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Welcome

Audit and Accounting Overview

Objectives

This session will provide an update on recent and upcoming changes to accounting standards that impact both public and private entities.

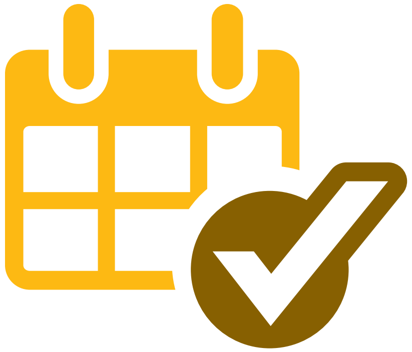
As a result of participating in this session, you should be able to:

- Describe the provisions of recently issued accounting guidance, and summarize the potential impacts of that guidance on financial statements and disclosures

- Summarize the major projects on the FASB’s current standard-setting agenda, including their potential impacts on financial statements and disclosures

Agenda

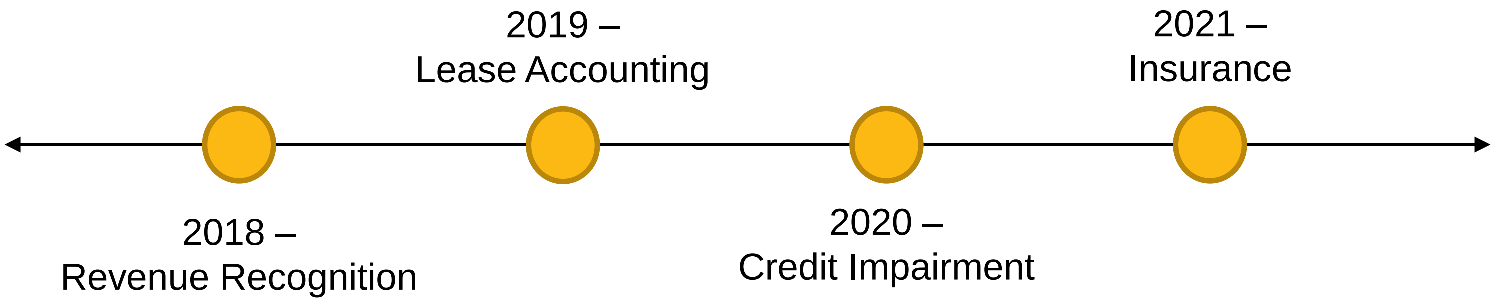
- Effective Date Deferral Project
- ASU 2016-02, *Leases (Topic 842)*
- Reference Rate Reform
- ASU 2016-13, *Credit Impairment (CECL)*
- Fast Approaching Effective Dates
- Other Standard-Setting Activities



Effective Date Deferral Project

Effective Date Deferral Project

The reason for the project



- Since 2014, FASB has issued several “major” standards
- Many constituents have called for relief given various implementation challenges
  - *Limited resources*
  - *Ability to learn from public companies for a full reporting cycle*
  - *System implementation challenges*
- Implementation challenges often magnified for private companies, not-for-profit entities, and smaller public companies

Philosophy Shift

In addition to considering targeted relief for specific standards, FASB has contemplated changing how it thinks about setting effective dates for all major accounting standards…

Effective Date Deferral Project

Decision to delay effective dates of leases, hedging, CECL, and insurance standards

- Leases (ASU 2016-02) and Hedging (ASU 2017-12)

Revised Effective Dates

Standard	Public Business Entities (PBEs)[a]	All Other Entities[b]
Leases (ASU 2016-02) *and* Hedging (ASU 2017-12)	Fiscal years beginning after December 15, 2018, including interim periods therein	Fiscal years beginning after December 15, ~~2019~~**2020**, and interim periods one year later

Endnotes:
a – For Leases only, PBEs includes not-for-profit entities with conduit debt and employee benefit plans that file or furnish financial statements with the SEC
b – All Other Entities includes emerging growth companies that elect to apply non-issuer effective dates

No change for PBEs. Standards have already gone into effect

One year deferral from original effective date.

