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# Accounting and financial reporting issues for financial institutions

December 2023

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# A note from the author

At long last, we have reached the adoption of the current expected credit loss (CECL) model for all entities. This year, we deleted a dozen pages on leases from this publication. We look forward to removing another dozen pages on credit losses going forward and closing the chapter on the last adoption of the major accounting standards – revenue recognition, financial instruments recognition and measurement (which was not as major as originally proposed), leases, and finally credit losses.

For those with investments in tax credits, 2023 brought good news with the issuance of the final standard to expand the use of the proportional amortization methods for investments in tax credits beyond low-income housing.

This year, the Financial Accounting Standards Board (FASB) continued its focus on investor needs. The amendments to segment disclosures were finalized in December, and we are waiting for two final standards this month – income tax disclosures and crypto assets.

As we look to 2024, the board has several projects that will affect financial institutions. Of course, one of those projects is on CECL. In response to the FASB's proposal to expand the purchased credit deteriorated (PCD) model, the board received 35 comment letters. We are looking forward to the board's re-deliberations and will keep you posted.

We are watching the FASB's progress on software costs, which is certainly of broad interest given software's prevalence. We also are interested to see how the board's project on the cash flow statement unfolds, particularly for financial institutions.

I am grateful for the contributions of my colleagues Alissa Doherty, Mark Shannon, Chris Moore, and Sean Prince.

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# Final FASB standards: Recognition and measurement

## Credit losses

It is hard to believe it has been seven years since the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," on June 16, 2016. The standard significantly changes estimates for credit losses related to financial assets measured at amortized cost and certain other contracts. For estimating credit losses, the incurred loss model is replaced with an expected loss model, which is referred to as the current expected credit loss (CECL) model.

The CECL model applies to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity (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, available-for-sale (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, loans and receivables between entities under common control, and derivatives and hedging instruments in the scope of Accounting Standards Codification (ASC) Topic 815.

Under the CECL model, preparers should address the following guidelines that are 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 judgment. 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

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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 is replaced with the 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.

In the original standard, the scope does not, however, include all acquired financial assets or all assets acquired in a business combination. As discussed later, the FASB has a project on its agenda to consider expanding the scope of the PCD model to all acquired financial assets.

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

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recognized using an allowance account. This allows for reversal upon increases in cash flows. Note that the FASB subsequently amended this guidance with ASU 2022-02.

Beneficial interests
For certain beneficial interests, an allowance for 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 credit losses, for both financial assets measured at amortized cost (for example, loans held for investment by portfolio segment) and fair value through other comprehensive income (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). With the issuance of ASU 2022-02, gross charge-offs are required as part of the vintage table:
    - The disaggregation year is 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 uses the guidance for determining a new loan resulting from loan refinancing or restructurings in current GAAP.
    - Certain entities are offered relief for the vintage disclosure:
        - For public business entities (PBEs) that are not Securities and Exchange Commission (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 is 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 are grandfathered and classified as PCD assets at the date of adoption. The assets will be grossed up for the allowance for credit losses for all PCD assets at the date of

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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 is 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 (SRCs), the standard was effective for fiscal years beginning after Dec. 15, 2019, including interim periods in those fiscal years. For calendar year-end SEC filers, it was effective for March 31, 2020, interim financial statements.
- For all other entities, including SRCs, PBEs that are not SEC filers and nonpublic business entities (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 is effective for the first quarter of 2023.

For all entities, the board decided to permit early adoption using the original effective date for PBEs.

### Clarifications: TRG meetings and related standard-setting

The FASB's Transition Resource Group (TRG) for Credit Losses met four times prior to the first round of adopters – April 1, 2016; June 12, 2017; June 11, 2018; and Nov. 1, 2018 – to discuss implementation issues.

The FASB has closely monitored implementation and has issued eight final standards, as follows:

1. TDRs and vintage disclosures: Gross write-offs
On March 31, 2022, the FASB issued ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures," to respond to feedback received from post-implementation review. The amendments eliminate the TDR recognition and measurement guidance and now require that an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments enhance existing disclosures and include new disclosure requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty.

The ASU also requires that public business entities disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20.

The effective dates for the amendments are the same as the effective dates in ASU 2016-13. Early adoption was permitted if ASU 2016-13 had been adopted, including adoption in an interim period, and the amendments could have been early adopted by topic. If an entity elected to adopt the amendments in an interim period, the guidance was applied as of the beginning of the fiscal year that includes the interim period.

For more information on the ASU, see the Crowe article "FASB Tweaks CECL: TDR Accounting and Vintage Disclosures."

On March 25, 2022, the FASB received an agenda request from the American Institute of CPAs (AICPA) to consider a practical expedient to not apply the TDR guidance for all entities. At its April 6, 2022, meeting, the board decided not to add this project to its technical agenda.

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2. Codification improvements
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, including Topic 326. See later under "Narrow-scope improvements to financial instruments guidance" for details.

3. 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)." The ASU inserts a paragraph to address the Nov. 19, 2019, SEC Staff Accounting Bulletin (SAB) 119, "Accounting for Loan Losses by Registrants Engaged in Lending Activities Subject to FASB ASC Topic 326," which updates existing staff guidance on developing a systematic methodology for estimating credit losses and explains the documentation the staff typically would expect from registrants in support of estimates of CECL for lending activities, when material.

4. 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 permit 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 are not included in the allowance for credit losses. 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.

5. Effective date deferral for major accounting standards
On Nov. 15, 2019, the FASB issued ASU 2019-10, "Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates," which deferred effective dates for private entities and certain small public companies for implementing the standards on CECL, leases, and hedging.

For credit losses (Topic 326), the ASU retains the current effective date for SEC filers, excluding smaller reporting companies (SRCs), for fiscal years beginning after Dec. 15, 2019, and interim periods within those fiscal years. For all other entities, including SRCs, the ASU extends the effective date to fiscal years beginning after Dec. 15, 2022, including interim periods within those years, which for calendar year-ends is Jan. 1, 2023.

6. 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, 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 debt securities). The election is to be applied on an instrument-by-instrument basis.

