the underlying securities would be accounted for under the equity method or the fair value option when it is determining the accounting for certain forward contracts and purchased options, upon either settlement or exercise.

Effective dates and transition

For public business entities, the ASU is effective for fiscal years beginning after Dec. 15, 2020, and interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after Dec. 15, 2021. Early adoption is permitted, and the amendments are to be applied prospectively.

Revenue recognition

In an effort to improve current GAAP and eliminate industry-specific guidance, the FASB and the International Accounting Standards Board (IASB) took on a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards (IFRS). On May 28, 2014, the two boards jointly issued their converged standard on the recognition of revenue from contracts with customers. The new revenue recognition standard, ASU 2014-09, “Revenue From Contracts With Customers (Topic 606),” is intended to substantially enhance the quality and consistency of how revenue is reported while also improving the comparability of the financial statements of companies using GAAP and those using IFRS. The standard replaces previous GAAP guidance on revenue recognition in Accounting Standards Codification (ASC) 605 and eliminates industry-specific guidance.

The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, the following five steps are applied:

- **Step one:** Identify the contract with a customer.
- **Step two:** Identify the performance obligations (promises) in the contract.
- **Step three:** Determine the transaction price.
- **Step four:** Allocate the transaction price to the performance obligations in the contract.
- **Step five:** Recognize revenue when (or as) the reporting organization satisfies a performance obligation.

Scoping issues for financial institutions

Given that most financial instruments (including debt securities, loans, and derivatives) are not in the scope of ASC 606, wholesale changes are not expected for the financial institutions industry. However, noninterest income revenue streams will need to be evaluated.

The AICPA revenue recognition task force for depository institutions evaluated the various areas to determine what is in scope and what is not, and the task force submitted issues to the TRG for consideration. Two implementation issues were posted to the [task force's page](#) on the AICPA's Financial Reporting Center and were included in the AICPA Audit and Accounting Guide for Revenue Recognition:

- Issue No. 1, "Scope Issues," which addresses the revenue recognition scoping issues for financial institutions

The following table lists various revenue streams that are in and out of scope for the revenue recognition standard.

Out of scope	In scope
Interest income	Service charges on deposit accounts
Trading revenue	Asset management fees
Loan servicing fees	Gains or losses on other real estate owned
Credit card fees	Interchange fees
Guarantee fees	

- Issue No. 4, "Sale of Non-Operating Assets (Other Real Estate Owned)"

Effective dates

Per ASU 2020-05, for all entities that have not yet adopted Topic 606 (that is, entities that have not yet issued financial statements or made their financial statements available for issuance reflecting the adoption of Topic 606), the effective date will be for annual reporting periods beginning after Dec. 15, 2019, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2020. Early application is permitted.

Transition

Transition is allowed with the selection of one of two methods:

1. Full retrospective application to each prior reporting period presented, and an election of any of the following practical expedients:
 - Completed contracts that begin and end within the same annual reporting period do not need to be restated.
 - When variable consideration is included in completed contracts, the transaction price at the contract completion date may be used to record revenue rather than estimating variable consideration amounts in the comparative reporting periods.
 - In reporting periods prior to the date of initial application, disclosure may be omitted for both the amount of the transaction price allocated to remaining performance obligations and for an explanation of when the entity expects to recognize that remaining revenue.
2. Modified retrospective application with a cumulative effect adjustment to the opening retained earnings balance in the year of adoption. Under this method, an entity must disclose the following in the interim and annual reporting periods that include the initial application:
 - The quantitative impact in the current reporting period, by financial statement line item, of the application of the new revenue recognition standard as compared to prior GAAP
 - An explanation of the reasons for significant changes

From the FASB: Other final standards

Income taxes

Simplifications to income tax accounting

On Dec. 18, 2019, the FASB issued ASU 2019-02, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," to reduce cost and complexity in accounting for income taxes in Topic 740.

The amendments remove the following exceptions from Topic 740:

- Exception to the incremental approach for intraperiod tax allocation
- Exceptions to accounting for basis differences when there are ownership changes in foreign investments
- Exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses

Simplifications included in the ASU relate to:

- Franchise taxes that are partially based on income
- Transactions with a government that result in a step up in the tax basis of goodwill
- Separate financial statements of legal entities that are not subject to tax
- Enacted changes in tax laws in interim periods
- Employee stock ownership plans and investments in qualified affordable housing projects when using the equity method

Effective dates

For public business entities, the amendments are effective for fiscal years beginning after Dec. 15, 2020, and interim periods within. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022. Early adoption is permitted.

Transition

The amendments related to separate financial statements of legal entities that are not subject to tax should be applied on a retrospective basis for all periods presented. The amendments related to changes in ownership of foreign equity method investments or foreign subsidiaries should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The amendments related to franchise taxes that are partially based on income should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. All other amendments should be applied on a prospective basis.

Reference rate reform

Accounting relief from reference rate reform

On March 12, 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from LIBOR or other interbank offered rate on financial reporting.

To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The main provisions include:

- A change in a contract's reference interest rate would be accounted for as a continuation of that contract rather than as the creation of a new one for contracts, including loans, debt, leases, and other arrangements, that meet specific criteria.
- When updating its hedging strategies in response to reference rate reform, an entity would be allowed to preserve its hedge accounting.

The guidance is applicable only to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued.

Because the guidance is meant to help entities through the transition period, it will be in effect for a limited time and will not apply to contract modifications made and hedging relationships entered into or evaluated after Dec. 31, 2022, except for hedging relationships existing as of Dec. 31, 2022, for which an entity has elected certain optional expedients that are retained through the end of the hedging relationship.

The amendments in this ASU are effective for all entities as of March 12, 2020, through Dec. 31, 2022.

Consolidation and business combinations

Targeted improvements to variable interest entity (VIE) model – related party guidance

On Oct. 31, 2018, the FASB issued ASU 2018-17, "Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities," that aims to improve VIE guidance for related party matters that have arisen related to the consolidation guidance in ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis."

The guidance supersedes the private company accounting alternative for common control leasing arrangements provided by ASU 2014-07, "Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements," and expands it to all qualifying common control arrangements. Private entities can elect not to apply VIE consolidation guidance to any arrangement with legal entities that are under common control if neither the parent nor the legal entity is a PBE. The accounting policy election must be applied to all current and future legal entities under common control consistently, and other consolidation guidance including the voting interest entity guidance remains applicable. When a private company makes the policy election, it must provide detailed disclosures about involvement with, and exposure to, the legal entity under common control.

In addition, the ASU revises the analysis for determining whether a decision-making fee paid by a VIE is a variable interest such that indirect interests in a VIE held through related parties in common control arrangements would be considered on a proportional basis (thus eliminating the requirement to consider such indirect interests as the equivalent of a direct interest). This revision is consistent with the analysis for determining whether a reporting entity in a related party group is the primary beneficiary of a VIE by including indirect interests on a proportional basis (pursuant to amendments in ASU 2016-17).

These amendments are expected to result in more decision-makers not consolidating VIEs.

Effective dates

For organizations that are not private companies, the amendments are effective for fiscal years beginning after Dec. 15, 2019, and interim periods within. The amendments are effective for a private company for fiscal years beginning after Dec. 15, 2020, and interim periods within fiscal years beginning after Dec. 15, 2021. Early adoption is permitted.

Transition

Retrospective application to the earliest period presented is required.

Intangibles

Implementation costs in a cloud computing arrangement

In 2015, the FASB issued ASU 2015-05, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement,” to provide guidance for fees paid in a cloud computing arrangement (CCA, also known as a hosting arrangement). The most common example of a CCA is a software-as-a-service (SaaS) arrangement – it uses internet-based application software hosted by a service provider or third party.

Under ASU 2015-05, an entity evaluates a CCA to determine whether the arrangement includes a license (in which case, an intangible is recorded for the license) or whether the arrangement is a service contract (in which case, fees paid are expensed).

To address diversity in practice and simplify accounting for implementation costs associated with CCAs, on Aug. 29, 2018, the FASB issued ASU 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a Consensus of the EITF).” This ASU simplifies the accounting for implementation costs by aligning the guidance for CCAs regardless of whether they include a license.

Implementation costs for CCAs that are service contracts will be capitalized during the application development stage and costs incurred before and after that stage will be expensed as incurred. The capitalized implementation costs will be amortized over the term of the arrangement, which is consistent with existing accounting guidance for CCAs that include a license.

The amortization of the capitalized implementation costs will be presented in the same income statement line as the CCA fees. Similarly, capitalized implementation costs will be presented in the same line on the balance sheet as any prepaid CCA fees and cash flows from capitalized implementation costs will be presented on the cash flow statement in the same line as the CCA fees.

Effective dates

For PBEs, ASU 2018-15 will be effective for fiscal years beginning after Dec. 15, 2019, and interim periods within, which is first effective for calendar year PBEs in the March 31, 2020, interim financial statements. For all other entities, it is effective for annual reporting periods beginning after Dec. 15, 2020, and interim periods within annual periods beginning after Dec. 15, 2021. Early adoption is permitted, including in an interim period.

Transition

An entity can choose between prospective and retrospective transition.

Goodwill impairment

On Jan. 26, 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” What started as a recommendation by the PCC to permit private entities to amortize goodwill has resulted in a standard to simplify goodwill impairment testing for all entities that have goodwill reported in their financial statements, by eliminating the second step in the current goodwill impairment test. The topic of amortizing goodwill remains on the FASB’s research agenda.

Under the new guidance, the FASB removed the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value (that is, the board removed step two of the impairment test in current GAAP). Under current GAAP, step two includes determining the implied fair value of goodwill and comparing it to the carrying amount of goodwill. Under the new guidance, entities will compare the fair value of a reporting unit to its carrying amount and record impairment for the amount by which the carrying amount exceeds the fair value.

The FASB also removed the requirements that reporting units with zero or negative carrying amounts perform a qualitative assessment, and if they fail that qualitative test, to perform step two. As such, the same impairment test will apply to all reporting units, regardless of carrying amount. Entities will be

required, however, to disclose the amount of goodwill attributable to those reporting units that have a zero or negative carrying amount.

Entities still have the option to apply a qualitative assessment of a reporting unit to determine if a quantitative impairment test is required.

Effective dates (as amended by ASU 2019-10)

For PBEs that are SEC filers, excluding entities eligible to be smaller reporting entities as defined by the SEC, the standard is effective for annual or any interim goodwill impairment tests in fiscal years beginning after Dec. 15, 2019. For calendar year-end SEC filers, it first applies to tests performed on or after Jan. 1, 2020.

For all other entities, it is effective for annual or any interim goodwill impairment tests in fiscal years beginning after Dec. 15, 2022. For calendar year-end non-PBEs, it first applies to tests performed on or after Jan. 1, 2023.

Early adoption is permitted for all entities' interim or annual goodwill impairment tests performed on testing dates after Jan. 1, 2017.