Effective Date Deferral Project

Decision to delay effective dates of leases, hedging, CECL, and insurance standards

- Credit Impairment (ASU 2016-13) and Insurance (ASU 2018-12)

Original Effective Dates

Standard	Public Business Entities (PBEs) that are SEC Filers[a]	All Other PBEs	All Other Entities[b]
Credit impairment (ASU 2016-13)	Fiscal years beginning after December 15, 2019, including interim periods therein	Fiscal years beginning after December 15, 2020, including interim periods therein	Fiscal years beginning after December 15, 2021, including interim periods therein
Insurance (ASU 2018-12)	Fiscal years beginning after December 15, 2020, including interim periods therein	Fiscal years beginning after December 15, 2020, including interim periods therein	Fiscal years beginning after December 15, 2021, and interim periods one year later

Endnotes:
a – Refer to the definition of SEC Filer in the Accounting Standards Codification *Master Glossary*
b – All Other Entities includes emerging growth companies that elect to apply non-issuer effective dates

Effective Date Deferral Project

Decision to delay effective dates of leases, hedging, CECL, and insurance standards

- Credit Impairment (ASU 2016-13) and Insurance (ASU 2018-12)

Revised Effective Dates

Standard	Public Business Entities (PBEs) that are SEC Filers[a], excluding smaller reporting companies (SRCs)[c]	~~All Other PBEs~~	All Other Entities[b]
Credit impairment (ASU 2016-13)	Fiscal years beginning after December 15, 2019, including interim periods therein	~~Fiscal years beginning after December 15, 2020, including interim periods therein~~	Fiscal years beginning after December 15, ~~2021~~**2022**, including interim periods therein
Insurance (ASU 2018-12)	Fiscal years beginning after December 15, ~~2020~~**2021**, including interim periods therein	~~Fiscal years beginning after December 15, 2020, including interim periods therein~~	Fiscal years beginning after December 15, ~~2021~~**2023**, and interim periods one year later

Endnotes:

a – Refer to the definition of SEC Filer in the Accounting Standards Codification *Master Glossary*

b – All Other Entities includes emerging growth companies that elect to apply non-issuer effective dates

c – SEC regulations (Item 10(f)(1) of Regulation S-K) define a smaller reporting company (SRC) as a filer with either 1) a public float of less than $250 million, or 2) annual revenues of less than $100 million and either no public float or a public float of less than $700 million. To determine if an entity qualifies as an SRC, and therefore qualifies for the delayed effective date for the credit impairment standard, an entity would use its status as of its most recent testing under SEC guidance upon issuance of the codification change.

Effective Date Deferral Project

Key things to remember

- Certain companies now will have more time to implement some of the recently issued “major” standards.

- Implementation of these “major” standards can be challenging and time consuming; don’t delay.

- FASB will consider providing more time to implement “major” standards based on “two bucket approach” on a go-forward basis.

ASU 2016-02, *Leases (Topic 842)*

ASU 2016-02, *Leases*

Overview

- Companies will recognize a lease liability and a right-of-use (ROU) asset on the balance sheet for all leases, including operating leases, with terms greater than 12 months

- Dual classification model retained, which requires leases to be classified as either operating or finance (previously capital):
  - **Operating lease** - Straight-line expense recognition (similar to current operating leases)
  - **Finance lease** - Front-loaded expense pattern (similar to current capital leases)
  - Classification will be based on criteria that are largely similar to those in current lease accounting, but without explicit bright lines (sort of)

	Topic 840		Topic 842	
	Capital leases	Operating leases	Finance leases	Operating leases
Assets		---		
Liabilities	$$	---	$$	$$$$$
Off balance sheet rights & obligations	---	 $$$$$	---	---

ASU 2016-02, *Leases*

Overview

Lessor Accounting

- Similar to current accounting model, but slightly updated to align with 1) changes made to the lessee model (e.g., treatment of initial direct costs) and 2) the new revenue recognition standard (e.g., allocation of consideration, modifications, etc.)

- Many of the subsequent amendments to ASU 2016-02 pertain to lessor accounting (e.g., expedients to combine lease and non-lease components)

Other Changes

- Sale-leaseback accounting substantially changed – Fewer "failed" sale-leasebacks of real estate

- Build-to-suit guidance replaced with a new model based on whether the lessee controls the asset during the construction period

- Lease modification guidance significantly changed

ASU 2016-02, *Leases*

Observations from first wave of adopters

- Very little, if any, impact to equity; largely a balance sheet “gross up”
  - Other than for deferred gains on sale-and-leaseback transactions, companies generally silent on reason for retained earnings adjustments

- Most companies adopted using a modified retrospective approach (applied as of the date of adoption, prior periods unchanged)

- Practical expedients, including the “package of 3”, were used extensively
  - As an exception, very few entities elected to use the “hindsight” practical expedient

ASU 2016-02, *Leases*

Implementation challenges

Lease Identification & Technical Assessment:

- Identifying embedded leases
- Determining which expedients to apply

Data Collection:

- Locating lease contracts across organization
- Ensuring accuracy of data abstraction process

Lease Classification & Measurement:

- Determining proper discount rate
- Accurately reclassifying existing (ASC 840) balances into ROU asset

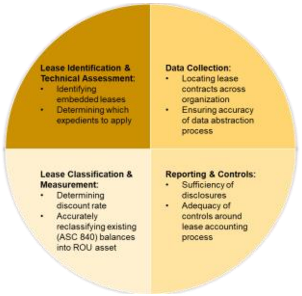
Reporting & Controls:

- Sufficiency of disclosures
- Adequacy of controls around lease accounting process

ASU 2016-02, *Leases*

Implementation challenges

Identifying all leases – the new “on/off switch”



Sources of complexity

- Decentralized procurement
- Lease accounting function decentralized
- Finding all the amendments
- Lack of a robust process to capture embedded leases
- Translation issues

Implementation strategies

- Look to detail behind lease commitments disclosure
- Review GL account activity and A/P and vendor details
- Inquire across organization
- Use lease questionnaires

Keep an eye out

➢ Leases could be hiding in…

- Exclusive supply agreements
- Contract manufacturing arrangements
- Clinical supply agreements
- IT service contracts
- Inventory management contracts
- Office management contracts
- Outsourcing arrangements

ASU 2016-02, *Leases*

Implementation challenges

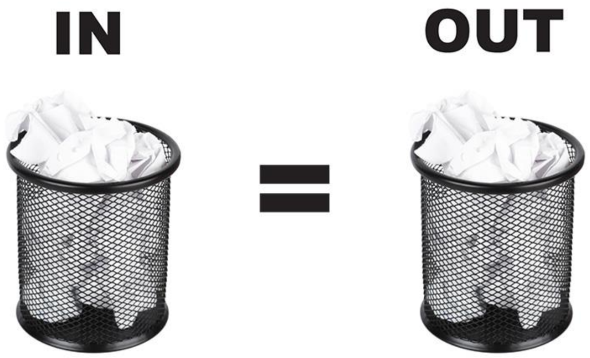
Data collection and accuracy

Sources of complexity

- Resource limitations (e.g., sheer volume of contracts)
- Inadequate training for data extractors (e.g., inconsistent interpretations, don't know what to look for)
- Improper or no controls over data entry quality

Implementation strategies

- Start early
- Create standardized data extraction templates
- Provide proper training
- Ensure proper controls over data entry quality



ASU 2016-02, *Leases*

Implementation challenges

Classification & measurement – discount rates

Sources of complexity

- No recent debt issuances, or no debt at all
- Using a single discount rate for all leases may not be reasonable
- Qualitative adjustments may be needed (e.g., collateral differences, term)
- Auditor approval

Implementation strategies – discount rate

- Look to recently issued debt
- Estimate a rate based on the Company's published or implied credit rating and relevant market data (e.g., market rates, cap rates)
- Obtain a rate quote from a trusted lending partner
- Engage a third-party specialist
- Talk with auditors early!

Other sources of measurement complexity

- Lease term
- Variable lease payments
- Portfolio approach

ASU 2016-02, *Leases*

Implementation challenges

Classification & measurement – discount rates

Sources of complexity

- No recent debt issuances, or no debt at all
- Using a single for all leases reasonable
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Implementation strategies – discount rate

- Engage a third-party specialist
- Talk with auditors early!

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- ease term
- ariable lease ayments
- Portfolio approach

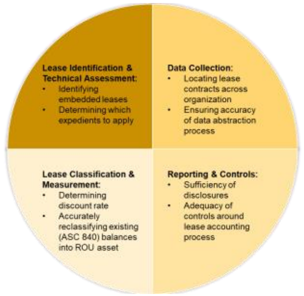
<u>Reminder</u>:

Private companies can elect to use the risk-free rate as their incremental borrowing rate. However, keep in mind that the use of a lower rate means a larger liability…

ASU 2016-02, *Leases*

Implementation challenges

Reporting & controls



Sources of complexity

- How will we capture all the necessary data to satisfy reporting & disclosure requirements?
- If we use a system solution, how can we assure accuracy of reported results? How can we get auditor comfortable with system output?