The ASU was effective upon adoption. Early adoption was permitted.

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7. Codification improvements

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 changed three prior ASUs on credit losses, recognition and measurement, and hedging activities.

The changes 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 of associated financial assets.
        - 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 into earnings 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
    - 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 in 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 (EIR) used to discount those expected cash flows.

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  - Issue 2E: Consideration of prepayments in determining the 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.

Topics 1, 2, and 5 of ASU 2019-04 are effective on the same dates as ASU 2016-13.

8. Align annual and interim reporting dates for non-PBEs and clarify operating leases
On Nov. 15, 2018, the FASB issued ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses," in order to align the annual and interim implementation dates for non-PBEs and clarify the scope of the CECL standard for operating leases as follows:

- Effective date for non-PBEs: This change in the effective date for non-PBEs eliminated the complexity for regulatory reports of non-PBE financial institutions to file three call reports using the incurred loss model in the year of adoption and then reverse nine months of incurred loss accounting and record 12 months of CECL in the fourth quarter of adoption.
- Operating leases: Impairment of operating lease receivables is in the scope of ASC Topic No. 842, "Leases," and not within the scope of CECL.

## AICPA audit and accounting guide on credit losses

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. 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

In November 2021, the AICPA issued its "Audit and Accounting Guide: Credit Losses," which supersedes the practice aid issued in 2019. In addition to the topics covered in the practice aid, the guide also includes three key differences:

1. It provides implementation observations in the preface.
2. It is authoritative for audit of nonpublic entities.
3. It memorializes accounting issues that were addressed other than through standard-setting by the FASB (that is, discussed by the TRG or addressed by the AICPA Financial Reporting Executive Committee (FinREC).

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Those accounting issues are included in Chapter 4 as follows:

- Scope exception for loans and receivables between entities under common control
- Scope of purchased financial assets with credit deterioration guidance for beneficial interests within FASB ASC 325-40
- Application of FASB ASC 325-40 for trading securities
- Refinancing and loan prepayments
- Measurement inputs for short-term arrangements
- Discounting inputs using a method other than a discounted cash flow method
- Reasonable and supportable forecast – developing the period and use of historical information
- Reversion method: Estimation versus accounting policy
- Determining the life of a credit card receivable
- Zero expected credit losses
- Accounting for troubled debt restructurings
- Capitalized interest
- Gains and losses on subsequent disposition of leased assets
- Accounting for changes in foreign exchange rates
- Inclusion of future advances of taxes and insurance payments
- Considerations related to FASB ASC 326 for insurance-entity-specific balances
- Transition guidance for pools of financial assets
- Application of subsequent events

Discussions about CECL at the AICPA & CIMA banking conference
Similar to prior years at the AICPA & CIMA (Chartered Institute of Management Accountants) National Conference on Banks and Savings Institutions, which was held Sept. 11-13, 2023, CECL was a focal point. Crowe has 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.

## FASB staff Q&As

*Staff Q&A document: WARM method*
On Jan. 10, 2019, the FASB staff released a question-and-answer document, "Topic 326, No. 1, Whether the Weighted-Average Remaining Maturity Method Is an Acceptable Method to Estimate Expected Credit Losses," to address questions about the weighted-average remaining maturity (WARM) method. 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*
On July 17, 2019, the FASB staff issued its second Q&A document on ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," to answer 16 frequently asked questions. Topics covered include modeling requirements, using historical

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loss information, internal and external data sources, developing reasonable and supportable forecasts, the reversion to historical loss information, and qualitative factor adjustments among others.

## 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 was 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 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 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, the FASB discussed feedback received on the post-issuance date implementation monitoring and post-effective date evaluation of costs and benefits. 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

*TDRs and vintage disclosures*

Two issues, 2 and 4, resulted in amendments to the standard. As previously discussed, on March 31, 2022, the FASB issued ASU 2022-02, “Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.”

*Expansion of the PCD model*

At its board meeting on Feb. 2, 2022, the FASB discussed the purchased credit deteriorated accounting model to address the issue commonly referred to as “the double-count issue” for non-PCD assets. The accounting model for non-PCD assets results in recording a day one loss through credit expense, which is subsequently accreted through interest income. All board members supported the expansion of the PCD model, with certain exceptions.

At its Oct. 12, 2022, board meeting, the FASB continued its discussion on the accounting for acquired financial assets and tentatively decided the following:

- To replace the Master Glossary term “purchased financial assets with credit deterioration” with “purchased financial assets” (PFA)
- To require entities to apply:
    - The existing PCD accounting model (hereafter referred to as the PFA model) to all financial assets in the scope of Topic 326, including to credit card receivables, home equity lines of credit, other revolving credit agreements, and trade receivables, that are acquired in 1) a business combination subject to Topic 805 or 2) an asset acquisition at least 90 days after their origination
    - The PFA model to acquired assets not recognized at fair value, primarily contract assets arising from revenue contracts and net investments in leases

At its March 29, 2023, board meeting, the FASB completed deliberations and voted to proceed on a forthcoming proposal that would change how entities initially recognize an allowance for credit losses (ACL) on acquired financial assets subject to Topic 326, "Financial Instruments – Credit Losses." The board voted to propose that financial assets acquired in either a business combination or an asset acquisition would be accounted for under the PFA model. The scope also would include acquired revolving credit arrangements with active borrowing privileges (such as credit cards and home equity lines of credit), trade receivables, and acquired financial assets not initially recorded at fair value in a business combination (for example, contract assets arising from contracts with customers).

Under the PFA model, a Day 1 allowance with the offsetting entry would be recorded as an adjustment to the initial carrying amount of the PFAs. This accounting outcome is consistent with the PCD model currently in Topic 326. Financial assets acquired in a business combination are presumed to be seasoned and therefore would apply the PFA model. For asset acquisitions, the PFA model would not apply to purchased financial assets that are in-substance originations or that are originated within 90 days of the acquisition date. For these assets, a Day 1 allowance would be recorded through a charge to earnings.

The FASB proposed application on a modified retrospective basis. Under that approach, the proposed guidance would be applied retrospectively to all acquisitions of financial assets occurring in or after the first reporting period in which an entity adopted ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments."