Transition

Prospective application is required.

Liabilities and equity

Distinguishing liabilities from equity – convertible instruments and contracts in an entity's own equity

The FASB issued, on Aug. 5, 2020, ASU 2020-06, "Debt – Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity," to clarify the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments in this update reduce the number of accounting models for convertible debt instruments and convertible preferred stock by removing the cash conversion model and the beneficial conversion feature model. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract. Convertible instruments that continue to be subject to separation models are 1) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting and 2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital. In addition, this ASU improves disclosure requirements for convertible instruments and earnings-per-share guidance. The ASU also revises the derivative scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events.

Effective dates

For PBEs that meet the definition of an SEC filer (excluding smaller reporting entities), the amendments are effective for fiscal years beginning after Dec. 15, 2021, and interim periods within. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2023, and interim periods within. Early adoption is permitted, but no earlier than for fiscal years beginning after Dec. 15, 2020.

Distinguishing liabilities from equity – financial instruments with down round features

The FASB issued, on July 13, 2017, ASU 2017-11, "Earnings Per Share (Topic 260); Distinguishing Liabilities From Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments With Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception," to address two separate issues.

This guidance addresses concerns with the complexity of accounting for certain financial instruments with down round features (for example, features that reduce the strike price of a financial instrument based on future equity offerings at a price less than the stated strike price). This ASU eliminates the requirement that an entity consider down round features when determining whether a financial instrument is indexed to its own stock under the liability or equity classification analysis, so that under the new guidance, an instrument with down round features will not be liability classified solely because of the down round features. Instead, for warrants and other freestanding equity-classified financial instruments with down round features, companies that present earnings per share (EPS) will recognize the effect of a down round feature when it is triggered as a dividend and a reduction of income available to common shareholders in basic EPS.

Also, companies now will apply existing guidance for contingent beneficial conversion features (BCFs) to their convertible instruments with down round features (for example, debt or preferred stock convertible to common stock). Similar to warrants, down round features for convertible instruments (or BCFs) will be recorded only when the triggering event occurs, but unlike warrants, triggered BCFs will be recognized regardless of whether EPS is presented. BCFs are recorded as a discount to the convertible instrument with an offsetting credit to additional paid-in capital (APIC), and debt discounts are accreted to interest expense, while discounts to preferred stock are accreted to retained earnings and reported as a deemed dividend.

The ASU also requires disclosure of the conversion and exercise price change features (such as down round features) for equity-classified instruments. In the period that the down round feature is triggered, companies are required to disclose that fact and the value of the effect of the feature that has been triggered.

Effective dates

Amendments are effective for PBEs for fiscal years beginning after Dec. 15, 2018, and interim periods within. For all other entities, amendments are effective for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020. Early adoption is permitted for all entities, including in an interim period.

Compensation and benefits

Improvements to nonemployee share-based payments

On June 20, 2018, the FASB issued ASU 2018-07, "[Compensation – Stock Compensation \(Topic 718\): Improvements to Nonemployee Share-Based Payment Accounting](#)," to simplify the accounting for nonemployee share-based payments for goods or services to be used in a grantor's own operations, by aligning it with and including it within the scope of Topic 718 for employee share-based compensation. Although uncommon, some financial institutions may issue awards to nonemployees providing advisory or consulting services (for example, legal advice, investment banking advice).

The guidance clarifies that the following are outside the scope of Topic 718:

- Share-based payments to provide financing to the issuer
- Share-based payments to grant awards in conjunction with selling goods or services to customers as part of a contract under Topic 606, "Revenue From Contracts With Customers"

Under the new guidance, the following changes will apply to nonemployee share-based payment awards:

- Instead of measuring at the fair value of the consideration received or the fair value of the equity instruments issued as required under previous GAAP, the awards will be measured at grant date fair value.
- Instead of measuring at the earlier of when a commitment for performance by the counterparty is reached, or the date at which the counterparty's performance is complete, the awards will be measured at the grant date.

- Instead of measuring awards with performance conditions at the lowest aggregate fair value, the grantor will consider the probability of satisfying performance conditions contained in the awards.
- The classification of equity-classified awards will no longer need to be reassessed upon vesting unless award modifications occur after it vests and the nonemployee is no longer providing goods or services.

Effective dates

For PBEs, the ASU is effective for fiscal years beginning after Dec. 15, 2018, including interim periods within, which first applies to March 31, 2019, interim financial statements for calendar year-end PBEs. For all other entities, it is effective for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020. Early adoption is permitted, including in an interim period, but no earlier than the adoption of Topic 606, "Revenue From Contracts With Customers."

Other codification improvements

Codification improvements

On Oct. 29, 2020, the FASB issued ASU 2020-10, "Codification Improvements." The amendments in this ASU affect a wide range of codification topics and are separated into two sections: B and C.

The Section B amendments improve codification consistency by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements or on the face of the financial statements appears in the applicable disclosure section as well as the other presentation matters sections, reducing the chance that the requirement would be missed. These amendments are not expected to change current practice.

The amendments in Section C clarify guidance for more consistent application. Section C addresses retirement benefits (Topic 715), interim reporting (Topic 270), receivables (Topic 310), guarantees (Topic 460), income taxes (Topic 470), and imputation of interest (Topic 835), among other topics.

Effective dates

The amendments are effective for annual periods beginning after Dec. 15, 2020, for PBEs. For all other entities, the amendments are effective for annual periods beginning after Dec. 15, 2021, and interim periods within annual periods beginning after Dec. 15, 2022. Early application is permitted, and the amendments should be applied retrospectively.

Nonrefundable fees and other costs related to receivables

The FASB issued, on Oct. 15, 2020, ASU 2020-08, "Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs," to clarify that for each reporting period an entity should reevaluate whether a callable debt security is within the scope of ASC paragraph 310-20-35-33.

Effective dates

For PBEs, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2020, and early application is not permitted. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022, and early application is permitted after Dec. 15, 2020.

Transition

The amendments in ASU 2020-08 are to be applied on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities, and they do not change the effective dates for ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities."

Narrow-scope improvements to financial instruments guidance

On March 9, 2020, the FASB issued ASU 2020-03, "[Codification Improvements to Financial Instruments](#)." This ASU was issued to clarify and improve various financial instruments topics. The amendments include the following improvements:

- Issue 1 – Clarifies that all entities (not just PBEs) are required to provide fair value option disclosures
- Issue 2 – Clarifies the applicability of the portfolio exception in measuring fair value for nonfinancial items accounted for as derivatives
- Issue 3 – Clarifies that disclosure requirements in Topic 320 apply to disclosure requirements in Topic 942 for depository and lending institutions
- Issue 4 – Adds cross-reference of line-of-credit or revolving-debt arrangements guidance to guidance in accounting for fees between debtor and creditor and third-party costs directly related to exchanges or modifications of debt instruments
- Issue 5 – Clarifies that fair value measurement disclosure requirements do not apply to entities using the net asset value per share practical expedient
- Issue 6 – Aligns the contractual term to measure expected credit losses for a net investment in a lease under the credit loss standard (Topic 326) with the lease term determined under the leases standard (Topic 842)
- Issue 7 – Clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded in accordance with Topic 326

The changes clarify the ASC or correct unintended application of guidance. The changes are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.

Effective dates and transition

For issues 1, 2, 4, and 5, the amendments are effective for PBEs upon issuance of this update. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2019, and interim periods within those fiscal years beginning after Dec. 15, 2020. Early application is permitted.

For issue 3, the amendments to ASU 2016-01 are effective for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.

For issues 6 and 7, the amendments to ASU 2016-13 are effective for PBEs that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC, for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years. ASU 2016-13 is effective for all other entities for fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years. Early application is permitted. For entities that have not yet adopted ASU 2016-13, the effective dates and transition requirements for these amendments are the same as the effective date and transition requirements of ASU 2016-13. For entities that have adopted ASU 2016-13, the amendments are effective for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.

Premiums on callable debt securities

The FASB issued ASU 2017-08, "[Receivables – Nonrefundable Fees and Other Costs \(Subtopic 310-20\): Premium Amortization on Purchased Callable Debt Securities](#)," on March 30, 2017, which will shorten the amortization period for premiums on callable debt securities by requiring that premiums be amortized to the first (or earliest) call date instead of as an adjustment to the yield over the contractual life. This change more closely aligns the accounting with the economics of a callable debt security and the amortization period with expectations that already are included in market pricing on callable debt securities.

This guidance is in response to a stakeholder request that the board address the accounting for the premium or discount (components of interest income) associated with the purchase of callable municipal securities. Under current GAAP, premiums and discounts are amortized and accreted over contractual life, not to call date. Some stakeholders observed that significant premiums on assets exist, particularly on instruments issued by municipalities that are likely to be repaid earlier than maturity. Under current GAAP, the result is overrecognition of interest income during the holding periods before the call and recognition of a loss during the period when the call occurs. The new standard eliminates the misalignment of accounting and economics in these transactions by requiring amortization to the earliest call date.

The guidance does not change the accounting for discounts on callable debt securities, as the discounts continue to be amortized to the maturity date.

The scope of the ASU includes only instruments that are held at a premium (that is, the amortized cost basis is in excess of the amount that is repayable by the issuer) and are callable based on an explicit decision by the issuer. The scope does not include instruments that contain prepayment features, nor does it include call options that are contingent upon future events or in which the timing or amount to be paid is not fixed.

Effective dates

For PBEs, the effective date is in fiscal years and interim periods within, beginning after Dec. 15, 2018, which first applies to March 31, 2019, interim financial statements for calendar year-end PBEs. For non-PBEs, it is effective in fiscal years beginning after Dec. 15, 2019, and interim periods in fiscal years beginning after Dec. 15, 2020.

Early adoption is permitted, including in an interim period.

Transition

Transition is on a modified retrospective basis with an adjustment to retained earnings as of the beginning of the period of adoption.

Presentation and disclosure

SEC guarantor financial disclosures

On Oct. 22, 2020, the FASB issued ASU 2020-09, “Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762,” which amends and supersedes various SEC paragraphs to reflect SEC Release No. 33-10762. That release amends the financial disclosure requirements applicable to registered debt offerings that include credit enhancements, such as subsidiary guarantees. These changes are intended to both improve the quality of disclosure and increase the likelihood that issuers will conduct debt offerings on a registered basis.

Effective date

The final rules in SEC Release 33-10762 are effective on Jan. 4, 2021. Voluntary compliance with the final amendments in advance of Jan. 4, 2021, will be permitted.

Defined benefit plan disclosures

On Aug. 28, 2018, the board issued, ASU 2018-14, “Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans,” to change the disclosures for sponsors of defined benefit plans.

