FASB Update

Susan Cosper – FASB Member

November 19, 2020

The views expressed in this presentation are those of the presenter.
Official positions of the FASB are reached only after extensive due process and deliberations
Agenda

- Leadership Changes at the FASB
- COVID 19 Related Matters
- FASB Agenda Projects
  - Post-implementation Review
  - Subsequent Accounting for Goodwill
  - Leases
  - Other Notables
Leadership Transition: FASB Chairs

Russ Golden
- Joined FASB staff in 2004 (from Deloitte)
- Joined Board in 2010
- Appointed FASB chair in 2013
- Term concluded on June 30, 2020

Rich Jones
- Joined EY in 1987
- Chief Accountant and Partner, EY, since 2014
- Named EY Assurance Partner in 2000
- Term as FASB chair began on July 1, 2020
Current FASB Members

James L. Kroeker  
*Vice Chairman*  
Public Accounting/SEC  
*Term ends 2024*

Christine A. Botosan  
Academe  
*Term ends 2021*

Gary R. Buesser  
Financial Statement User  
*Term ends 2023*

Susan M. Cosper  
Public Accounting  
*Term ends 2024*

Marsha L. Hunt  
Preparer  
*Term ends 2022*

R. Harold Schroeder  
Financial Statement User  
*Term ends 2021*

*Eligible for reappointment to a second five-year term*
FASB Response to COVID-19
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- FASB is monitoring and responding to the effects of the pandemic and is committed to supporting and assisting our stakeholders.

- The FASB website has a page focused on the FASB Response to COVID-19

- Stakeholders resources include:
  - Effective Date Changes
  - Staff Q&A documents (Leases, Hedging)
  - Board meeting recaps and minutes (Technical Inquiries)
  - Media advisories (TDR Assessment)
  - Educational material (Accounting for Debt Modifications)
  - Links to the technical inquiry service and to the implementation portal

- On the horizon: Goodwill Impairment Tests for prvt co and NFPs
# Effective Date Deferrals

**Objective**
- Provide *near-term* relief for **certain entities** by allowing a one-year deferral of major standards that are either **currently effective** or **imminently effective**

## Amended Guidance

### Revenue (Topic 606)
- Applies to **all entities** that have not yet issued their financial statements.
- Eligible entities may elect to adopt Topic 606 for annual reporting periods after December 15, 2019.
- Early application continues to be permitted.
- Separately, the Board will explore solutions to issues related to recognition of initial franchise fees for all franchisors.

### Leases (Topic 842)
- **Public not-for-profit (NFP) entities** that have not yet issued financial statements may elect to adopt Topic 842 for annual reporting periods after December 15, 2019.
- **Private companies and private NFPs** may elect to adopt Topic 842 for annual reporting periods after December 15, 2021.
- Early application continues to be permitted.

### Other
- Long-duration Insurance ASU delayed to 2022 for SEC Filers and 2024 for all other entities
Accounting for Lease Concessions—FASB Staff Q&A

- Staff interpretation in response to impacts of COVID-19 and the expectation that many lessors will provide lease concessions to lessees for a significant number of lease contracts

- Entities may elect to account for concessions related to COVID-19 as if enforceable rights and obligations for those concessions existed in the original contract

- Entities can then forego reviewing contracts to see if rights and obligations for COVID-19 concessions explicitly or implicitly exist

- As a result, entities do not have to apply the modification accounting requirements in Topics 842 and 840

- Election is only for concessions that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee
Accounting for Cash Flow Hedges
FASB Staff Q&A

- Staff interpretation in relation to the effects of COVID-19 on discontinued cash flow hedges
- Delays in forecasted transactions may be considered rare cases caused by extenuating circumstances outside the control or influence of the entity if related to the effects of COVID-19

For those hedges, if the forecasted transaction is probable of occurring after the additional two-month period, the entity should continue to retain amounts previously reported in AOCI associated with that forecasted transaction until that forecasted transaction affects earnings.

- The forecasted transaction must remain probable of occurring within a reasonable period of time.

For missed forecasts related to the effects of COVID-19 (not the delays discussed above) an entity may determine that the miss need not be considered when determining whether it has exhibited a pattern of missing forecasts that would call into question its ability to accurately predict forecasted transactions and the propriety of using cash flow hedge accounting in the future for similar transactions.