On June 27, 2023, the FASB issued a proposed ASU, "Financial Instruments – Credit Losses (Topic 326) – Purchased Financial Assets." See additional details in the later section "In the FASB pipeline: Recognition and measurement."

## Leases

On Feb. 25, 2016, the FASB issued its standard on leases. ASU 2016-02, "Leases (Topic 842)," was the culmination of a joint project of the FASB and the International Accounting Standards Board (IASB). More details on the standard can be found in the December 2022 "Accounting and Financial Reporting Issues for Financial Institutions." Since the issuance, the board monitored implementation and has issued eight clarifying standards.

The following seven of the eight are effective for those who have adopted the leases standard:

1. ASU 2021-09, "Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities," to provide entities that are not PBEs with more flexibility in how they determine the discount rate and make the risk-free rate election to reduce implementation costs (Nov. 11, 2021)
2. ASU 2021-05, "Leases (Topic 842), Lessors – Certain Leases With Variable Lease Payments," to improve the guidance for a lessor's accounting for certain leases with variable lease payments (July 19, 2021)
3. 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 and also exempts lessees and lessors from certain interim disclosure requirements in the period of adoption of Topic 842 (March 5, 2019)
4. ASU 2018-20, "Leases (Topic 842): Narrow-Scope Improvements for Lessors," to provide improvements for lessors (Dec. 10, 2018)
5. ASU 2018-10, "Codification Improvements to Topic 842, Leases," which corrects inconsistencies in the guidance and clarifies 16 issues (July 18, 2018)
6. ASU 2018-11, "Leases (Topic 842): Targeted Improvements," to provide an optional transition method for adoption to eliminate comparative period reporting in the year of adoption (July 30, 2018)
7. ASU 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842," which simplified transition for land easements (Jan. 25, 2018)

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The eighth ASU was issued during 2023 and is effective for certain entities:

Common control lease arrangements
On March 27, 2023, the FASB issued ASU 2023-01, "Leases (Topic 842) – Common Control Arrangements," to provide a practice expedient for common control leasing arrangements. The amendments allow a private company to elect to account for a common control leasing arrangement using the written terms and conditions without having to determine if those terms and conditions are legally enforceable. If the terms of the arrangement are not in writing, then the entity would apply existing guidance to determine the legally enforceable terms and conditions of the arrangement. Additionally, the amendments require leasehold improvements associated with leases between entities under common control to be amortized over the useful life of the improvements until the lessee ceases to control the use of the underlying asset through a lease, at which time the remaining value of the leasehold improvement would be accounted for as a transfer between entities under common control.

The ASU is effective for all entities for fiscal years beginning after Dec. 15, 2023, including interim periods within those fiscal years. Early adoption is permitted.

More details on the amendments can be found in the Crowe article "FASB Amends Related-Party Lease Accounting."

## Fair value measurement guidance for equity securities subject to contractual sale restrictions

On June 30, 2022, the FASB issued ASU 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions," to clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. This ASU also clarifies that an entity cannot recognize and measure a contractual sale restriction as a separate unit of account. Entities will be required to disclose the nature and remaining duration of the restriction, the circumstances that could cause a lapse in the restriction, and the fair value of the equity securities subject to contractual sale restrictions reflected in the balance sheet.

Effective dates
For public business entities, the amendments are effective for fiscal years beginning after Dec. 15, 2023, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2024, including interim periods within those fiscal years. Early adoption is permitted.

## Hedge accounting: Portfolio layer method

On March 28, 2022, the FASB issued ASU 2022-01, "Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method," to expand the scope of assets eligible for portfolio layer method hedging to include all financial assets. The update also expands the current last-of-layer method that permits only one hedged layer to allow multiple hedged layers of a single closed portfolio. The last-of-layer method is renamed the portfolio layer method, because more than the last layer of a portfolio could be hedged. In accounting for hedge basis adjustments, the amendments require an entity to:

- Maintain basis adjustments in an existing hedge on a closed portfolio basis (that is, not allocated to individual assets)
- Immediately recognize and present the basis adjustment associated with the amount of the dedesignated layer that was breached in interest income
- Disclose the breach amount and circumstances that led to the breach

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- Disclose the total amount of the basis adjustments in existing hedges as a reconciling amount if other areas of GAAP require the disaggregated disclosure of the amortized cost basis of assets included in the closed portfolio

In addition, an entity may not consider basis adjustments in an existing hedge when determining credit losses. Upon adoption, an opportunity exists for an entity to reclassify debt securities from held-to-maturity to available-for-sale if the entity intends to apply the portfolio layer method hedging that includes those debt securities. This decision must be made within 30 days of adoption.

Effective dates
For public business entities, the amendments are effective for fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for any entity that has adopted ASU 2017-12 for the corresponding period. If an entity adopts the amendments in an interim period, the effect of adopting the amendments related to basis adjustments should be reflected as of the beginning of the fiscal year of adoption.

## Amendments to SEC paragraphs for SAB 121

On Aug. 3, 2023, the FASB issued ASU 2023-04, "Liabilities (Topic 405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121 (SEC Update)," to amend and add various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 121, which expresses the SEC staff's views on accounting for an entity's obligations to safeguard crypto assets for its platform users. The ASU was effective upon issuance.

## Investments in tax credits

On March 29, 2023, the FASB issued ASU 2023-02, "Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a Consensus of the Emerging Issues Task Force)," to expand use of the proportional amortization method of accounting to equity investments in tax credit programs beyond those in low-income-housing tax credit (LIHTC) programs. The ASU allows entities to elect the proportional amortization method, on a tax-credit-program-by-tax-credit-program basis, for all equity investments in tax credit programs meeting the eligibility criteria in ASC 323-740-25-1.

The ASU provides clarifications to address existing interpretive issues and prescribes specific information that entities must disclose each period.

Effective dates
The ASU is effective for periods beginning after Dec. 15, 2023, for public business entities. For all other entities, the ASU is effective for fiscal years beginning after Dec. 15, 2024. Early adoption is permitted, including early adoption in any interim period as of the beginning of the fiscal year that includes that interim period. Entities will have the option of applying the revisions using either a modified retrospective or retrospective adoption approach.