The ASU removes the following disclosures:

- The amounts in accumulated other comprehensive income that the entity expects to recognize in net periodic benefit cost during the next fiscal year
- The amount and timing of plan assets expected to be returned to the employer

- Information about the June 2001 amendments to the *Japanese Welfare Pension Insurance Law*
- Certain related-party disclosures
- For nonpublic entities, the roll forward of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy (but requires disclosures of amounts of transfers in and out of Level 3 as well as Level 3 plan asset purchases)
- For public entities, the effects of a 1 percentage point change in assumed healthcare cost trend rates on the net periodic benefit costs and the benefit obligation for postretirement healthcare

The ASU clarifies the following disclosure requirements:

- The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets
- The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets

The ASU adds the following disclosure requirements:

- The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates
- An account of the reasoning for significant gains and losses related to changes in the benefit obligation for the period

Effective dates

The ASU is effective for PBEs in fiscal years ending after Dec. 15, 2020, and for non-PBEs, in fiscal years ending after Dec. 15, 2021. Early adoption is permitted.

Fair value measurement disclosure

The FASB issued, on Aug. 28, 2018, ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement," part of the framework project, to remove from, modify, and add to existing fair value measurement disclosures requirements.

The disclosure requirements that are removed include the following:

- Transfers between Level 1 and Level 2 of the fair value hierarchy
- The policy for determining when transfers between any of the three levels have occurred
- The valuation processes used for Level 3 measurements
- For nonpublic entities, the changes in unrealized gains or losses presented in earnings for Level 3 instruments held at the balance sheet date

The following disclosure requirements are modified:

- The Level 3 roll forward is eliminated for nonpublic entities, but disclosure of transfers in and out of Level 3 as well as purchases and issuances are required
- For certain investments in entities that calculate the net asset value, requires disclosures about timing of liquidation and redemption restrictions lapsing if the latter has been communicated to the reporting entity
- Clarifies that the Level 3 measurement uncertainty disclosure should communicate information about the uncertainty at the balance sheet date

The following are additional or new disclosure requirements:

- For public entities, the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 instruments held at the balance sheet date
- For public entities, the range and weighted average of significant unobservable inputs used for Level 3 measurements, but, for certain unobservable inputs, adds an option to disclose other quantitative information in place of the weighted average to the extent that it would be a more reasonable and rational method to reflect the distribution of unobservable inputs
- Nonpublic entities, some form of quantitative information about significant unobservable inputs used in Level 3 fair value measurements

Effective dates

The ASU is effective for all entities in fiscal years beginning after Dec. 15, 2019, including interim periods, which is first effective for calendar year entities in the March 31, 2020, interim financial statements. Early adoption is permitted. In addition, an entity may early adopt any of the removed or modified disclosures immediately and delay adoption of the new disclosures until the effective date.

From the FASB: News, staff guidance, and in the pipeline

New chair named

Richard R. Jones became chair of the FASB, as [announced](#) on Dec. 19, 2019. Jones succeeded Russell G. Golden when Golden's appointment ended on June 30, 2020. Jones joined the FASB early in March 2020 to facilitate a smooth transition in leadership. Jones, who had spent his entire career at Ernst & Young, was the chief accountant and partner in the firm's national office.

Loan modifications

At its April 8, 2020, board meeting, the FASB discussed concerns related to effects of COVID-19 including interest income recognition. For institutions aiding borrowers affected by COVID-19, the FASB staff answered a question about interest income recognition for a fact pattern that involves providing a loan payment holiday where no contractual interest would accrue during the payment holiday. The fact pattern includes that the loan payment holiday is not a troubled debt restructuring and the loan payment holiday would not be accounted for as a continuation of the old loan (that is, extinguishment accounting is not applicable). The FASB staff heard two views. In view one, the new effective interest rate of the loan would be applied prospectively from the date of the modification resulting in interest income being recognized during the holiday. In view two, interest income would be recognized using the contractual terms; thus, no interest would accrue during the payment holiday. The FASB staff believes both views are acceptable under GAAP. The FASB staff acknowledges diversity might exist for the loan modification question, and it believes disclosure of an entity's policies for such transactions are key.

The AICPA and its Depository Institutions Expert Panel (DIEP) [released](#), on June 30, 2020, a [Technical Question and Answer \(TQA\)](#) to address how creditors should recognize interest income on a restructured loan resulting in periods with reduced payments. Specifically, TQA Section 2130.41 – determination of the effective interest rate – provides further clarification to the FASB staff announcement at the April 8, 2020, board meeting.

Institutions might be grappling with what, if any, steps they should take to evaluate the accrual status of loans deferred or modified in response to the COVID-19 pandemic and to assess the collectibility of related accrued interest receivable balances. In response, Crowe released, on Oct. 7, 2020, a [report](#) that offers observations to help entities develop an approach to evaluating AIR on loan deferrals/modifications. The document addresses interest income recognition and evaluation, including evaluating AIR under current expected credit loss as well as addressing how to comply with nonaccrual and charge-off guidance in a "nothing-is-past-due" environment.

FASB staff Q&A on lease concessions related to COVID-19

At its April 8, 2020, [board meeting](#), the FASB discussed concerns related to effects of COVID-19. Related to leases, the board recognizes that lessors might be issuing broad-based and sweeping concessions, which create operational difficulties when applying the modification guidance in ASC 842/840. The FASB received a question about whether any concessions related to COVID-19 must be accounted for under the ASC 842/840 modification guidance, citing the operational difficulties and complexities of assessing such concessions on a contract-by-contract basis. The FASB staff notes that ASC 842/840 did not contemplate the current scope of broad and sweeping modifications and concessions given by lessors. For concessions granted that are specifically related to COVID-19, the FASB staff indicates an entity could elect not to apply modification guidance, provided the cash flows in the modified lease are the same as or less than the original contract. The FASB staff also acknowledges judgment will need to be applied. On April 10, the FASB issued a FASB staff Q&A, ["Topic 842 and Topic 840: Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic."](#) The FASB staff acknowledges diversity might exist for the leasing question, and it believes disclosure of an entity's policies for such transactions are key.

FASB staff Q&A document on cash flow hedge accounting

On April 28, 2020, the FASB issued a staff Q&A, "[Topic 815: Cash Flow Hedge Accounting Affected by the COVID-19 Pandemic](#)," in response to stakeholder questions regarding the postponement or cancellation of forecasted transactions related to the effects of the COVID-19 pandemic when applying cash flow hedge accounting under Topic 815, "Derivatives and Hedging."

Reference rate reform

The FASB issued, on Oct. 29, 2020, a proposed ASU, "[Reference Rate Reform \(Topic 848\): Scope Refinement](#)," that would clarify the scope of ASU 2020-04, "[Reference Rate Reform \(Topic 848\): Facilitation of the Effects of Reference Rate Reform on Financial Reporting](#)." ASU 2020-04 provides temporary, optional expedients and exceptions for applying GAAP to certain contract modifications and hedging relationships that reference the LIBOR or another reference rate expected to be discontinued.

The proposed ASU addresses questions about whether Topic 848 can be applied to derivative instruments that do not reference a rate that is expected to be discontinued but that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform, commonly referred to as the "discounting transition."

The proposed amendments would clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to contracts that are affected by the discounting transition.

Comments were due Nov. 13, 2020.

Disclosure and presentation

On May 6, 2019, the FASB issued a proposed ASU, "[Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative](#)," to address matters identified by the SEC in its August 2018 Release No. 33-10532, "Disclosure Update and Simplification."

The proposed amendments would modify the disclosure or presentation requirements and provide clarification or technical corrections to a wide range of topics within the ASC. These are the changes of highest interest to financial institutions:

- Topic 440-10, "Commitments – Overall": "Add disclosure of assets mortgaged, pledged, or otherwise subject to lien and the obligations collateralized."
- Topic 470-10, "Debt – Overall": "Add disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings."
- Topic 860-30, "Transfers and Servicing – Secured Borrowing and Collateral":
 - "Amend guidance to clarify that accrued interest should be included in the disclosure of liabilities incurred in securities borrowing or repurchase or resale transactions.
 - "Add requirement to present separately the carrying amount of reverse repurchase agreements on the face of the balance sheet if that amount exceeds 10 percent of total assets.
 - "Add disclosure of the effective interest rates of repurchase liabilities.
 - "Add disclosure of amounts at risk with an individual counterparty if that amount exceeds more than 10 percent of stockholder's equity.
 - "Add disclosure of whether there are any provisions in a reverse repurchase agreement to ensure that the market value of the underlying assets remains sufficient to protect against counterparty default and, if so, the nature of those provisions.

- “Amend illustrative guidance to illustrate disclosure of effective interest rates of repurchase liabilities.”

Other topics include Topic 205, “Presentation of Financial Statements”; Topic 250, “Accounting Changes and Error Corrections”; Topic 260, “Earnings Per Share”; Topic 270, “Interim Reporting”; Topic 280, “Segment Reporting”; Topic 505, “Equity”; Topic 805, “Business Combinations”; Topic 810, “Consolidation”; and Topic 850, “Related Party Disclosures.”

Pages 5 through 7 of the proposal provide a summary table identifying the codification subtopics and the nature of the proposed amendments.

Comments were due June 28, 2019.

Income taxes

Improvements to income tax disclosures

On March 25, 2019, the FASB issued a revised proposed ASU, “Income Taxes (Topic 740) – Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes – Revision of Exposure Draft Issued July 26, 2016,” which is intended to make current income tax disclosure requirements more relevant for financial statement users.

The proposed ASU is an update of an exposure draft issued in July 2016 that included improved disclosure requirements for income taxes as part of the FASB’s broader disclosure framework project to improve the effectiveness of disclosures. The FASB delayed finalizing the original proposal because of pending tax reform, which subsequently was passed in December 2017.

This newly proposed ASU reflects revisions that are a result of changes from tax reform under the *Tax Cuts and Jobs Act* as well as input that was received for the original 2016 exposure draft. The proposed ASU would remove disclosures that are not considered cost beneficial or relevant. Examples include disclosure of “the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months” and the requirement to “make a statement that an estimate of the range cannot be made.” In addition to removing certain disclosure requirements, these disclosure requirements were added:

For all entities:

- “Income (or loss) from continuing operations before income tax expense (or benefit) and before intra-entity eliminations disaggregated between domestic and foreign
- “Income tax expense (or benefit) from continuing operations disaggregated between federal, state, and foreign
- “Income taxes paid disaggregated between federal, state, and foreign”

For public business entities:

- “The line items in the statement of financial position in which the unrecognized tax benefits are presented and the related amounts of such unrecognized tax benefits
- “The amount and explanation of the valuation allowance recognized and/or released during the reporting period
- “The total amount of unrecognized tax benefits that offsets the deferred tax assets for carryforwards”

Comments were due May 31, 2019.

Freestanding equity-classified forwards and options

On Oct. 26, 2020, the FASB issued proposed ASU, “Earnings Per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Forwards and Options (a Consensus of the Emerging Issues Task Force).” The proposed ASU would clarify an issuer’s accounting for certain modifications or exchanges of freestanding equity-classified forwards and options, such as warrants, that remain equity classified after modification. It addresses how an issuer would measure and recognize the effects of these transactions. The proposed ASU provides a principles-based framework to determine whether an issuer would recognize the modification or exchange as an adjustment to equity or an expense.