Purpese of this Staff Q&A
This FASB staff question-and-answer document (Q&A) focuses on the application of the guidance in Topic 815—Derivatives and Hedging, in relation to the effects of the Coronavirus (COVID-19) on cash flow hedge accounting. This Q&A aims to address other regulatory requirements such as SEC Staff Accounting Bulletin (SAB) No. 118, which may need to be considered when preparing and issuing financial statements.

Topic 815 provides guidance on whether discontinued cash flow hedge accounting is required and how to reclassify amounts deferred in accumulated other comprehensive income (AOCI) earnings. Questions have been posed to the staff on how the postponement or cancellation of forecasted transactions related to the effects of COVID-19 should be considered when applying the hedge accounting guidance in Topic 815. The staff has determined that continuing to maintain cash flow hedges subject to the requirements of a hedging relationship with an effective date before or during the outbreak of COVID-19 is not a relevant factor. However, the forecasted transaction is probable of occurring within a reasonable period of time.

Questions and Answers

Question 1
In accordance with paragraph 815-30-45-4, if cash flow hedge accounting is discontinued, amounts deferred in AOCI should remain in AOCI unless it is probable that the forecasted transaction will occur within a reasonable period of time.

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SBA - PPP Loans

- Stakeholders have raised the following issues on accounting for SBA PPP loans.
  - Borrowers need to account for legal form debt that is contingently forgivable.
  - Lenders need to appropriately recognize revenue related to PPP loan fees.
- In consultation with the SEC and the FASB, the AICPA issued a Technical Q&A addressing PPP accounting issues for borrowers. Models to account for the loans by for-profit entities include:
  - Topic 470, Debt; Subtopic 405-20 Liabilities—Extinguishment of Liabilities
  - IAS 20, Accounting for Government Grants and Disclosures of Government Assistance
  - Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition (by analogy)
  - Subtopic 450-30, Contingencies—Gain Contingencies (by analogy)
Disclosure of Significant Accounting Policies

- Stakeholders have raised questions about disclosures of government assistance.
- NFP entities have specific guidance related to government assistance that they should follow.
- For-profit entities do not have specific guidance on disclosing government assistance.
- Topic 235, Notes to Financial Statements, requires disclosure of significant accounting policies.
Disclosure of Significant Accounting Policies

Paragraph 235-10-50-3

- Entities are required to identify and describe the accounting principles that materially affect financial statements.
- Disclosures generally include judgments as to appropriateness of principles relating to recognition of revenue and allocation of asset costs to current and future periods. In particular:
  - A selection from existing acceptable alternatives
  - Principles and methods peculiar to the industry in which the entity operates
  - Unusual or innovative applications of GAAP
FASB Agenda Projects
PIR Activities

- Standards currently under review
  - Credit Losses
  - Leases
  - Revenue Recognition
What is the PIR process?

- Important quality control mechanism built into FASB’s standard-setting process which begins after the issuance of select standards.

- Evaluation of whether a standard is achieving its objective by providing financial statement users with relevant information in ways that justify the cost of providing it.
PIR - Why change?

- **Effectiveness.** As stakeholders begin the implementation process, proactive dialogue and other research often provide new or enhanced information regarding the implementation process and costs/benefits.
  - The FASB is able to evaluate and respond, as needed, through standard-setting action to continuously improve the standard.

- **Efficiency.** This alignment allows the Board to continue its review and evaluation of the final standard.
  - Stakeholder outreach and other research to monitor implementation progress
Identifiable Intangible Assets and Subsequent Accounting for Goodwill

At the July 15, 2020 meeting, the Board asked the staff to:

- Explore adding amortization to the goodwill impairment model, including the amortization method and period
- Explore other changes to the goodwill impairment model
- Consider the accounting for identifiable intangible assets
- Address presentation, disclosure, and transition

Next Steps:

- Board meeting (November 2020)
- Variety of alternatives to consider amortization, amortization period and amortization method
Leases

- Targeted improvements
  - Proposed ASU issued October 20th
    - Sales-type leases with substantial variable lease payments
    - Remeasurement of lease payments based on a reference index or rate
    - Reduction of scope in a lease contract

- Leases roundtable
  - Incremental borrowing rate
  - Lease modification model
  - Embedded leases
  - Lessee allocation of payments

- Improvements prior to Prvt-co adoption
Other Notables

- Continuing to Monitor COVID 19 matters – goodwill impairment
- Government Assistance - Accounting and Disclosure
- Revenue Recognition – Franchisor Acctg
- Monitoring shift from LIBOR
- Others
Thank you