For more detail, please read the Crowe article "FASB ASU Improves Income Tax Credit Investment Accounting."

## Reference rate reform

### Accounting relief for transition

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 London Interbank Offered Rate (LIBOR) or other interbank offered rate on financial reporting.

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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.

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

### Scope clarification

The FASB on Jan. 7, 2021, issued ASU 2021-01, "Reference Rate Reform (Topic 848): Scope," to clarify the scope of ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."

The 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 expected to be modified as a result of reference rate reform, commonly referred to as the "discounting transition." The amendments clarify that certain optional expedients and exceptions in Topic 848 do apply to derivatives that are affected by the discounting transition.

Effective dates
The amendments in ASU 2021-01 are effective immediately for all entities. The amendments do not apply to contract modifications made after Dec. 31, 2022; new hedging relationships entered into after Dec. 31, 2022; and existing hedging relationships evaluated for effectiveness in periods after Dec. 31, 2022, except for hedging relationships existing as of Dec. 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship (including periods after Dec. 31, 2022).

### Deferral of sunset date

ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848," was issued on Dec. 21, 2022, and effective upon issuance for all entities. The ASU extends the period of time preparers can use the reference rate reform relief guidance under ASC Topic 848 from Dec. 31, 2022, to Dec. 31, 2024, to address the fact that all LIBOR tenors were not discontinued as of Dec. 31, 2021.

## Business combinations

### Joint venture formations

On Aug. 23, 2023, the FASB issued ASU 2023-05, "Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement," to provide guidance on how a joint venture initially recognizes and measures contributions received at its formation date.

The ASU, which does not amend the definition of a joint venture, requires a joint venture to apply a new basis of accounting at its formation date by valuing the net assets contributed at fair value for both business and asset transactions. The value of the net assets in total is then allocated to individual

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assets and liabilities by applying Topic 805 with certain exceptions. The formation date of a joint venture is defined as the date when an entity initially meets the definition of a joint venture, which is not necessarily the date the legal entity was formed. All facts and circumstances, including assessing multiple arrangements, need to be considered when determining the formation date.

The ASU allows a joint venture to apply measurement period guidance in accordance with Subtopic 805-10, allowing the amounts recognized upon formation to be adjusted for provisional items during the measurement period not to exceed one year from the formation date.

Effective dates and transition
The ASU is effective for joint ventures with a formation date on or after Jan. 1, 2025, and is required to be applied prospectively. If adequate information is available, joint ventures with a formation date prior to Jan. 1, 2025, have an option to elect to apply the guidance retrospectively.

More details on the ASU appear in the Crowe article "FASB Finalizes ASU on Joint Venture Accounting."

### Acquired revenue contracts in a business combination

The FASB issued on Oct. 28, 2021, ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities From Contracts With Customers," to address diversity in practice and inconsistency related to how revenue contracts with customers acquired in a business combination are accounted for. The amendments require that the acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. The ASU also provides certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination and applies to contract assets and contract liabilities from other contracts to which the provisions of Topic 606 apply.

Effective dates and transition
For public business entities, the amendments are effective for fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2023, including interim periods within those fiscal years. The amendments should be applied prospectively to business combinations occurring on or after the effective date of the amendments.

Early adoption is permitted. If early adopted in an interim period, the entity should apply the amendments 1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and 2) prospectively to all business combinations that occur on or after the date of initial application.

### 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 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

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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

### Private company practical expedient for equity-classified share-based awards

On Oct. 25, 2021, the FASB issued ASU 2021-07, "Compensation – Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Based Awards," to reduce the cost and complexity for nonpublic business entities of accounting for equity-classified share-based awards as compensation to employees and nonemployees. The ASU provides nonpublic business entities an option to elect a practical expedient to determine the current price input of equity-classified share-based awards issued as compensation using the reasonable application of a reasonable valuation method. The practical expedient can be elected for equity-classified share-based awards within the scope of ASC Topic 718, "Stock Compensation."

Effective dates
The ASU is effective on a prospective basis for fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022. Early application is permitted.

### Convertible instruments and contracts in an entity's own equity

The FASB on Aug. 5, 2020, issued 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 update also revises the derivative scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events.

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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.

## 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.

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# Final FASB standards: Presentation and disclosure

## Segment reporting

On Nov. 27, 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which requires public entities to disclose more information about a reportable segment's significant expenses. The ASU includes the following disclosure requirements for public entities:

- Significant expense categories and amounts for each reportable segment. Significant expense categories are derived from expenses that are 1) regularly reported to an entity's chief operating decision-maker (CODM) and 2) included in a segment's reported measures of profit or loss.
- An amount for "other segment items," representing the difference between 1) segment revenue less significant segment expenses and 2) the reportable segment's profit or loss measures. A description of the composition of "other segment items" also is required.
- The title and position of the CODM and an explanation of how the CODM uses the reported measures of profit or loss to assess segment performance.
- Interim disclosure of certain segment-related disclosures that previously were required only on an annual basis.

Additionally, the ASU clarifies that entities with a single reportable segment are subject to both new and existing segment reporting requirements under Topic 280. It also clarifies that an entity is permitted to disclose multiple measures of segment profit or loss, provided that certain criteria are met.

Effective dates
The amendments are effective for fiscal years beginning after Dec. 15, 2023, and interim periods within fiscal years beginning after Dec. 15, 2024, with early adoption permitted. Entities must adopt the changes to the segment reporting guidance on a retrospective basis.

For more information, see the Crowe article "FASB Issues Changes to Segment Reporting Requirements."

## Disclosure improvements in response to SEC actions

On Oct. 9, 2023, the FASB issued ASU 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative," incorporating 14 of the 27 disclosures referred by the SEC in Release No. 33-10532, "Disclosure Update and Simplification," which was issued Aug. 17, 2018. The changes modify the disclosure or presentation requirements of a variety of topics including statement of cash flows, accounting changes and error corrections, earnings per share, interim reporting, commitments, debt, equity, derivatives and hedging, and secured borrowing and collateral.