Implementation strategies

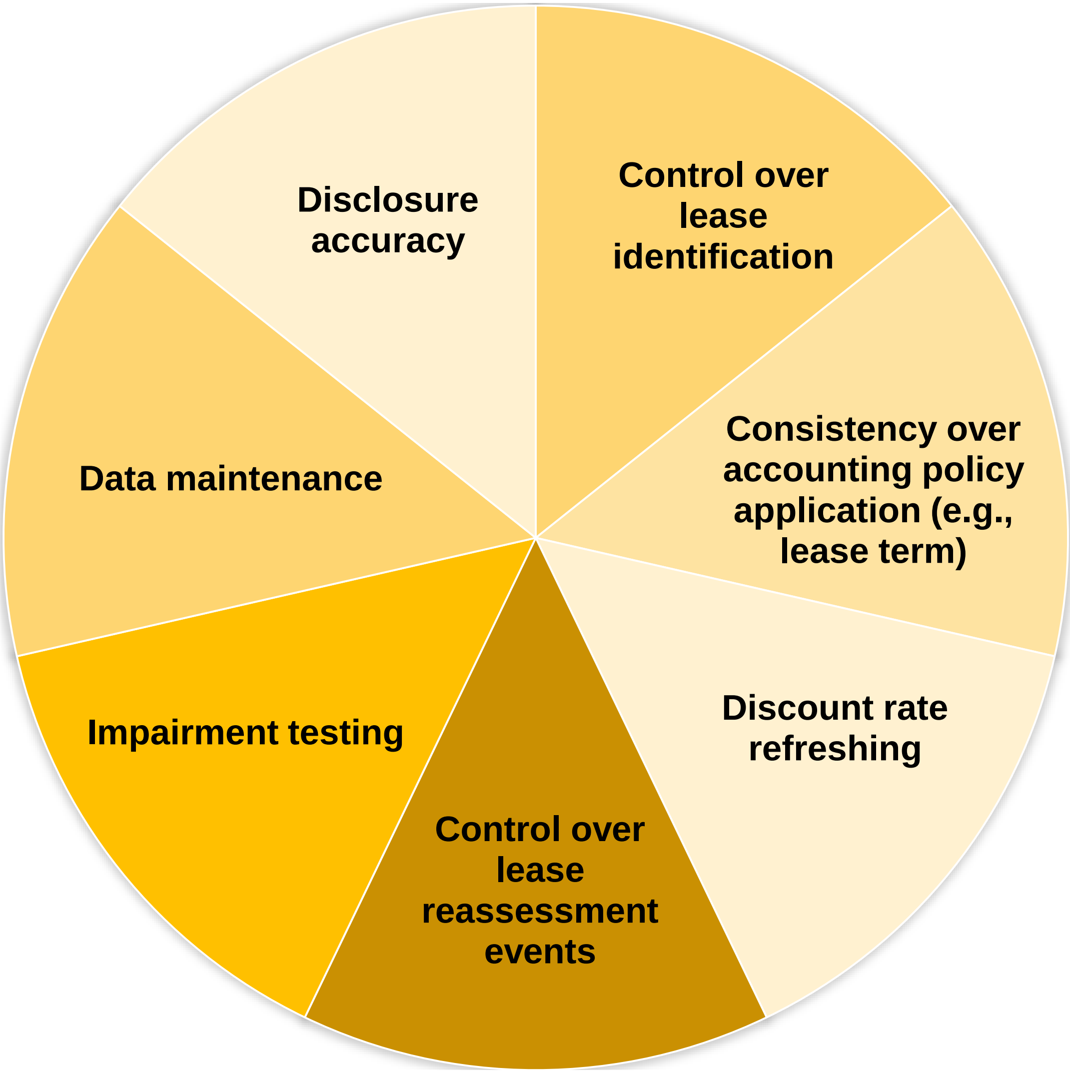
- Start early!
- Test system solutions using company-specific fact patterns
- Complete system controls documentation
- Involve auditors early on

Other Reminders

- Don’t forget to…
  - Use cross-functional teams
  - Consider interaction with current ERP or GL systems

ASU 2016-02, *Leases*

"Day 2" Considerations



ASU 2016-02, *Leases*

"Day 2" Considerations – Reassessment Events

Reminder:

After lease commencement, lessees must monitor for certain events that could trigger a change in the measurement of lease assets and liabilities

Event	Description
Significant event or change in circumstance	A significant event or change in circumstances occurs that is within the lessee's control that directly affects whether the lessee is reasonably certain to (1) extend the lease, (2) not terminate the lease or (3) purchase the underlying asset.
Contractual event	There is an event that is written into the contract that obliges the lessee to exercise or not exercise an option to extend or terminate the lease.
Option exercised	The lessee elects to (not) exercise an option even though it had previously determined that it was not reasonably certain to do so.
Resolution of contingency	There is a resolution of a contingency that results in lease payments that were previously variable becoming fixed
Amount payable under RVG	The lessee's estimate of amounts due under a lessee-provided residual value guarantee changes

ASU 2016-02, *Leases*

"Day 2" Considerations – Data Maintenance, etc.