Comments are due Dec. 28, 2020.

Identifiable intangible assets and subsequent accounting for goodwill

In 2017, the FASB simplified the impairment test for goodwill for all entities by eliminating the requirement for entities to calculate the implied fair value of goodwill, similar to a purchase price allocation (referred to as “Step 2” of the impairment test) in ASU 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.”

At its Oct. 24, 2018, meeting, the board decided to add broader project on goodwill. As an outcome from that meeting, staff drafted an Invitation to Comment (ITC) to obtain formal input from stakeholders on the subsequent accounting for goodwill, the accounting for certain identifiable intangible assets, and the scope of the project on those topics.

On July 9, 2019, the FASB issued an [Invitation to Comment](#) that asks for stakeholder input on the accounting for certain identifiable intangible assets acquired in a business combination and subsequent accounting for goodwill. In conjunction with this ITC, the FASB released a [video](#) that provides a background on the accounting and an overview of ITC.

Topics for consideration in the ITC include 1) whether to change the subsequent accounting for goodwill, 2) whether to modify the recognition of intangible assets in a business combination, 3) whether to add or change disclosures about goodwill and intangible assets, and 4) comparability and scope issues. Private companies and not-for-profit organizations currently have accounting alternatives for accounting for certain identifiable intangible assets and goodwill that are not available to PBEs. Prior feedback has been missed; therefore, the staff is seeking additional input from a broad base of stakeholders if changes need to be made by the board.

Comments were due Oct. 7, 2019.

The FASB held a public roundtable discussion on Nov. 15, 2019, to gather views on its ITC.

At its Dec. 3, 2020, [meeting](#), the FASB PCC discussed identifiable intangible assets and subsequent accounting for goodwill. At a previous meeting the board had requested that the staff consider adding amortization to the goodwill impairment model as well as changing the impairment model, accounting for identifiable intangible assets, and exploring disclosure, presentation, and transition matters. The PCC was asked to consider amortization period concerns that might arise if a new model was created that harmonizes GAAP for all types of entities including public entities, private entities, and not-for-profit organizations. Questions included the following topics:

- Consideration of a default period other than 10 years for amortization
- Management’s ability to deviate from a default period and justification for that difference

- Cap or floor on an amortization period
- Transition challenges

Segment reporting

The FASB, on June 25, 2019, announced that it is looking for public companies to take part in a study on potential improvements to the segment disclosure requirements. The board is collecting information – all of which will be kept confidential – on the operability of potential improvements to the segment disclosure requirements and identification of potential unintended consequences.

The FASB plans to use the feedback to help inform the board about the costs and benefits of the various improvement ideas being considered. A summary of the findings will be presented to the board at a future public board meeting.

The study, which is expected to last no more than four months, is the FASB's second study on segment reporting. In 2018, the first study focused on improving the aggregation criteria and determining the reportable segments.

Clarifications to derivatives and hedging guidance

On Nov. 12, 2019, the FASB issued a proposed ASU, "Derivatives and Hedging (Topic 815): Codification Improvements to Hedge Accounting." The proposed ASU clarifies hedge accounting guidance aimed at creating more consistent application of the standard.

The proposed ASU provides clarifications to guidance on:

- Change in hedged risk in a cash flow hedge
- Contractually specified components in cash flow hedges of nonfinancial forecasted transactions
- Foreign-currency-denominated debt instruments as hedging instrument and hedged item (dual hedge)
- Using the term "prepayable" under the shortcut method

The proposed amendments would be effective for fiscal years beginning after Dec. 15, 2020.

Comments were due Jan. 13, 2020.

Disclosures by business entities about government assistance

On Nov. 12, 2015, the FASB issued an exposure draft, "Government Assistance – Disclosures by Business Entities About Government Assistance," because there is currently no existing GAAP for government assistance received by business entities, and diversity in accounting treatment exists.

The proposed amendments would require annual disclosure of material, existing, and legally enforceable government assistance agreements, including the following:

- Nature of the government assistance
- Accounting policy for government assistance
- Amounts presented in the financial statements by line item
- Significant terms of the agreements including duration, tax and interest rates, or the effects of those rates, commitments, provisions for recapturing the assistance, and other contingencies
- Unless impracticable, the amount of government assistance received but not recognized

Examples of government assistance agreements in scope are provided in the proposal and include grants, loans, and tax incentives.

Comments were due Feb. 10, 2016. Feedback received was mixed. Since that time, the board has continued to redeliberate its conclusions. At its Feb. 27, 2019, meeting, the staff was directed to conduct outreach about the expected costs and the expected benefits of the staff draft of a final ASU.

From the federal financial institution regulators

Agencies respond to COVID-19

Since the middle of March 2020, financial institutions regulators have continued to issue statements and guidance on the COVID-19 pandemic.

Loan modifications

Updated FAQs on COVID-19 supervisory and regulatory response

On Dec. 1, 2020, the Fed updated its frequently asked questions about its supervisory and regulatory response to COVID-19 to include a section addressing loan modification accounting and reporting issues. The newly added questions and answers address nonaccrual status, past due status, troubled debt restructurings, risk ratings, allowance for credit losses, and guidance for modified loans.

Statement on additional loan accommodations

On Aug. 3, 2020, the Federal Financial Institutions Examination Council (FFIEC) issued a statement outlining risk management and consumer protection principles relating to additional loan accommodations as many initial accommodations related to COVID-19 are ending. The statement reiterates that the FFIEC members have encouraged financial institutions to work with borrowers unable to meet contractual payment obligations due to COVID-19 and that they view loan accommodations as positive actions.

The statement also recognizes the challenges faced by financial institutions in assessing credit risk due to COVID-19 as initial loan accommodations are coming to an end and some borrowers continue to face financial challenges. Institutions are encouraged to consider additional accommodation options that consider credit risks, ease cash flow concerns for customers, and facilitate long-term loan repayment.

Additionally, the statement discusses prudent risk management practices, well-structured and sustainable accommodations, consumer protection, accounting and regulatory reporting, and internal controls. For purposes of considering whether a modification qualifies under the interagency statement issued April 7, 2020, this statement also permits banks to use modification date as a proxy for program implementation date.

Supplemental call instructions provide reminder to maintain appropriate allowance

Financial institutions should maintain an appropriate allowance for loan and lease losses and should consider the effects of COVID-19 on the allowance. The FFIEC's supplemental call reporting instructions highlight the following: "Institutions should continue to follow reporting instructions and U.S. GAAP for section 4013 loans, including:

- "Appropriately reporting past due and nonaccrual status;
- "Maintaining an appropriate allowance for loan and lease losses in accordance with ASC Subtopic 450-20 or ASC Subtopic 310-10, or an appropriate allowance for credit losses in accordance with ASC Subtopic 326-20, as applicable."

Interagency statement on loan modifications related to COVID-19

On March 22, 2020, and later revised on April 7, 2020, in response to CARES Act Section 4013, "Temporary Relief From Troubled Debt Restructurings," the Office of the Comptroller of the Currency (OCC), Consumer Financial Protection Bureau, Federal Reserve Board (Fed), Federal Deposit Insurance Corp. (FDIC), National Credit Union Administration (NCUA), and state regulators issued an interagency statement to encourage and provide information for financial institutions working with borrowers affected by COVID-19. The statement indicates that agencies will not criticize institutions for

working with borrowers consistent with safe and sound practices and that institutions generally do not need to categorize modifications related to COVID-19 as TDRs. The statement also includes accounting and reporting considerations, guidance on discount window eligibility, and considerations related to consumer protection laws.

Clarifications

Although the guidance in Section 4013 of the CARES Act and the [“Interagency Statement \[IAS\] on Loan Modifications by Financial Institutions Working With Customers Affected by the Coronavirus”](#) (revised in April 2020) share many similarities, a fundamental difference exists between the two. A loan modification that qualifies for and is accounted for under Section 4013 is exempt from TDR requirements. The guidance in the IAS includes no such thing. Loan modifications that meet the criteria under the IAS are presumed to not meet the “financial difficulty” prong of ASC 310-40. These loans, in effect, were presumed to be evaluated under existing TDR rules and did not meet the criteria for TDR recognition. The IAS did not suspend GAAP, although Section 4013 did.

Crowe has received a number of questions on how to consider the interaction between the IAS and Section 4013 on subsequent modifications. For example, can a loan be modified first under IAS guidance and then subsequently modified under the provisions of the CARES Act?

The simple answer to this question is yes. An institution that wishes to elect to account for loan modifications under CARES Act Section 4013 may do so at any time and for any qualifying loan, regardless of whether the loan was modified previously during the COVID-19 crisis. The regulatory agencies note in the Aug. 3 [“Joint Statement on Additional Loan Accommodations Related to COVID-19,”](#) which addresses loans nearing the end of relief period, that “an additional loan modification could also be eligible under section 4013.”

The OCC has also published a reference guide, [“TDR Designation and COVID-19 Loan Modifications: Section 4013 of the CARES Act and OCC Bulletin 2020-35.”](#)

Discussion of loan modifications at the AICPA Banking Conference

At the 45th annual AICPA National Conference on Banks and Savings Institutions, held virtually Sept. 14-16, 2020, several regulators addressed the topic of loan modifications in response to the COVID-19 pandemic as follows:

- Per OCC acting Chief Accountant Jeffrey Geer, examiners will not criticize institutions for working with borrowers in a safe and sound manner, even if those loans ultimately develop weaknesses or are subsequently downgraded. However, examiners will be focused on whether the bank is making accurate and timely assessments of asset quality.
- FDIC Chief Accountant John Rieger noted that, with respect to pandemic-related loan modifications not accounted for as TDRs under regulatory or CARES Act guidance, institutions still must ensure that interest accrual and allowance for credit losses/allowance for loan and lease losses allocations are appropriate and all credit monitoring criteria are considered.
- During the Community Banks Hot Topics session, panelists commented that institutions can use the CARES Act Section 4013 for any qualifying loan modification, regardless of whether the loan was modified previously under Section 4013 or the IAS. As a reminder, the ability to qualify for a loan modification under the CARES Act requires an objective evaluation of whether the criteria are met.

Credit losses

Interagency policy statement on allowances for credit losses and interagency guidance on credit risk review systems

On May 8, 2020, the OCC, Fed, FDIC, and NCUA [issued](#) an interagency policy statement on allowances for credit losses to promote consistency with the FASB’s credit losses accounting standard. The statement describes the measurement of expected credit losses using the CECL methodology; the

design, documentation, and validation of expected credit loss estimation processes; the maintenance of appropriate allowances for credit losses (ACLs); the responsibilities of boards of directors and management; and examiner reviews of ACLs. The statement will be effective at the time of each institution's adoption of CECL.