For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment is the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. If the SEC has not removed the related disclosure from its regulations by June 30, 2027, the amendments will be removed from the codification and not become effective for any entity.

For more information, see the Crowe article "FASB Responds to SEC Rule, Amends Disclosure Requirements."

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## Amendments to SEC paragraphs

On July 14, 2023, the FASB issued ASU 2023-03, "Presentation of Financial Statements (Topic 205), Income Statement – Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities From Equity (Topic 480), Equity (Topic 505), and Compensation – Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280 – General Revision to Regulation S-X: Income or Loss Applicable to Common Stock," to amend and add various SEC paragraphs pursuant to the issuance of SEC Staff Accounting Bulletin No. 120. This ASU was effective upon issuance.

# In the FASB pipeline: Recognition and measurement

## Purchased financial assets

The FASB on June 27, 2023, issued a proposed ASU, "Financial Instruments – Credit Losses (Topic 326) – Purchased Financial Assets," that would change how entities initially record an allowance for credit losses (ACL) on PFAs subject to Topic 326. Under the proposal, the ACL for PFAs that are considered "seasoned" would be established by adjusting the initial carrying amount of the PFAs, resulting in the allocation of the credit component of the purchase price directly to the ACL. For all other PFAs, the ACL would be established through a charge to earnings. A PFA would be considered seasoned when either of the following two conditions is met: 1) the PFA is part of a business combination accounted for under Topic 805, "Business Combinations," or 2) the PFA was acquired more than 90 days after origination and the entity did not have involvement with the origination of the PFA.

Under this proposal, entities would adopt using a modified retrospective transition to the beginning of the first reporting period in which an entity adopted ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments."

Comments were due Aug. 28, 2023. The FASB received 35 comment letters.

More details on the amendments can be found in the Crowe article "FASB Proposes Acquired Financial Asset Reporting Changes."

## Crypto assets

On March 23, 2023, the FASB issued a proposed ASU, "Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosures of Crypto Assets," that would require entities to account for holdings of certain crypto assets at fair value. The amendments would apply to crypto assets that meet all of the following criteria:

- "Meet the definition of intangible asset as defined in the Codification Master Glossary
- "Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
- "Are created or reside on a distributed ledger based on blockchain technology
- "Are secured through cryptography
- "Are fungible
- "Are not created or issued by the reporting entity or its related parties"

Holdings of crypto assets would be measured at fair value at each reporting date, with changes in fair value recorded through earnings. Also, the proposal would require extensive disclosure about crypto assets measured at fair value, including an annual rollforward of an entity's crypto asset holdings.

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Entities would adopt using a modified retrospective approach, recording a cumulative effect adjustment to equity (or net assets) as of the beginning of the year of adoption. Early adoption would be permitted.

Comments were due June 6, 2023.

At its Sept. 6, 2023, board meeting, the FASB voted to finalize its proposal on accounting for holdings of certain crypto assets at fair value.

For all entities, the standard will be effective for reporting periods beginning after Dec. 15, 2024, including interim periods. Early adoption will be permitted. Entities must adopt the guidance using a modified retrospective approach, recording a cumulative effect adjustment to equity (or net assets) as of the beginning of the year of adoption. The final ASU is expected to be issued in the fourth quarter of 2023.

More details can be found in the Crowe article "FASB to Finalize Fair Value Guidance for Crypto Assets."

## Profit interest awards

On May 11, 2023, the FASB issued a proposal on the scope application of profits interest and similar awards. The proposal would amend Topic 718, "Compensation – Stock Compensation," by adding illustrative examples to clarify how the existing scoping guidance within Topic 718 applies to facts and circumstances associated with common types of profits interest awards. The proposal aims to reduce complexity and diversity in practice in determining whether a profits interest award is accounted for as a share-based payment under Topic 718.

More details can be found in the Crowe article "FASB Proposes Profits Interest Awards Guidance."

Comments were due July 10, 2023.

At its Nov. 1, 2023, board meeting, the FASB discussed proposed ASU "Compensation – Stock Compensation (Topic 718): Scope Application of Profits Interest Awards." The board affirmed its decision that the amendments apply to all entities and to awards to both employees and nonemployees. The board also decided to revise the proposed illustrative example but to not address additional award characteristics or additional improvements to stock compensation guidance. The board agreed that entities should apply the amendments either retrospectively or prospectively with disclosure of the nature of and reason for the change in accounting principle. The proposed effective date for public business entities will be fiscal years beginning after Dec. 15, 2024, and interim periods within those fiscal years. For all other entities, the amendments will be effective one year later. Early adoption will be permitted. The staff will draft a final ASU for vote and expects to issue a final ASU in first quarter of 2024.

## Hedge accounting

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.

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Comments were due Jan. 13, 2020.

At its June 29, 2022, meeting, the board discussed feedback received on its 2021 agenda consultation. The board made no decisions but offered feedback for continued research.

At its Oct. 11, 2023, meeting, the board discussed feedback on proposed amendments related to two issues: dual hedging relationships and use of the term "prepayable" in the shortcut method. Related to dual hedging relationships, the board affirmed the proposed amendments to eliminate the recognition and presentation mismatch related to dual hedges, in which a foreign-currency-denominated debt instrument is designated as both a hedging instrument in a net investment hedge and a hedged item in a fair value hedge. The board decided not to affirm the proposed amendments to replace the term "prepayable" with "early settlement feature" for purposes of applying the shortcut method guidance. As a result of the cessation of LIBOR, the board also discussed net written options instruments. The board decided to amend the guidance for applying the written option test when the designated hedging instrument in a cash flow hedge is a compound derivative made up of a written option and a nonoption derivative. The proposed amendment would permit entities to assume that certain terms of the hedged forecasted transactions match those of the hedging instrument for purposes of applying that test. The board plans to meet again in the future to discuss the remaining issues in the proposal.

# In the FASB pipeline: Presentation and disclosure

## Disaggregation for income statement expense disclosures

The FASB on July 31, 2023, published a proposed ASU, "Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40) – Disaggregation of Income Statement Expenses," aimed at providing more decision-useful information about a public business entity's expenses.