Reminder:

The new lease standard requires virtually all leases to be accounted for on balance sheet. This requires greater control over processes and data.

Don't forget:

- Data maintenance (i.e. ledgers, mapping considerations etc.)
- New reconciliations (i.e. underlying detail to general ledger)
- New technology considerations (i.e. ongoing access review, SSAE 18 review etc.).
- On-going accounting policy review/appropriateness:
  - Capitalization threshold (i.e. too high or too low)
  - Incremental borrowing rate (refresh considerations, practical expedients)
  - Renewal options assumptions
  - Contingent lease incentives (e.g. remeasurement vs. up-front estimation)
  - Impairments (e.g. include or exclude operating leases from asset groups and undiscounted cash flows)

Reference Rate Reform

Reference Rate Reform

Background Information

Background	➢ LIBOR and other Interbank Offered Rates (IBORs) are an essential part of the financial markets; they serve as a reference rate in a variety of instruments and contracts (over $200 trillion worth!) ➢ Due to concerns about the future reliability of IBORs, central banks and others have recommended replacing IBORs with transaction-based overnight rates (e.g., SOFR); LIBOR reporting commitments end after 2021

Derivative Instruments *(e.g., interest rate swaps, total return swaps)*

Debt instruments *(e.g., loans, bonds, securitization interests)*

Lease contracts *(e.g., indexed lease payments)*

Compensation agreements *(e.g., deferred comp)*

Discount rates used in various models *(e.g., impairment)*

Reference Rate Reform

Possible Financial Reporting Implications

Background (cont.)	➢ Many existing contracts do not contemplate the discontinuation of LIBOR; this may gave rise to uncertainty or disagreement over how to interpret or apply contract provisions ➢ In addition, existing provisions may result in unfavorable outcomes (transition to fixed rate)
Financial Reporting Implications	➢ Some or many existing contracts may need to be modified to address the discontinuation of LIBOR ➢ Such action could give rise to a number of accounting implications, including the following: ❑ Do we have a contract modification vs. extinguishment issue (gain/loss recognition)? ❑ Do we need to reassess for addition of possible embedded derivatives? ❑ What effect will the modification have on existing hedge relationships? Hedge effectiveness? ❑ What are the income tax implications for one-time payments, etc.?

Reference Rate Reform

FASB Project to Extend Relief

FASB Starts New Project to Provide Relief	➢ First public meeting held on June 19, 2019; subsequent meeting held on July 17, 2019 ➢ FASB is looking to provide temporary relief to preparers to facilitate the migration from interbank offered rates (IBORs) to alternative reference rates ➢ Proposed ASU was issued on September 5, 2019; comments were due by October 7, 2019

Contract Type	Proposed Optional Expedient
Loans & Receivables (ASC 310) and Debt (ASC 470)	• A change to a contract's reference interest rate would be treated as the continuation (not extinguishment) of that contract; prospectively adjust effective interest rate
Leases (ASC 842)	• Continuation of the existing contract with no reassessments or remeasurements that otherwise would be required
Embedded Derivatives (ASC 815)	• Would not require a reassessment of whether an embedded derivative should be accounted for as a separate instrument
Hedge Accounting (ASC 815)	➢ Would permit an entity to continue hedge accounting without dedesignation, and would provide various practical expedients specific to fair value and cash flow hedges (e.g., changing designated benchmark interest rate, maintaining shortcut method)

Reference Rate Reform

FASB Project to Extend Relief

- The Proposed ASU provides examples of the types of modifications that would be eligible and the types that wouldn't be eligible for relief

Eligible Modifications (not all-inclusive)	Ineligible Modifications (not all inclusive)
• Changing the referenced interest rate index (e.g., LIBOR) to another index (e.g., SOFR) • Changes to a spread for the difference between the existing reference rate and the replacement rate • Changes to the reset period, reset dates, daycount conventions, payment dates, and repricing calculation • Changes to the strike price of an existing embedded interest rate option (e.g., cap/floor) • Addition of an out-of-money interest rate cap or floor	• Changes to the notional amount • Changing the referenced interest rate to a fixed rate • Changes to the loan structure (term to revolving) • Changes to the counterparty credit spread • The additional or removal of a prepayment or conversion option • The addition or removal of a leverage factor • Changes to the counterparty to the agreement

Can an entity elect expedient for some contracts but not others?	Proposal would require expedients to be applied consistently to all contracts within the relevant Topic, Subtopic, or Industry Subtopic that contains the guidance that otherwise would be required to be applied.