The agencies also issued interagency guidance on credit risk review. The guidance replaces Attachment 1 of the 2006 Interagency Policy Statement on the Allowance for Loan and Lease Losses and reflects the new CECL standard.

Interagency FAQs on the CECL model

On April 3, 2019, the FDIC, the Fed, the OCC, and the NCUA updated their "[Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses](#)." Originally issued on Dec. 19, 2016, and subsequently updated on Sept. 6, 2017, the FAQs provide guidance for financial institutions as they prepare to implement the FASB's new standard on credit losses, ASU 2016-13, on the application and supervisory expectations for the CECL model.

The original FAQs (Questions 1-23) cover:

- Changes to existing U.S. generally accepted accounting principles
- Effective dates
- Application upon initial adoption
- Acceptable allowance estimation methods under the CECL model
- Portfolio segmentation for credit loss estimation on a pool basis

Topics addressed in the FAQs updated on Sept. 6 (Questions 24-37) include:

- Continued relevance of qualitative factors
- Data collection and maintenance needs
- Accounting for changes in expected credit losses for PCD assets
- Evaluating whether an institution meets the definition of a PBE or SEC filer definition, and the effect of PBE and SEC filer status on adoption date
- How and when a financial institution should adopt CECL in its regulatory reports (including call reports) for:
 - An entity that is not a PBE
 - A PBE that is not an SEC filer and has a non-calendar fiscal year
 - Continued requirement to use the fair value of collateral to determine the allowance for a collateral-dependent loan

Topics addressed in the FAQs updated on April 3 (Questions 38-46) include:

FAQs added in this revision address issues including:

- Collateral-dependent loans
- Reasonable and supportable forecasts
- Segmentation factors for credit cards
- Internal control considerations related to data used in CECL calculations
- Practices in existing supervisory guidance on the allowance for loan and lease losses

The update reflects changes in implementation dates for nonpublic business entities. The agencies also

have made technical and editorial changes to previously released FAQs and have provided links in the appendix to relevant resources for institutions to use in their CECL implementation.

The agencies continue to emphasize preparation for the implementation of CECL and scalability to institutions of all sizes.

Webinars

To date, the agencies have hosted three webinars:

Ask the Regulators: CECL Teleconference for Bankers: Practical Examples of How Smaller, Less Complex Community Banks Can Implement CECL

On Feb. 27, 2018, the FDIC and the Fed in conjunction with the FASB, the SEC, and the Conference of State Bank Supervisors (CSBS) hosted a [webinar](#) that provided regulatory perspectives on CECL approaches for community banks and focused on the following:

- Loss rate methods – including a snapshot/open pool method, a remaining life method, and a vintage method – and a discussion of challenges for loss rate methods
- Data needs and data sources
- Process and control considerations

Additionally, the CSBS has a [“CECL Readiness Tool”](#) to help institutions set internal goals for the different implementation steps.

Ask the Regulators: CECL Questions and Answers for Community Bankers

The federal banking agencies, in conjunction with the FASB, the SEC, and the CSBS, hosted an interagency webinar on July 30, 2018. The webinar focused on questions received from community bankers about the new credit losses accounting standard, which introduces the CECL methodology.

Ask the Regulators: CECL Webinar: Weighted-Average Remaining Maturity (WARM) Method

On April 11, 2019, the federal financial institution regulatory agencies, in conjunction with the FASB, the SEC, and the CSBS, hosted an interagency [webinar](#). This webinar focused on the application of the WARM method for estimating allowances for credit losses.

Treasury study on CECL and regulatory capital

The U.S. Department of the Treasury issued a study, [“The Current Expected Credit Loss Accounting Standard and Financial Institution Regulatory Capital,”](#) dated Sept. 15, 2020.

The study is in response to a legislative package of spending bills (H.R. 1158 and H.R. 1865) funding the federal government through Sept. 30, 2020, that was passed in late 2019 and signed into law by the President on Dec. 20, 2019. The accompanying conference report included a directive to Treasury to conduct a study, in consultation with the federal financial institution regulators, of the impact of the CECL standard on capital requirements for financial institutions. Congress chose to focus this study on capital requirements rather than a broader economic impact.

The study notes, “A definitive assessment of the impact of CECL on regulatory capital is not currently feasible, in light of the state of CECL implementation across financial institutions and current market dynamics. Drawing conclusions right now regarding CECL’s impact since its initial implementation in early 2020 is challenging because CECL has not been fully implemented by all entities, and numerous market factors relating to the COVID-19 global pandemic (including government responses) have affected the economy, financial institutions, and borrowing and lending dynamics.”

The 29-page study includes an executive summary, background, implications for regulatory capital, the key areas of debate, and recommendations. The high-level recommendations include:

1. “The prudential regulators should continue to monitor the effects of CECL on regulatory capital and financial institution lending practices, and calibrate capital requirements, as necessary.
2. “The prudential regulators should monitor the use and impact of transitional relief granted, and extend or amend the relief, as necessary.
3. “FASB should further study CECL’s anticipated benefits.
4. “FASB should expand its efforts to consult and coordinate with the prudential regulators to understand – and take into account when considering any potential amendments to CECL – the regulatory effects of CECL on financial institutions.
5. “FASB should, in consultation with relevant stakeholders, explore the costs and benefits of further aligning the timing of the accounting recognition of fee revenues associated with financial assets under GAAP with the earlier accounting recognition of potential credit losses under CECL.
6. “FASB, together with the prudential regulators, should examine the application of CECL to smaller lenders.”

Treasury notes it will continue to actively monitor implementation and consult with stakeholders, including the federal financial institution regulators, the FASB, and the SEC.

Leases

Basel Committee FAQs on capital treatment of right-of-use asset

The Basel Committee on Banking Supervision issued a press release on April 6, 2017, to respond to three frequently asked questions on how to treat an ROU asset under the new lease accounting standards issued in 2016 separately by the FASB and the IASB. The committee’s responses indicate that an ROU asset should be treated as a tangible asset for capital reporting purposes, as long as the underlying asset being leased is a tangible asset.

Specifically, when the underlying leased asset is a tangible asset, the ROU asset should:

- Not be deducted from regulatory capital
- Be included in the risk-based capital and leverage ratio denominators
- Be risk-weighted at 100%

In the June 2017 supplemental call report instructions, the U.S. federal banking agencies clarified their position, which is consistent with the treatment taken by the Basel Committee.

OCC’s Bank Accounting Advisory Series

On Aug. 17, 2020, the OCC released an update to the Bank Accounting Advisory Series (BAAS). The BAAS covers a variety of topics and promotes consistent application of accounting standards among national banks and federal savings associations. This edition of the BAAS reflects accounting standards issued by the FASB and includes recent answers to frequently asked questions from the industry and examiners.

The 2020 BAAS includes new questions on topics such as, but not limited to, the following:

- Bank-owned life insurance
- Tax-sharing arrangements
- CECL
 - Reasonably expected troubled debt restructurings
 - Acquired loans

- Accrued interest receivable
- Collateral-dependent financial assets

Updates to topics include, but are not limited to, the following:

- Debt and equity securities
- Other real estate owned
- CECL: Freestanding insurance contracts

The BAAS does not represent official rules or regulations of the OCC. Rather, it represents the OCC's Office of the Chief Accountant's interpretations of generally accepted accounting principles and regulatory guidance based on the facts and circumstances presented. While the BAAS is published by the OCC, the information in the BAAS is relevant to all financial institutions.

Other interim and final rules

Temporary relief from Part 363 audit and reporting requirements

The FDIC issued, on Oct. 20, 2020, an interim final rule (IFR) to provide relief to insured depository institutions (IDIs) from the costs and burdens of potentially temporary asset growth associated with pandemic-related programs. These programs include the Paycheck Protection Program (PPP), the Money Market Mutual Fund Liquidity Facility, the PPP Liquidity Facility, and other stimulus efforts. The IFR would allow IDIs to determine the applicability of Part 363 of the FDIC's regulations for fiscal years ending in 2021 based on the lesser of the following:

- The IDI's consolidated total assets as of Dec. 31, 2019
- The IDI's consolidated total assets as of the beginning of its fiscal year ending in 2021

Depending on the threshold, relief could be provided for annual audits, internal control over financial reporting, and certain audit committee requirements.

Using Dec. 31, 2019, and June 30, 2020, call report data, the FDIC estimates about 290 IDIs would be able to use the relief. In accordance with the IFR, the FDIC reserves the right to require an IDI to comply with one or more requirements of Part 363 if the FDIC determines that asset growth was related to a merger or acquisition.

The IFR is effective immediately, and comments were due Nov. 23, 2020.

Temporary relief for community banks

On Nov. 20, 2020, the Fed, FDIC, and OCC issued an interim final rule in response to asset growth related to the PPP to allow banks with less than \$10 billion in total assets as of Dec. 31, 2019, to use asset data as of Dec. 31, 2019, to determine the applicability of various regulatory asset thresholds during calendar years 2020 and 2021. The Fed also is revising instructions to certain regulatory reports to align with these provisions.

The interim final rule was effective Dec. 2, 2020. Comments will be accepted until Feb. 1, 2021.

Paycheck Protection Program

PPP legislation

On June 5, 2020, President Donald Trump signed into law the *Paycheck Protection Program Flexibility Act of 2020* (H.R. 7010). The legislation is designed to make it easier for small businesses and other recipients of PPP funding to qualify for loan forgiveness. The act extends from eight weeks to 24 weeks the time PPP recipients have to spend their funds and still qualify for forgiveness and lowers to 60% from 75% the portion of PPP funds borrowers must spend on payroll costs to qualify for full loan forgiveness. The Small Business Administration (SBA) and Treasury clarified in a joint statement that partial loan forgiveness also will be available under the 60% threshold and that the 60% is not a cliff threshold.

In addition to these provisions, other features of the act include:

- The deadline for borrowers to restore their workforce levels and wages to the pre-pandemic levels required for full forgiveness is extended from June 30 to Dec. 31.
- Two new exceptions allow borrowers to achieve full PPP loan forgiveness even if they do not fully restore their workforce. The two exceptions address situations where borrowers could not rehire former employees or hire similarly qualified employees or were unable to restore business operations to Feb. 15, 2020, levels due to operating restrictions related to COVID-19.
- The repayment period is extended to five years from two years, and companies may delay payroll tax payments.

In response to the *Paycheck Protection Program Flexibility Act*, SBA and Treasury issued, on June 11, 2020, a modified borrower application Form 2483, a modified loan forgiveness application, and an interim final rule, "Business Loan Program Temporary Changes; Paycheck Protection Program – Revisions to First Interim Final Rule." On June 12, 2020, the SBA and Treasury issued another interim final rule, "Business Loan Program Temporary Changes; Paycheck Protection Program – Additional Revisions to First Interim Final Rule," to conform to the act.