Under the proposed ASU, public companies would provide detailed disclosure in interim and annual periods of specified categories underlying certain expense captions. Relevant expense categories for financial institutions include, among others, employee compensation, depreciation, and amortization of intangible assets. Other expenses presented on the face of the income statement (for example, credit losses or income taxes) are not expense categories listed in the proposed ASU and therefore do not require disaggregated disclosure. Financial institutions should refer to Example 3 for an illustrative example of a disclosure format. Institutions reporting under SEC Rule 9-04 of Regulation S-X can elect to apply a practical expedient to continue presenting salaries and employee benefits under Rule 9-04 instead of the definition under Subtopic 220-40.

Comments were due Oct. 30, 2023.

On Dec. 13, 2023, the FASB hosted a public roundtable to get additional feedback on the proposed ASU.

For more information, see the Crowe article "FASB Proposes Enhanced Disaggregation of PBE Income Statement Expenses."

## Interim disclosures

On Nov. 1, 2021, the FASB issued a proposed ASU, "Interim Reporting (Topic 270): Disclosure Framework – Changes to Interim Disclosure Requirements," that introduces a disclosure principle for interim reporting. Specifically, the proposed ASU removes the phrase "at a minimum" and encourages assessing materiality when entities evaluate interim disclosure requirements. The principle is designed to require event- or transaction-specific disclosure when there is a material effect on an entity. Comments were due Jan. 31, 2022.

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At its May 25, 2022, meeting, the board discussed feedback received and decided that the project objective is to improve the Codification guidance in Topic 270, Interim Reporting, by clarifying when the guidance in Topic 270 is applicable and improving the navigability of the required interim disclosures. The board affirmed the amendments to the objective of Topic 270 to provide guidance on accounting and disclosure issues specific to interim reporting and to set forth disclosure requirements for interim financial statements and notes in accordance with GAAP. Additionally, the Board decided to include all of the amendments in the proposed update in the scope of re-deliberations.

At its Nov. 30, 2022, meeting, the board continued deliberations and decided the following:

- The guidance in Section 270-45-10 will apply only to interim financial statements and will not apply to interim financial information.
- References to relevant SEC regulations related to interim financial statements will be included in Topic 270 to provide two acceptable formats for interim reporting for non-SEC registrants.
- The ASU will provide guidance and clarification for non-SEC filers related to condensed financial statements.

According to the technical agenda, the FASB estimates that this project will be completed in the second quarter of 2024.

## 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. Subsequently, in March 2022 the board revised the project objective to primarily focus on rate reconciliation and income taxes paid information disclosures. On March 15, 2023, the FASB issued a new proposed ASU, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," to provide additional transparency into an entity's jurisdictional tax exposure by requiring enhanced disclosures primarily related to the rate reconciliation and income taxes paid information. The proposed ASU would require that public business entities disclose on an annual basis 1) specific categories in the rate reconciliation and 2) additional information for reconciling items meeting a certain quantitative threshold. On an interim basis, public business entities would be required to provide a description of any reconciling items that result in significant changes in the estimated annual effective tax rate as compared to the annual effective tax rate of the prior annual reporting period. The proposed ASU also would require that entities other than public business entities disclose qualitative information about specific categories of items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.

Regarding income taxes paid, the proposed ASU would require that all entities disclose 1) the year-to-date income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes on an interim and annual basis and 2) the income taxes paid (net of refunds received) disaggregated by individual jurisdictions exceeding 5% of total taxes paid (net of refunds received), on an annual basis.

In addition, the proposed ASU also would require that all entities disclose 1) income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and 2) income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign.

Comments were due May 30, 2023.

At its Aug. 30, 2023, board meeting, the FASB voted to finalize a proposed ASU, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," which will provide additional information regarding an entity's jurisdictional tax exposure. PBEs will enhance disclosures primarily related to information about

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rate reconciliation and income taxes paid. The board affirmed the majority of proposed changes and expects to issue a final ASU in the fourth quarter of 2023.

For PBEs, the amendments will be effective for fiscal years beginning after Dec. 15, 2024, and interim periods within fiscal years beginning after Dec. 15, 2025. For entities other than PBEs, the amendments will be effective for fiscal years beginning after Dec. 15, 2025, and interim periods within fiscal years beginning after Dec. 15, 2026. Early adoption will be permitted. The amendments will be applied on a prospective basis, with a retrospective option.

More details can be found in the Crowe article "FASB to Enhance Income Tax Disclosure Requirements."

# From the federal financial institution regulators

## LIBOR

The Federal Reserve (Fed) on Dec. 16, 2022, adopted a final rule that implements the *Adjustable Interest Rate (LIBOR) Act* and provides benchmark rates based on the Secured Overnight Financing Rate (SOFR), which replaced the London Interbank Offered Rate (LIBOR) in certain financial contracts after June 30, 2023. The final rule ensures that LIBOR contracts adopting a benchmark rate selected by the Fed will not be interrupted or terminated following LIBOR's replacement.

As required by the law, the final rule identifies replacement benchmark rates based on SOFR to replace overnight, one-month, three-month, six-month, and 12-month LIBOR in contracts subject to the act. The contracts include U.S. contracts that did not mature before publication of LIBOR ended (on June 30, 2023) and that lacked adequate fallback provisions that would replace LIBOR with a practicable replacement benchmark rate.

In response to comments received on the proposed rule, the final rule restates safe harbor protections contained in the LIBOR Act for selection or use of the replacement benchmark rate selected by the Fed. It also clarifies who would be considered a "determining person" able to choose to use the replacement benchmark rate selected by the Fed for use for certain LIBOR contracts.

The rule was effective Feb. 27, 2023.

## OCC's Bank Accounting Advisory Series

On Aug. 15, 2023, the Office of the Comptroller of the Currency (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 updates to clarify the application of FASB accounting standards on topics including the elimination of recognition and measurement of troubled debt restructurings by creditors, loan modifications, and credit losses.

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 GAAP 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.