Reference Rate Reform

Items for Companies to Consider

4 Communicate exposure to LIBOR discontinuation to investors and others

3 Identify actions required to mitigate risks / effects of LIBOR discontinuation

2 Determine the effect of LIBOR discontinuation on each impacted contract

1 Identify exposure to affected reference rates

Did You Know?

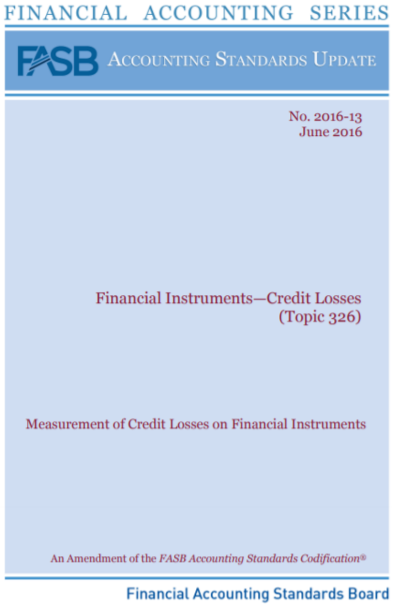
- **The SEC staff issued a statement on the effects of LIBOR rate reform**
- **Various stakeholders have formed the Alternative Reference Rate Committee (ARRC) to address key implications of the transition away from LIBOR**
- **The US has generally landed on SOFR as a replacement reference rate for LIBOR**

ASU 2016-13, *Credit Impairment* (CECL)

CECL for Non-Financial Institutions

Fact or fiction?

True or false?	Answer
CECL doesn't apply to non-financial institutions	False. CECL applies to all entities, regardless of industry, with instruments in its scope
CECL doesn't apply to short-lived trade and accounts receivable.	False. CECL does apply to trade and accounts receivable, including unbilled receivables and contract assets arising under ASC Topic 606
CECL won't have a material effect on my client's accounting policies, processes, and controls.	It depends. All entities with instruments in the scope of CECL will be affected. But, the extent of that effect will depend on a variety of factors
Wait, isn't the effective date of CECL getting delayed?	For PBEs that are SEC filers, no. For all other entities, CECL will take effect in fiscal years beginning after December 15, 2022.


FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2016-13
June 2016

Financial Instruments—Credit Losses
(Topic 326)

Measurement of Credit Losses on Financial Instruments

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

CECL for Non-Financial Institutions

Scope of CECL

In Scope
Trade receivables, unbilled receivables, contract assets
Loans to employees and officers
Loans to equity method investees
Guarantee of third-party credit risk
Net investment in sales-type and direct financing leases
Available for sale (AFS) debt securities
Held-to-maturity (HTM) debt securities
Financing receivables measured at amortized cost
Reinsurance receivables

Out of Scope
Financial assets measured at fair value through net income
Loans and receivables between entities under common control
Operating lease receivables
Pledge receivable of a NFP entity
Policy loan receivables of an insurance entity
Loans made to participants by defined contribution employee benefit plans

CECL for Non-Financial Institutions

Key changes

- Removal of recognition threshold (expected vs. incurred)
- Expansion of information set used (reasonable + supportable forecasts)
- Risk of loss must be considered
- Changes to AFS Debt Securities Impairment Model
- Disclosure requirement changes

CECL for Non-Financial Institutions

Application of CECL to accounts receivable

- Facts: At year-end, Widget Co. has on its balance sheet trade receivables with a gross carrying amount of $50 million. The aging schedule and the historical loss rates for Widget's outstanding receivables as of year-end are as follows:

	Current balance	31 – 60 days outstanding	61 – 90 days outstanding	91 – 120 days outstanding	121+ days outstanding
Amortized cost basis	$37 million	$9.5 million	$2.7 million	$0.5 million	$0.3 million
Loss rate	0%	3.00%	7.00%	23.00%	100%

Do these rates need to be adjusted for forecasted future conditions (e.g., changes in unemployment rates)?