Interim rules and guidance

On May 22, 2020, Treasury and the SBA issued two interim final rules on the PPP. They jointly issued interim final rule "Business Loan Program Temporary Changes; Paycheck Protection Program – Requirements – Loan Forgiveness," to help borrowers with loan forgiveness applications, to help lenders make loan forgiveness decisions, and to inform borrowers and lenders of the SBA's process for reviewing PPP loan applications and loan forgiveness applications. The SBA issued a separate interim final rule, "Business Loan Program Temporary Changes; Paycheck Protection Program – SBA Loan Review Procedures and Related Borrower and Lender Responsibilities," which describes its procedures for reviewing PPP loan applications and loan forgiveness applications. The SBA also issued a procedural notice on lender processing fee payments and reporting. Information describing the guidance, including financial reporting considerations and legislation, can be found at [crowe.com](https://www.crowe.com).

On June 17, 2020, Treasury and the SBA announced new and revised forgiveness applications. A revised loan forgiveness application, Form 3508, and instructions, implements the *PPP Flexibility Act of 2020*. The SBA also published a new EZ version of the forgiveness application, which requires fewer calculations and less documentation. The EZ application, "PPP Loan Forgiveness Application Form 3508EZ," and instructions, applies to borrowers that:

- "Are self-employed and have no employees; OR

- “Did not reduce the salaries or wages of their employees by more than 25%, and did not reduce the number or hours of their employees; OR
- “Experienced reductions in business activity as a result of health directives related to COVID-19, and did not reduce the salaries or wages of their employees by more than 25%.”

The SBA and Treasury also issued, on June 17, another interim final rule, “Business Loan Program Temporary Changes; Paycheck Protection Program – Revisions to the Third and Sixth Interim Final Rules,” in accordance with the act.

On June 22, 2020, Treasury and the SBA issued an interim final rule, “Business Loan Program Temporary Changes; Paycheck Protection Program – Revisions to Loan Forgiveness and Loan Review Procedures Interim Final Rules,” amending the CARES Act. This IFR revises IFRs posted on the SBA’s and Treasury’s websites on May 22, 2020, and published on June 1, 2020, in the Federal Register, by changing key provisions to conform to the *PPP Flexibility Act of 2020*, which was signed into law on June 5, 2020. Comments were due July 27, 2020.

A few points covered include:

- Payroll costs are reduced from 75% to 60%.
- Covered period is extended from eight to 24 weeks.
- Maturity is extended to five years for loans made June 5, 2020, or after; extensions of the maturity date of earlier PPP loans are permitted by mutual agreement.
- Application is completed by the borrower; the lender has 60 days to render a decision to the SBA.
- The SBA has 90 days to remit the appropriate forgiveness amount to the lender, plus any interest accrued through the date of payment, after the lender issues its decision to the SBA.

On Aug. 11, 2020, the SBA and Treasury issued another interim final rule, “Appeals of SBA Loan Review Decisions Under the Paycheck Protection Program,” to provide the process for lenders and borrowers to appeal certain loan review decisions affecting forgiveness. This rule is effective Aug. 25, 2020, and comments were due Sept. 28, 2020.

On Oct. 8, 2020, the SBA and Treasury released a new simplified application for loan forgiveness for PPP loans of \$50,000 or less as well as application instructions. The streamlined application will help to expedite the forgiveness process for both small businesses and lenders. Additionally, a new interim final rule on the simpler forgiveness process for PPP loans of \$50,000 or less was issued. The IFR provides that borrowers of \$50,000 or less are exempted from reductions in forgiveness related to reductions in full-time equivalent employees and employee salary and wages reductions.

PPP forms and borrower necessity questionnaires

On Oct. 26, 2020, the SBA published a notice, “Reporting and Recordkeeping Requirements Under OMB Review,” in the Federal Register. The notice covers the collection of information for 11 forms related to the PPP, including borrower initial application (Form 2483), lenders application (Form 2484) and agreements (Forms 3506 and 3507), and forgiveness applications for borrowers (Forms 3508, 3508S, 3508EZ) and lender reporting requirements.

The notice also introduces two new forms for borrowers with loans greater than \$2 million: SBA Form 3509, “Loan Necessity Questionnaire (For-Profit Borrowers),” and SBA Form 3510, “Loan Necessity Questionnaire (Non-Profit Borrowers).” According to the forms, each borrower, including its affiliates, that received PPP loans with an original principal amount of \$2 million or greater is required to complete this form and submit it, with the required supporting documents, to the lender servicing the loan. The form is sent by the lender to the borrower. The borrower has 10 business days to submit the completed form to the lender. Both questionnaires are nine pages and cover borrower information, business or non-profit activity assessments, and liquidity assessments.

The notice is to collect comments on the following for all of the forms: “(a) whether the collection of information is necessary for the agency to properly perform its functions; (b) whether the burden estimates are accurate; (c) whether there are ways to minimize the burden, including through the use of automated techniques or other forms of information technology; and (d) whether there are ways to enhance the quality, utility, and clarity of the information.”

Comments were due by Nov. 25, 2020.

Ask the regulators

On Sept. 3, 2020, the financial regulators held an ask-the-regulators webinar, “Loan Forgiveness and Other Matters Relative to the Paycheck Protection Program.” The webinar, which is [available for replay](#), focused on the SBA and Treasury interim final rule, “[Business Loan Program Temporary Changes; Paycheck Protection Program – Requirements – Loan Forgiveness](#),” that was issued on May 22. The significant points of the forgiveness process include:

- Borrower completes loan forgiveness application (SBA Form 3508 or lender equivalent).
- Lender reviews the application and makes a decision regarding loan forgiveness.
- Lender has 60 days from receipt of a complete application to issue a decision to SBA.
- If lender determines borrower is entitled to forgiveness of some or all of the amount applied for, lender must request payment from SBA at the time the lender issues its decision to SBA.
- SBA will, subject to any review, remit the appropriate forgiveness amount to the lender, plus any interest accrued through the date of payment, not later than 90 days after the lender issues its decision to SBA.
- Lender accounts for the loan as an interest-bearing loan through receipt of payment from the borrower or the SBA. Payments received from the borrower or the SBA prior to the maturity of the loan are considered prepayments.

FAQs on PPP loans

The SBA and Treasury have issued a [frequently asked questions](#) document addressing the Paycheck Protection Program, which will be updated as necessary on a regular basis. According to the introduction to the document, the “U.S. government will not challenge lender PPP actions that conform to this guidance.” The document provides guidance to borrowers and lenders regarding the implementation of the PPP.

The SBA and Treasury have also issued a [frequently asked questions](#) document on PPP loan forgiveness. The FAQs cover topics such as administrative aspects of forgiveness applications, which payroll and nonpayroll costs are eligible for forgiveness, and loan forgiveness reductions.

As of Aug. 31, 2020, the FDIC has updated its frequently asked questions on the SBA’s PPP including the FAQs on accounting and regulatory reporting. Among the updates, the FDIC updated its responses that originally conflicted with guidance provided by the AICPA including the response to “How should institutions account for PPP loan forgiveness when notification of forgiveness is provided or a portion of the loan is transferred to the SBA?”

Accounting guidance for PPP lenders

The AICPA and its DIEP [released](#), in June and August 2020, a total of four new [Technical Questions and Answers](#) to help lenders account for PPP loans. The new TQAs are included in Q&A Section 2130, “Receivables,” and address how creditors should account for the advance under the PPP, the SBA guarantee, and related fees as follows:

- Section 2130.42 – classification of advances under the PPP

- Section 2130.43 – consideration of the SBA guarantee under the PPP
- Section 2130.44 – accounting for the loan origination fee received from the SBA
- Section 2130.45 – accounting for loan repayments or forgiveness by the SBA

Crowe resources

On July 9, 2020, to build on the AICPA's TQAs, Crowe issued ["PPP Financial Reporting for Lenders: 10 Questions Answered,"](#) to address the following:

- PPP loans and the allowance – classification, SBA guarantee, fair value option
- Processing fees and associated considerations – claw-back provisions, deferred fees and costs, and amortization period
- Forgiveness – classification during the settlement period

Key takeaways on PPP from the AICPA Banking Conference

Key takeaways from the annual AICPA National Conference on Banks and Savings Institutions, held virtually Sept. 14-16, 2020, on the SBA's PPP include the following:

- At both the Mid-Size Bank Chief Accounting Officers (CAO) Panel and the Community Banks Hot Topics sessions, panelists discussed fee recognition on forgiven PPP loans. Panelists noted net unamortized fees will be recognized into income when cash is received from the SBA. Given the lack of history and pooled risk characteristics, estimating prepayments on PPP loans would be a challenge.
- FDIC Chief Accountant John Rieger verified that PPP loans confirmed by the SBA as eligible for forgiveness should continue to be accounted for as loans until the obligation has been settled in full by the SBA.

Key abbreviations and acronyms

AFS	available for sale
AICPA	American Institute of Certified Public Accountants
ALLL	allowance for loan and lease losses
AOCI	accumulated other comprehensive income
APIC	additional paid-in capital
ASC	Accounting Standards Codification (issued by the FASB)
ASU	Accounting Standards Update
BAAS	Bank Accounting Advisory Series (issued by the OCC)
BC	Basis for Conclusions
BOLI	bank-owned life insurance
CDO	collateralized debt obligation
CECL	current expected credit loss
CFE	collateralized financing entity
CFPB	Consumer Financial Protection Bureau
CLO	collateralized loan obligation
COLI	corporate-owned life insurance
CRI	customer-related intangible asset
DTA	deferred-tax asset
EITF	Emerging Issues Task Force (a standing FASB task force)
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corp.
FDICIA	<i>Federal Deposit Insurance Corporation Improvement Act of 1991</i>
Fed	Board of Governors of the Federal Reserve System
FFIEC	Federal Financial Institutions Examination Council (includes the CFPB, FDIC, Fed, NCUA, and OCC)
FHA	Federal Housing Administration
FV/NI	fair value recognized in net income
GAAP	generally accepted accounting principles
HFI	held for investment
HFS	held for sale
HTM	held to maturity
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard (issued by the IASB)

MBS	mortgage-backed security
NAV	net asset value
NCA	noncompetition agreement
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OCI	other comprehensive income
OREO	other real estate owned
OTC	over-the-counter (as in OTC market)
OTTI	other-than-temporary impairment
PBE	public business entity
PCAOB	Public Company Accounting Oversight Board
PCC	Private Company Council (which recommends alternatives for private companies to the FASB)
PCD	purchased credit deteriorated
PCI	purchased credit impaired
PPP	Paycheck Protection Program
ROU	right of use
SAB	Staff Accounting Bulletin (issued by the SEC)
SEC	U.S. Securities and Exchange Commission
SIFMA	Securities Industry and Financial Markets Association
SPPI	solely payments of principal and interest
TDR	troubled debt restructuring
TRG	Transition Resource Group (A joint TRG has been formed for revenue recognition by the FASB and IASB, and a TRG has been formed for credit losses by the FASB.)
VA	Veterans Benefits Administration
VIE	variable interest entity