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# Key abbreviations and acronyms

| | |
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| ACL | allowance for credit losses |
| AFS | available for sale |
| AICPA | American Institute of Certified Public Accountants |
| 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 | *Federal Deposit Insurance Corporation Improvement Act of 1991* |
| 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 |

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| 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 | Department of Veterans Affairs |
| VIE | variable interest entity |

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## Learn more

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AUDIT2401-010L

# Appendix A: ASUs for financial institutions[1] – effective dates for public business entities (PBEs)

| Accounting Standards Update (ASU) | Effective dates for Dec. 31 year-end PBEs | Early adoption |
|---|---|---|
| **Goodwill Impairment Testing (ASU 2017-04)**<br>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.<br><br>**Clarifying standards:**<br>**ASU 2019-10** – Deferral of effective dates. | **For SEC filers, excluding smaller reporting companies, tests performed on or after Jan. 1, 2020**<br><br>**For all other PBEs including smaller reporting companies, 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)**<br>Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables.<br><br>**Clarifying standards:**<br>**ASU 2018-19** – Clarifies that impairment of operating lease receivables is in the scope of ASC Topic 842, "Leases," and not the CECL model.<br>**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.<br>**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.<br>**ASU 2019-10** – Deferral of effective dates.<br>**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.<br>**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. | **For SEC filers, excluding smaller reporting companies March 31, 2020**<br><br>**For all other PBEs including smaller reporting companies, March 31, 2023**<br><br>**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**<br><br>**For ASU 2022-02, March 31, 2023, for entities that have** | **Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within** |

[1] 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.

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| **ASU 2022-02** – Targeted amendments specific to troubled debt restructurings (TDRs) by creditors and vintage disclosure related to gross write-offs. An entity is required to apply the loan and refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan, rather than applying the recognition and measurement guidance for TDRs. Requires public business entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within scope of Subtopic 326-20. | **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)**<br>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**<br><br>**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.** |
| **Deferral of the Sunset Date of Reference Rate Reform, Topic 848 (ASU 2022-06)**<br>Extends the sunset date of ASC Topic 848, "Reference Rate Reform," to Dec. 31, 2024, in response to the United Kingdom's Financial Conduct Authority (FCA) extension of the intended cessation date of LIBOR in the United States. | **Upon issuance, December 2022** | **Not applicable** |
| **Customer Contracts Acquired in a Business Combination (ASU 2021-08)**<br>Requires an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 on revenue from contracts with customers. The amendments apply to contract assets or contract liabilities in contracts with customers and other contracts to which the provisions of Topic 606 apply. The amendments also provide certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contacts in a business combination. | **March 31, 2023** | **Permitted, including in an interim period** |
| **Portfolio Layer Method of Hedge Accounting (ASU 2022-01)**<br>Expands the scope of assets eligible for portfolio layer method hedging to include all financial assets. The amendments remove the requirement that all assets in the closed portfolio have a contractual maturity date on or after the earliest-ending hedge period. The amendments require an entity to maintain fair value hedge basis adjustments at the closed portfolio level for a currently designated hedge and prohibits an entity from considering portfolio layer method fair value hedge basis adjustments on a currently designated hedge in its determination of credit losses. When a breach occurs (that is, the | **March 31, 2023** | **Permitted, including in an interim period when amendments in ASU 2017-12 have been adopted** |

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| aggregate amount of the hedged layers currently exceeds the amount of the closed portfolio), an entity is required to present the fair value hedge basis adjustments with a breach in interest income and disclose the amount along with the circumstances that led to the breach. | | |
| **Amendments to Various SEC Paragraphs (ASU 2023-03)**<br>Amends and adds various SEC paragraphs to codification pursuant to the issuance of SEC Staff Accounting Bulletin No. 120. Paragraphs within the following topics are affected: presentation, reporting comprehensive income, distinguishing liabilities from equity, equity, and stock compensation. | **Upon issuance, July 2023** | **Not applicable** |
| **Amendments to SEC Paragraphs Related to Liabilities (ASU 2023-04)**<br>Amends and adds various SEC paragraphs to codification pursuant to the issuance of SEC Staff Accounting Bulletin No. 121, which expresses the SEC staff's views on accounting for an entity's obligations to safeguard crypto assets for its platform users. | **Upon issuance, August 2023** | **Not applicable** |
| **Equity Securities Subject to Contractual Sale Restrictions (ASU 2022-03)**<br>**Clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Clarifies that an entity cannot recognize and measure a contractual sale restriction as a separate unit of account. The amendments include various disclosure requirements.** | **March 31, 2024** | **Permitted, including in an interim period** |
| **Common Control Lease Arrangements (ASU 2023-01)**<br>Revises the accounting for leasehold improvements. Leasehold improvements associated with a lease between entities under common control are to be amortized over the useful life of those improvements to the common control group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the common control group, the amortization period is determined under existing guidance when a lease is not a lease between entities under common control. If, and when, the lessee no longer controls the underlying asset, leasehold improvements associated with common control leases must be accounted for as a transfer between entities under common control through an adjustment to equity. | **March 31, 2024** | **Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.** |
| **Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (ASU 2023-02)**<br>Expands the option to account for tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. For tax equity investments not accounted for under the proportional amortization method, the amendments require entities to apply ASC Topic 323, "Equity Method or Joint Ventures," or ASC Topic 321, "Investments – Equity | **March 31, 2024** | **Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.** |