Do I need to incorporate a risk of loss, even if current?

Fast-Approaching Effective Dates

Fast Approaching Effective Dates

For Non-PBEs

Accounting Standards Update (ASU) [1]	Description / Impact	Effective Date (Calendar Y/E Company) [2]
2016-01: Financial Instruments – Recognition and Measurement	Removes the available–for-sale (AFS) category for equities. Equities (excluding equity method and consolidated investments) will be carried at fair value; however, the changes will run through the income statement rather than OCI.	1/1/2019
2016-15: Classification of Certain Cash Flows in SCF	Provides explicit guidance on how eight issues should be presented in an entity's cash flow statement, including cash receipts received from equity method investees	1/1/2019
2016-18: Restricted Cash	Requires statement of cash flows to explain changes during the period to the total of cash, cash equivalents, and restricted cash and cash equivalents	1/1/2019
2017-01: Definition of a Business	Applies to the analysis of whether an asset or business is acquired (which determines whether goodwill is recognized), as well as asset derecognition and business deconsolidation transactions.	1/1/2019
2017-04: Goodwill Impairment Testing	Removes "step two" from the goodwill impairment test.	1/1/2022
2017-07: Presentation of Net Periodic Pension and Postretirement Benefit Costs	Rather than reporting pension expense as a net amount, the service cost component will be presented consistent with similar compensation for the same employees, and the other components will be separately presented in the income statement.	1/1/2019

1 – Does not represent an all-inclusive listing; 2 – Effective dates are for non-PBEs

ASU 2017-01: Definition of a Business

Summary of New Guidance

Key Changes

- Introduces new screen → not a business if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset (or group of similar assets)
- Requires a business to include inputs and at least one substantive business process, and narrows the definition of "outputs" to align with ASC 606
- Eliminates the requirement to evaluate whether a "market participant" could replace any missing elements – inputs and processes – in the definition of a business. As a result, the focus is on what was acquired in the set, not what can be replaced

Key Impacts

- Fewer asset purchases will qualify as a business combination, and more as asset acquisitions
  - Acquisition costs – capitalized vs. expensed
  - Contingent consideration – fair value versus ASC 450 model
  - In Process R&D – expensed vs. capitalized
  - Goodwill – no goodwill vs. goodwill
- Judgment will be required to determine which assets can be grouped as "similar" in new screen

Fast Approaching Effective Dates

For Non-PBEs

Accounting Standards Update (ASU) [1]	Description / Impact	Effective Date (Calendar Y/E Company) [2]
2018-13: Fair Value Measurement Disclosure	Removes, modifies, or adds certain fair value measurement disclosures related to financial instrument transfers and Level 3 instruments, among others.	1/1/2020
2018-14: Defined Benefit Plan Disclosure for Sponsors	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.	1/1/2021
2018-15: Implementation Costs for Cloud Computing Arrangements (CCAs)	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.	1/1/2021
2018-17: Variable Interest Entity (VIE) Model – Targeted Improvements	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).	1/1/2021

1 – Does not represent an all-inclusive listing; 2 – Effective dates are for non-PBEs

ASU 2018-15: Implementation Costs

Background

Accounting for SaaS arrangement (Customer)

- Does the arrangement convey a license (for accounting purposes)?
  - If Yes, apply Subtopic 350-40 (internal-use software guidance) to determine which costs should be capitalized
  - If No, treat the arrangement as a service contract (expense as incurred)
- But, what do I do with implementation costs incurred to establish a SaaS arrangement with SaaS provider?
  - Expense as incurred?
  - Capitalize by way of analogy?

GAAP is silent on treatment

Subtopic 350-40 Refresher

- Preliminary project phase (e.g., evaluating options) – expense
- Application development phase (e.g., designing and configuring SaaS solution) – capitalize
- Post-implementation phase (e.g., SaaS ready to deploy) - expense

Examples of Implementation Costs

- Interface development
- Customization/configuration
- Data conversion or migration
- Training

ASU 2018-15: Implementation Costs

Summary of New Guidance

To the Point…

- ASU 2018-15 requires customers to look to Subtopic 350-40 to determine which implementation costs should be capitalized, and how to subsequently account for capitalized costs
- Possibility that more implementation costs will be capitalized than under current GAAP
- May be applied either retrospectively or prospectively
  - If you wish to apply retrospectively, start capturing data now!
  - If you adopt prospectively, only applies to costs incurred AFTER adoption date