Learn more

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Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Leases (ASU 2016-02) Revises recognition and measurement for lease contracts by lessors and lessees; operating leases are recorded on balance sheet for lessees. Replaces Topic 840 with Topic 842.	March 31, 2019 ²	Permitted
Clarifying standards: ASU 2018-01 – Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840. ASU 2018-10 – Provides 16 improvements and clarifications to the guidance in Topic 842. ASU 2018-11 – Provides an optional transition method for adopting Topic 842 that will eliminate comparative period reporting under the new guidance in the adoption year. Provides a practical expedient for lessors to not separate nonlease components from the associated lease component in specified circumstances. ASU 2018-20 – Improvements specific to lessors for evaluating sales taxes, recording reimbursed costs, and allocating variable payments to lease and nonlease components. ASU 2019-01 – Provides improvements in determining fair value of underlying asset by lessors that are not manufacturers or dealers, presentation of the statement of cash flows for sales-type and direct financing leases, and transition disclosures.	<p>For ASU 2019-01, March 31, 2020, except for transition disclosure amendments that are consistent with ASU 2016-02</p>	

² Codified in ASU 2020-02, an SEC staff announcement at the December 2019 AICPA National Conference on Current SEC and PCAOB Developments specifically related to PBEs that qualify as a PBE solely due to the requirement to include or the inclusion of its financial statements or financial information in another entity's SEC filing ("certain PBEs") states that the SEC will not object to it adopting Topic 842 for fiscal years beginning after Dec. 15, 2020, and interim period within fiscal years beginning after Dec. 15, 2021, in accordance with ASU 2019-10.

<p>Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test.</p> <p>Clarifying standards: ASU 2019-10 – Deferral of effective dates.</p>	<p>For SEC filers, excluding smaller reporting companies, tests performed on or after Jan. 1, 2020</p> <p>For all other PBEs including smaller reporting companies, tests performed on or after Jan. 1, 2023</p>	<p>Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017</p>
<p>Codification Updates to SEC Sections (ASU 2020-02) Modifies FASB Codification to reflect previously issued SEC interpretations (SAB 119) on accounting for loan losses by registrants engaged in lending activities subject to Topic 326. Modifies FASB Codification to include SEC staff announcement within Topic 842 that SEC staff would not object to a PBE that otherwise would not meet the definition of a PBE except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC from adopting Topic 842 for fiscal year Dec. 31, 2021, annual financial statement for calendar year-end entities in accordance with ASU 2019-10.</p>	<p>Upon issuance, Jan. 2020</p>	<p>Not applicable</p>
<p>Codification Improvements to Financial Instruments (ASU 2020-03) Clarifies and improves various financial instruments topics including applicability of portfolio exception in measuring fair value for nonfinancial items accounted for as derivatives; disclosure requirements in Topic 320 apply to disclosure requirements in Topic 942 for depository and lending institutions; added cross-reference to line-of-credit or revolving-debt arrangements guidance to guidance in accounting for fees between debtor and creditor and third-party costs directly related to exchanges or modifications of debt instruments in Subtopic 470-50; and fair value measurement disclosure requirements do not apply to entities using the net asset value per share practical expedient.</p> <p>(Also contains clarification and improvements to ASU 2016-13, which is included as clarifying standard.)</p>	<p>March 31, 2020</p>	<p>Permitted</p>
<p>Optional Guidance in Accounting for Impacts of Reference Rate Reform (ASU 2020-04) Provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The optional guidance does not apply to contract modifications made and hedging relationships entered into or evaluated after Dec. 31, 2022, except for hedging relationships existing as of Dec. 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship.</p>	<p>March 31, 2020</p>	<p>Not applicable</p>

<p>Credit Losses (ASU 2016-13) Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables.</p> <p>Clarifying standards: ASU 2018-19 – Clarifies that impairment of operating lease receivables is in the scope of ASC Topic 842, “Leases,” and not the CECL model. ASU 2019-04 – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, vintage disclosures, and contractual extensions and renewal options. ASU 2019-05 – Targeted transition relief provides an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. ASU 2019-10 – Deferral of effective dates. ASU 2019-11 – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses expected recoveries for purchased financial assets with credit deterioration, transition relief for troubled debt restructurings, disclosures related to accrued interest receivables, financial assets secured by collateral maintenance provisions, and conforming cross-references to Subtopic 805-20. ASU 2020-03 – Aligns contractual term to measure expected credit losses for a net investment in a lease to be consistent with the lease term determined under Topic 842. Clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded.</p>	<p>For SEC filers, excluding smaller reporting companies, March 31, 2020</p> <p>For all other PBEs including smaller reporting companies, March 31, 2023</p> <p>For ASU 2019-04, ASU 2019-05, ASU 2019-11, and ASU 2020-03, March 31, 2020, for entities that have adopted ASU 2016-13; otherwise effective dates the same as ASU 2016-13</p>	<p>Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within</p>
<p>Fair Value Measurement Disclosure (ASU 2018-13) Removes, modifies, or adds certain fair value measurement disclosures related to financial instrument transfers and Level 3 instruments, among others.</p>	<p>March 31, 2020</p>	<p>Permitted</p>
<p>Implementation Costs for Cloud Computing Arrangements (CCAs) (ASU 2018-15) Aligns accounting for implementation costs of CCAs with or without a license (that is, regardless of whether the CCA is a service contract) by capitalizing implementation costs during the application development stage and amortizing the costs over the term of the arrangement.</p>	<p>March 31, 2020</p>	<p>Permitted, including in an interim period</p>
<p>Variable Interest Entity (VIE) Model – Targeted Improvements for Related Parties (ASU 2018-17) Revises the analysis for determining whether a decision-making fee paid by a VIE is a variable interest such that indirect interests in a VIE held through related parties in common control arrangements would be considered on a proportional basis (instead of as the equivalent to a direct interest).</p>	<p>March 31, 2020</p>	<p>Permitted, including in an interim period</p>

Improvements to Recognition and Measurement of Financial Instruments and Accounting for Hedging Activities (ASU 2019-04) Contains various improvements to ASU 2016-01, including scope, fair value measurement alternative, held-to-maturity debt securities fair value disclosures, and remeasurement of equity securities at historical exchange rates. Provides specific improvements and clarifications to ASU 2017-12. Among other areas, addresses partial-term fair value hedges of interest-rate risk, amortization and disclosure of fair value hedge basis adjustments, and consideration of hedged contractually specified interest rate under the hypothetical derivative method. (Also contains clarification and improvements to ASU 2016-13, which is included as clarifying standard.)	March 31, 2020	Permitted, including in an interim period
Defined Benefit Plan Disclosure for Sponsors (ASU 2018-14) Removes and clarifies certain disclosures for sponsors of defined benefit plans. Adds disclosure for weighted-average interest credit rates for certain plans and the reasons for significant gains and losses in the benefit obligation.	Dec. 31, 2020	Permitted
Amendments to Various SEC Paragraphs (ASU 2020-09) Amends and supersedes various SEC paragraphs to reflect SEC Release No. 33-10762, which includes amendments to financial disclosure requirements applicable to registered debt offerings that include credit enhancements, such as subsidiary guarantees. SEC rules make it easier for a registrant to qualify for an exception to the requirement to file separate audited financial statements of a subsidiary issuer or guarantor of registered debt securities.	SEC rules are effective Jan. 4, 2021	Permitted
Simplifying Accounting for Income Taxes (ASU 2019-12) Simplifies the accounting for income taxes by removing certain exceptions in Topic 740. Improves consistent application of other areas of guidance within Topic 740 by clarifying and amending existing guidance.	March 31, 2021	Permitted, including in an interim period
Interaction Between Accounting for Equity Securities, Equity Method Investments, and Certain Derivative Instruments (ASU 2020-01) Clarifies the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contract and purchased options accounted for under Topic 815.	March 31, 2021	Permitted, including in an interim period

Accounting for Purchased Callable Debt Securities (ASU 2020-08) Clarifies amendments in ASU 2017-08, which amended the amortization period for certain purchased callable debt securities held at a premium by shortening the period to the earliest call date. The amendments require an entity to reevaluate whether a callable debt security that has multiple call dates is within the scope of paragraph 310-20-35-33 for each reporting period.	March 31, 2021	Not permitted
Various Codification Improvements (ASU 2020-10) Amendments improve codification by having all disclosure-related guidance available in the disclosure sections of the codification. Prior to this ASU, various disclosure requirements or options to present information on the face of the financial statements or as a note to the financial statements were not included in the appropriate disclosure sections of the codification. Contains various other minor amendments to codification that are not expected to have a significant effect on current accounting practice.	March 31, 2021	Permitted, including in an interim period
Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06) Clarifies the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments reduce number of accounting models for convertible debt instruments and convertible preferred stock. The cash conversion and beneficial conversion feature models were removed. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract. Improves disclosure requirements for convertible instruments and earnings-per-share guidance. Revises derivatives scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events.	For SEC filers, excluding smaller reporting companies, March 31, 2022 For all other PBEs, including smaller reporting companies, March 31, 2024	Permitted as of the fiscal years beginning after Dec. 15, 2020. An entity must adopt the guidance as of the beginning of the fiscal year and not in a subsequent interim period.

Appendix B: ASUs for financial institutions³ – effective dates for nonpublic business entities (non-PBEs)

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Revenue Recognition (ASU 2014-09) For all entities, the transaction- and industry-specific recognition methods are eliminated and revenue is recognized by applying a defined principles-based approach.	Dec. 31, 2019 ⁴	Permitted only as of annual periods beginning after Dec. 15, 2016, including interim periods within
Clarifying standards: ASU 2015-14 – Deferral of Effective Date ASU 2016-08 – Principal Versus Agent Considerations (Gross Versus Net Reporting) ASU 2016-10 – Identifying Performance Obligations and Licensing ASU 2016-11 – Rescission of SEC Staff Observer Comments (Staff Announcements at March 3, 2016, EITF Meeting) ASU 2016-12 – Narrow-Scope Improvements and Practical Expedients ASU 2016-20 – Technical Corrections and Improvements ASU 2017-14 – Rescission of SEC Staff Accounting Bulletin (SAB) Topic 13, “Revenue Recognition”		

³ These standards have the highest likelihood of being applicable for financial services entities. There could be other standards that might be applicable for financial services entities engaging in nontraditional activities.

⁴ ASU 2020-05 defers, for one year, the required effective date for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) as of June 3, 2020. Those entities may elect to adopt the guidance for annual reporting periods beginning after Dec. 15, 2019, and for interim reporting periods within annual reporting periods beginning after Dec. 15, 2020.