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| Securities.” The amendments require specific disclosures that must be applied to all investments that generate income tax credits and income tax benefits from a tax credit program for which an entity has elected to apply the proportional amortization method, including investments within the tax credit program that do not otherwise qualify for the proportional amortization method. | | |
| **Segment Reporting Disclosures (ASU 2023-07)**<br>Requires public entities to disclose significant expense categories and amounts for each reportable segment, an amount for and description of the composition of “other segment items,” the title and position of the entity’s CODM and explanation of how the CODM uses the reported measures of profit or loss to assess segment performance, and – on an interim basis – certain segment-related disclosures that previously were required only on an annual basis. Clarifies that entities with a single reportable segment are subject to both new and existing segment reporting requirements and that an entity is permitted to disclose multiple measures of segment profit or loss, provided that certain criteria are met. | **Dec. 31, 2024** | **Permitted** |
| **Joint Venture Formations (ASU 2023-05)**<br>Amends the accounting for contributions made to a joint venture upon formation in a joint venture’s separate financial statements. The amendments require that a joint venture apply a new basis of accounting upon formation. By applying a new basis of accounting, a joint venture, upon formation, will recognize and initially measure its assets and liabilities at fair value with exceptions to the fair value measurement that are consistent with the business combination guidance. | **Dec. 31, 2025** | **Permitted, including in an interim period** |
| **Amendments in Response to SEC’s Disclosure Update and Simplification Initiative (ASU 2023-06)**<br>Incorporates 14 of the 27 disclosures referred by the SEC in Release No. 33-10532, “Disclosure Update and Simplification,” that was issued Aug. 17, 2018. The changes modify the disclosure or presentation requirements of a variety of topics including statement of cash flows, accounting changes and error corrections, earnings per share, interim reporting, commitments, debt, equity, derivatives and hedging, and secured borrowing and collateral. | **Effective on the date that the SEC eliminates the corresponding disclosure requirements from Regulation S-X and Regulation S-K** | **Not permitted** |

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# Appendix B: ASUs for financial institutions[2] – effective dates for nonpublic business entities (non-PBEs)

| Accounting Standards Update (ASU) | Effective dates for Dec. 31 year-end non-PBEs | Early adoption |
|---|---|---|
| **Deferral of the Sunset Date of Reference Rate Reform, Topic 848 (ASU 2022-06)**<br>Extends the sunset date of ASC Topic 848, "Reference Rate Reform," to Dec. 31, 2024, in response to the United Kingdom's Financial Conduct Authority (FCA) extension of the intended cessation date of LIBOR in the United States. | **Upon issuance, December 2022** | **Not applicable** |
| **Goodwill Impairment Testing (ASU 2017-04)**<br>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.<br><br>**Clarifying standards:**<br>**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)**<br>Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables.<br><br>**Clarifying standards:**<br>**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.<br>**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.<br>**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.<br>**ASU 2019-10** – Deferral of effective dates.<br>**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. | **Dec. 31, 2023**<br><br>**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** | **Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within** |

[2] 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.

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| **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.<br>**ASU 2022-02** – Targeted amendments specific to troubled debt restructurings (TDRs) by creditors and vintage disclosure related to gross write-offs. An entity is required to apply the loan and refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan, rather than applying the recognition and measurement guidance for TDRs. | | |
| **Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06)**<br>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. | **Dec. 31, 2024** | **Permitted as of the fiscal years beginning after Dec. 15, 2020, including interim periods within** |
| **Customer Contracts Acquired in a Business Combination (ASU 2021-08)**<br>Requires an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 on revenue from contracts with customers. The amendments apply to contract assets or contract liabilities in contracts with customers and other contracts to which the provisions of Topic 606 apply. The amendments also provide certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contacts in a business combination. | **Dec. 31, 2024** | **Permitted, including in an interim period** |
| **Portfolio Layer Method of Hedge Accounting (ASU 2022-01)**<br>Expands the scope of assets eligible for portfolio layer method hedging to include all financial assets. The amendments remove the requirement that all assets in the closed portfolio have a contractual maturity date on or after the earliest-ending hedge period. The amendments require an entity to maintain fair value hedge basis adjustments at the closed portfolio level for a currently designated hedge and prohibits an entity from considering portfolio layer method fair value hedge basis adjustments on a currently designated hedge in its determination of credit losses. When a breach occurs (that is, the aggregate amount of the hedged layers currently exceeds the amount of the closed portfolio), an entity is required to present the fair value hedge basis adjustments with a breach in interest income and disclose the amount along with the circumstances that led to the breach. | **Dec. 31, 2024** | **Permitted, including in an interim period when amendments in ASU 2017-12 have been adopted** |

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| **Common Control Lease Arrangements (ASU 2023-01)**<br>Provides a practical expedient to private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement to determine whether a lease exists and, if so, the classification of and accounting for that lease. The amendments also revise the accounting for leasehold improvements for all entities (that is, public business entities, private companies, not-for-profit entities, and employee benefit plans). Leasehold improvements associated with a lease between entities under common control are to be amortized over the useful life of those improvements to the common control group as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the common control group, the amortization period is determined under existing guidance when a lease is not a lease between entities under common control. If, and when, the lessee no longer controls the underlying asset, leasehold improvements associated with common control leases must be accounted for as a transfer between entities under common control through an adjustment to equity (or net assets for not-for-profit entities). | **Dec. 31, 2024** | **Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.** |
| **Equity Securities Subject to Contractual Sale Restrictions (ASU 2022-03)**<br>Clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Clarifies that an entity cannot recognize and measure a contractual sale restriction as a separate unit of account. The amendments include various disclosure requirements. | **Dec. 31, 2025** | **Permitted, including in an interim period** |
| **Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (ASU 2023-02)**<br>Expands the option to account for tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. For tax equity investments not accounted for under the proportional amortization method, the amendments require entities to apply ASC Topic 323, "Equity Method or Joint Ventures," or ASC Topic 321, "Investments – Equity Securities." The amendments require specific disclosures that must be applied to all investments that generate income tax credits and income tax benefits from a tax credit program for which an entity has elected to apply the proportional amortization method, including investments within the tax credit program that do not otherwise qualify for the proportional amortization method. | **Dec. 31, 2025** | **Permitted, including in an interim period. If adopted in an interim period, an entity must adopt as of the beginning of the fiscal year that includes that interim period.** |
| **Joint Venture Formations (ASU 2023-05)**<br>Amends the accounting for contributions made to a joint venture upon formation in a joint venture's separate financial statements. The amendments require that a joint venture apply a new basis of accounting upon formation. By applying a new basis of accounting, a joint venture, upon formation, will recognize and initially measure its | **Dec. 31, 2025** | **Permitted, including in an interim period** |

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assets and liabilities at fair value with exceptions to the fair value measurement that are consistent with the business combination guidance.

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