Implementation Costs for SaaS Service Contracts

Capitalize or expense?	Apply model in Subtopic 350-40; consider phase and nature of cost
Amortization period	Contractual term + reasonably certain options to renew (terminate) + periods under control of vendor
Presentation	Same line item/classification as hosting arrangement fee

ASU 2018-17: Targeted Improvements to VIE Model

Summary of New Guidance

To the Point…

- Creates a new PCC Alternative, which allows private companies to elect **<u>not</u>** to apply VIE guidance to common control scenarios, if certain conditions are met
- Changes how indirect interests held by related parties in common control arrangements are considered in determination of whether decision maker fees represent a variable interests; now considered on a proportional basis
- Common control is not the same as common ownership or simply being a related party

Qualifying Criteria for PCC Alternative

- The reporting entity and the legal entity are under common control
- The reporting entity and legal entity are not under common control of a public business entity
- The legal entity under common control is not a public business entity
- The reporting entity does not have a controlling financial interest in the legal entity under the General consolidation guidance

Other Standard-Setting Activities

Standard Setting – Current Landscape

Summary of Other FASB Standard-Setting Activities[1]		
Classification of Debt on the Balance Sheet	Aimed at simplifying the guidance used to classify debt as current or noncurrent in a classified balance sheet	Redeliberating comments received on Proposed ASU
Simplifications to the Accounting for Debt/Equity Instruments	Primarily focused on simplifying the accounting for convertible debt instruments and instruments indexed to an entity's own equity	Redeliberating comments received on Proposed ASU
Invitation to Comment on Accounting for Goodwill	Represents outreach by the FASB to better understand the cost/benefit equation of current accounting for goodwill and certain intangibles	Ongoing
Consolidation Reorganization and Targeted Improvements	Primarily focused on reorganizing the content in Topic 810, *Consolidation*, to improve usability	Ongoing
Simplifications to Accounting for Income Taxes	Primarily focused on simplifying the application of Topic 740, Income Taxes, by removing certain exceptions, and clarifying existing guidance	Redeliberating comments received on Proposed ASU

1 – Does not represent an all-inclusive listing

Classification of Debt on the Balance Sheet

Summary of Proposed ASU

Classification Principle

Classify debt as noncurrent if either of the conditions are met:

1. The liability is contractually due to be settled more than one year after the balance sheet date
2. The entity can contractually defer settlement for at least one year after the balance sheet date

Exception for covenant waivers obtained after balance sheet date, if certain conditions met

Key Impacts

- Long-term refinancing after balance sheet date would **not** affect balance sheet classification
- Subjective acceleration clauses no longer considered unless triggered
- Share-settled would be classified based on contractual due date – could be current

Did you know?

- Debt that is classified as noncurrent due to covenant waiver would have to be separately presented on face of the balance sheet.

Long-term debt, net of discounts and current portion	XX,XXX,XXX
Long-term debt classified as long-term due to subsequent waiver (See Note X)	X,XXX,XXX
Other long-term liabilities	X,XXX,XXX

Simplification of Debt/Equity Accounting

Summary of Proposed ASU

1 Overhaul number of convertible debt models

2 Improve and simplify the derivative scope exception

3 Enhance disclosures and improve EPS reporting

Why is it changing?

In the FASB's outreach, companies and financial statement users all found the existing models:

- **Overly complex**
- **Often led to substance-over-form driven conclusions**
- **Difficult to apply**
- **Not contributing to relevant financing reporting**

Invitation to Comment: Goodwill and Intangible Assets

Summary of ITC

- Overview: Solicits comments on the costs and benefits of accounting for goodwill and certain identifiable intangible assets

- Key Parts
  - Whether to Change the Subsequent Accounting for Goodwill
  - Whether to Modify the Recognition of Intangible Assets in a Business Combination
  - Whether to Add or change Disclosures about Goodwill and Intangible Assets
  - Comparability and Scope

- Types of Questions
  - What is goodwill, or in your experience what does goodwill mainly represent?
  - On a cost-benefit basis, relative to the current impairment-only model, do you support (or oppose) goodwill amortization with impairment testing?
  - How reliable is the measurement of certain recognized intangible assets (for example, noncompete agreements or certain customer-related intangible assets)?

- Next Steps
  - Comments were due by October 7, 2019
  - FASB will use feedback obtained as input to any resulting standard-setting activities
  - Any changes to existing GAAP wouldn’t occur for some time

Thank you

Sean Prince

Managing Director, National Office

646.231.7285

sean.prince@crowe.com