<p>Codification Improvements (ASU 2018-09)</p> <p>Contains 30 improvements in all, including: adds income taxes for certain quasi reorganizations; offers fair value option debt extinguishments; revises an example to align with guidance that prohibits the combination of free-standing financial instruments in the scope of ASC 480-10 with noncontrolling interest, unless the combination is required by Topic 815; clarifies that excess tax benefits should be recognized in the period when the tax deduction for compensation expense is taken on the tax return; removes the three tax allocation methods from ASC 805-740-25-13 since they are not systematic, rational, and consistent as required by Topic 740; clarifies that the intent to set off criteria is not required to offset derivative assets and liabilities when recognized at fair value and executed with the same counterparty under a master netting agreement; clarifies how to consider transfer restrictions for fair value measurement; clarifies balance sheet offsetting for broker-dealers. Specific to financial institutions, issue 23, "Disclosure Requirement Update Related to Basel III," clarifies that an entity must disclose the required and actual amounts of regulatory capital for each measure of regulatory capital for which the entity must comply.</p>	<p>Varies by issue (see pages 8 and 9 of the ASU)</p> <p>Upon issuance, July 16, 2018</p> <p>Dec. 31, 2019</p> <p>Dec. 31, 2020</p>	<p>Permitted, including in an interim period</p>
<p>Codification Improvements to Financial Instruments (ASU 2020-03)</p> <p>Clarifies and improves various financial instruments topics including: all entities (not just PBEs) are required to provide fair value option disclosures; applicability of portfolio exception in measuring fair value for nonfinancial items accounted for as derivatives; disclosure requirements in Topic 320 apply to disclosure requirements in Topic 942 for depository and lending institutions; added cross-reference to line-of-credit or revolving-debt arrangements guidance to guidance in accounting for fees between debtor and creditor and third-party costs directly related to exchanges or modifications of debt instruments in Subtopic 470-50; and fair value measurement disclosure requirements do not apply to entities using the net asset value per share practical expedient.</p> <p>(Also contains clarification and improvements to ASU 2016-13, which is included as clarifying standard.)</p>	<p>March 31, 2020 (regarding alignment of disclosure requirements for depository and lending institutions)</p> <p>Dec. 31, 2020 (other improvements)</p>	<p>Permitted, including in an interim period</p>
<p>Optional Guidance in Accounting for Impacts of Reference Rate Reform (ASU 2020-04)</p> <p>Provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The optional guidance does not apply to contract modifications made and hedging relationships entered into or evaluated after Dec. 31, 2022, except for hedging relationships existing as of Dec. 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship.</p>	<p>March 31, 2020</p>	<p>Not applicable</p>

Improvements to Recognition and Measurement of Financial Instruments (ASU 2019-04) Contains various improvements to ASU 2016-01, including scope, fair value measurement alternative, held-to-maturity debt securities fair value disclosures, and remeasurement of equity securities at historical exchange rates. (Also contains clarification and improvements to ASU 2016-13 and ASU 2017-12, which are included as clarifying standards.)	Dec. 31, 2020	Permitted, including in an interim period
Premium Amortization on Purchased Callable Debt (ASU 2017-08) Shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, instead of to the maturity date.	Dec. 31, 2020	Permitted, including in an interim period
Clarifying standard: ASU 2020-08 – Clarifies that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of paragraph 310-20-35-33 for each reporting period.	For ASU 2020-08, Dec. 31, 2021	For ASU 2020-08, permitted only as of annual periods beginning after Dec. 15, 2020, including interim periods within
Financial Instruments With Down-Round Features (Part I) and Scope Exception for Certain Mandatorily Redeemable Financial Instruments (Part II) (ASU 2017-11) Part I – Simplifies the accounting for certain financial instruments with down-round features by eliminating the requirement to consider the down-round feature in the liability or equity classification determination. For entities that present EPS, requires the effect of the down-round feature in a warrant or other free-standing equity-classified instrument to be presented as a dividend and an adjustment to EPS when it is triggered. Regardless of whether the entity presents EPS, requires the effect of the down-round feature in a convertible instrument such as debt or preferred stock to follow existing guidance for contingent beneficial conversion features and be presented as a discount to the convertible instrument with an offsetting credit to paid-in capital when it is triggered. Part II – Changes the indefinite deferral available to private companies with mandatorily redeemable financial instruments and certain noncontrolling interests to a scope exception, which does not have an accounting effect.	Dec. 31, 2020	Permitted, including in an interim period
Additional Benchmark Interest Rate for Hedging (ASU 2018-16) Expands the number of benchmark interest rates that can be used in hedge accounting designations to include the Overnight Index Swap (OIS) rate based on the Secured Overnight Financing Rate (SOFR) and stems from concerns about the sustainability of the London Interbank Offered Rate (LIBOR).	Dec. 31, 2020, consistent with ASU 2017-12 March 31, 2020, if ASU 2017-12 was early adopted	Permitted, including in an interim period, if ASU 2017-12 was early adopted
Nonemployee Stock Compensation Simplifications (ASU 2018-07) Aligns the accounting guidance for nonemployee stock payments with the guidance for employee stock compensation in ASC Topic 718.	Dec. 31, 2020	Permitted, including in an interim period, but no earlier than the adoption of Topic 606

Fair Value Measurement Disclosure (ASU 2018-13) Removes, modifies, or adds certain fair value measurement disclosures related to financial instrument transfers and Level 3 instruments, among others.	Dec. 31, 2020	Permitted
Hedging Activities (ASU 2017-12) Expands the nonfinancial and financial risk components that can qualify for hedge accounting and simplifies financial reporting for hedging activities. Clarifying standards: ASU 2019-04 – Provides specific improvements and clarifications to the guidance in Topic 815. Among other areas, addresses partial-term fair value hedges of interest-rate risk, amortization and disclosure of fair value hedge basis adjustments, and consideration of hedged contractually specified interest rate under the hypothetical derivative method. ASU 2019-10 – Deferral of effective dates.	Dec. 31, 2021	Permitted, including in an interim period
Defined Benefit Plan Disclosure for Sponsors (ASU 2018-14) Removes and clarifies certain disclosures for sponsors of defined benefit plans. Adds disclosure for weighted-average interest credit rates for certain plans and the reasons for significant gains and losses in the benefit obligation.	Dec. 31, 2021	Permitted
Implementation Costs for Cloud Computing Arrangements (CCAs) (ASU 2018-15) Aligns accounting for implementation costs of CCAs with or without a license (that is, regardless of whether the CCA is a service contract) by capitalizing implementation costs during the application development stage and amortizing the costs over the term of the arrangement.	Dec. 31, 2021	Permitted, including in an interim period
Variable Interest Entity (VIE) Model – Targeted Improvements for Related Parties (ASU 2018-17) Provides a private company accounting alternative not to apply VIE consolidation guidance to any arrangement with legal entities that are under common control if neither the parent nor the legal entity is a PBE (thus expanding the alternative for common control leasing arrangements to all common control arrangements). Also, revises the analysis for determining whether a decision-making fee paid by a VIE is a variable interest such that indirect interests in a VIE held through related parties in common control arrangements would be considered on a proportional basis (instead of as the equivalent to a direct interest).	Dec. 31, 2021	Permitted, including in an interim period

Collaborative Arrangements (Topic 808) (ASU 2018-18) Requires that Topic 606 be applied to collaborative arrangements when the arrangement participant is a customer and aligns the unit-of-account guidance in Topic 808 with Topic 606. Revenue in the scope of Topic 606 should be presented separate from revenue outside its scope.	Dec. 31, 2021	Permitted, including in an interim period
Simplifying Accounting for Income Taxes (ASU 2019-12) Simplifies the accounting for income taxes by removing certain exceptions in Topic 740. Improves consistent application of other areas of guidance within Topic 740 by clarifying and amending existing guidance.	Dec. 31, 2022	Permitted, including in an interim period
Interaction Between Accounting for Equity Securities, Equity Method Investments, and Certain Derivative Instruments (ASU 2020-01) Clarifies the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contract and purchased options accounted for under Topic 815.	Dec. 31, 2022	Permitted, including in an interim period
Leases (ASU 2016-02) Revises recognition and measurement for lease contracts by lessors and lessees; operating leases are recorded on balance sheet for lessees. Replaces Topic 840 with Topic 842. Clarifying standards: ASU 2018-01 – Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840. ASU 2018-10 – Provides 16 improvements and clarifications to the guidance in Topic 842. ASU 2018-11 – Provides an optional transition method for adopting Topic 842 that will eliminate comparative period reporting under the new guidance in the adoption year. Provides a practical expedient for lessors to not separate nonlease components from the associated lease component in specified circumstances. ASU 2018-20 – Improvements specific to lessors for evaluating sales taxes, recording reimbursed costs, and allocating variable payments to lease and nonlease components. ASU 2019-01 – Provides improvements in determining fair value of underlying asset by lessors that are not manufacturers or dealers, presentation of the statement of cash flows for sales-type and direct financing leases, and transition disclosures. ASU 2019-10 – Deferral of effective dates. ASU 2020-05 – Deferral of effective dates.	Dec. 31, 2022	Permitted

Various Codification Improvements (ASU 2020-10) Amendments improve codification by having all disclosure-related guidance available in the disclosure sections of the codification. Prior to this ASU, various disclosure requirements or options to present information on the face of the financial statements or as a note to the financial statements were not included in the appropriate disclosure sections of the codification. Contains various other minor amendments to codification that are not expected to have a significant effect on current accounting practice.	Dec. 31, 2022	Permitted
Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test. Clarifying standards: ASU 2019-10 – Deferral of effective dates.	Tests performed on or after Jan. 1, 2023	Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017
Credit Losses (ASU 2016-13) Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables. Clarifying standards: ASU 2018-19 – Clarifies the effective date for non-PBEs and that impairment of operating lease receivables is in the scope of ASC Topic 842, "Leases," and not the CECL model. ASU 2019-04 – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, vintage disclosures, and contractual extensions and renewal options. ASU 2019-05 – Targeted transition relief provides an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. ASU 2019-10 – Deferral of effective dates. ASU 2019-11 – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses expected recoveries for purchased financial assets with credit deterioration, transition relief for troubled debt restructurings, disclosures related to accrued interest receivables, financial assets secured by collateral maintenance provisions, and conforming cross-references to Subtopic 805-20. ASU 2020-03 – Aligns contractual term to measure expected credit losses for a net investment in a lease to be consistent with the lease term determined under Topic 842. Clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded.	Dec. 31, 2023	Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within
	For ASU 2019-04, ASU 2019-05, ASU 2019-11, and ASU 2020-03, March 31, 2020, for entities that have adopted ASU 2016-13; otherwise effective dates the same as ASU 2016-13	

Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06)**March 31, 2024****Permitted as of the fiscal years beginning after Dec. 15, 2020, including interim periods within**

Clarifies the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments reduce number of accounting models for convertible debt instruments and convertible preferred stock. The cash conversion and beneficial conversion feature models were removed. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract. Improves disclosure requirements for convertible instruments and earnings-per-share guidance. Revises derivatives scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events.