FASB Update

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November 18, 2021

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.
Overview

- FASB Priorities
- FASB Agenda Consultation
- PIR Update
- Other Notable Activities
- Questions
FASB Agenda Consultation
Agenda Consultation Process

- The FASB undertook an agenda consultation outreach process to receive robust stakeholder feedback about the future of the FASB’s standard-setting agenda.
- Performed outreach with more than 200 stakeholders through August 2021, including 70+ investors and other financial statement users.
- Received 500+ responses to the Invitation to Comment.

- **December 2020**
  - Announcement by FASB Chair that the agenda consultation process is underway.

- **1st Quarter 2021**
  - Outreach with advisory and key stakeholder groups to identify priority areas of financial reporting.

- **2nd Quarter 2021**
  - Completed initial round of outreach.
  - Agenda Consultation Invitation to Comment issued for public comment on June 24, 2021.

- **3rd Quarter 2021**
  - Supplemental outreach with investors.
  - Stakeholders provided feedback on the ITC by September 22, 2021.

- **4th Quarter 2021**
  - Feedback summary to be presented to the Board.
Outreach Overview and Themes

- Allocate resources to completing current projects and implementation
- Require greater disaggregation of financial statement information
- Maintain relevance of the Codification by addressing evolving issues
- Improve current GAAP by reducing unnecessary complexity
- Reevaluate certain FASB internal processes
Continue Current Efforts

Complete current projects, such as:

- Segment Disclosures
- Supplier Finance Programs
- Subsequent Accounting for Goodwill
- Post-Implementation Reviews
- Interim Reporting

Address new time-sensitive concerns as they arise

Monitor implementation of recently completed projects, address practice issues timely, and educate stakeholders about the new guidance.
Chapter 1—Disaggregation of Financial Reporting Information

Investors and other financial statement users cited a general need for greater disaggregation of a range of financial reporting information to better understand the performance of the company and assess future operating results, cash flows, and risks.

- Disaggregation of Performance Information
- Business Combinations
- ESG-Related Disclosures
- Income Tax Disclosures
- Presentation of the Statement of Cash Flows
Chapter 2—Emerging Areas in Financial Reporting

Stakeholders cited a need for the Board to maintain and improve the relevancy of GAAP by addressing financial reporting for several emerging areas.

- Definition of a Derivative
- Digital Assets
- ESG-Related Transactions
- Financial Key Performance Indicators (KPIs) and Non-GAAP
- Intangible Assets, including Software
- Government Grants for Business Entities
Stakeholders provided feedback that there are specific areas of current GAAP that should be revisited to reduce unnecessary cost and complexity in the system.

Balance Sheet Classification
Consolidation
Debt Modifications

Distinguishing Liabilities from Equity
Materiality Considerations for Disclosures
Chapter 4—Improvements to FASB Standard-Setting Processes

Stakeholders provided feedback that enhancements and education about certain FASB standard-setting processes would be helpful to increase transparency and communication.

Understandability and navigability of the Codification

Transparent and thorough cost-benefit analysis framework

New interpretative process to quickly respond to stakeholder questions

Standardizing language for transition requirements
As part of the agenda consultation process, the FASB received 522 responses* through October 2021 from the following stakeholders:

* The FASB received 445 responses from a variety of stakeholders, including academics, individuals, investors and other financial statement users, practitioners, and preparers, which focus solely on the accounting for digital assets at fair value. Of these responses, 309 specifically expressed support for a single response that urged the Board to consider fair value accounting treatment for digital assets. These 445 respondents have not been captured in the above illustration.
Next Steps

4th Quarter 2021

• Feedback summary to be presented to the Board

1st – 3rd Quarter 2022

• Board will analyze ITC feedback and make changes to the technical agenda based on all feedback received and the Board’s agenda criteria
FASB Post-Implementation Review
Post-Implementation Review (PIR)

PIR Objective
• To determine whether a standard achieves its objective in a cost-effective manner

PIR Stages
• Stage 1. Post-issuance date implementation monitoring
• Stage 2. Post-effective date evaluation of costs and benefits
• Stage 3. Summary of research and reporting

PIRs Currently in Process
• Topic 606 (Revenue)
• Topic 842 (Leases)
• Topic 326 (Credit Losses)
• PIR Landing Page: www.fasb.org/PIR
Effective Dates—as amended by ASUs 2019-09, 2019-10, 2020-05, and 2020-11

For calendar year-end companies:

### Previous Effective Dates:

<table>
<thead>
<tr>
<th></th>
<th>SEC Filers</th>
<th>All other PBEs</th>
<th>Privates &amp; All Others</th>
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<tbody>
<tr>
<td>Hedging</td>
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<tr>
<td>Leasing</td>
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<tr>
<td>Credit Losses</td>
<td>Jan-20</td>
<td>Jan-21</td>
<td>Jan-22</td>
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<tr>
<td>Insurance</td>
<td>Jan-21</td>
<td>Jan-21</td>
<td>Jan-22</td>
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</table>

<sup>A</sup> Includes employee benefit plans and not-for-profit conduit bond obligors that file or furnish financial statements with or to the SEC.

**Note:** The effective date for Leases was deferred by ASU 2019-10 (issued November 2019). In ASU 2020-05, the effective date for Leases was further deferred (see next slide). The effective date for Insurance was deferred by ASU 2019-09 (Issued November 2019). In ASU 2020-11 (issued November 2020), the effective date for insurance was further deferred as a result of COVID-19.

### Amended Effective Dates:

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<thead>
<tr>
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<th>PBEs</th>
<th>All Other Entities</th>
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<tr>
<td>Hedging</td>
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<tr>
<td>Leases</td>
<td>Jan-19 or Jan-20&lt;sup&gt;C&lt;/sup&gt;</td>
<td>Jan-22&lt;sup&gt;See Note&lt;/sup&gt;</td>
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<thead>
<tr>
<th></th>
<th>SEC Filers excluding SRCs</th>
<th>All Other Entities&lt;sup&gt;D&lt;/sup&gt;</th>
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<tbody>
<tr>
<td>Credit Losses</td>
<td>Jan-20</td>
<td>Jan-23</td>
</tr>
<tr>
<td>Insurance</td>
<td>Jan-23</td>
<td>Jan-25</td>
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</tbody>
</table>

<sup>B</sup> For Hedging, there is no change to the effective dates for any PBEs because these standards are currently effective for these entities.

<sup>C</sup> Includes not-for-profit obligors for conduit or direct debt that is publicly traded, and employee benefit plans that file or furnish financial statements with or to the SEC. Optional delayed effective date is for such not-for-profits that have not yet issued or made available for issuance their financial statements prior to the issuance of ASU 2020-05.

<sup>D</sup> Includes all other PBEs (including SRCs), private companies, not-for-profit entities, and employee benefit plans.

<sup>E</sup> Also includes alignment for the effective date for Update 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.*
Accounting Standards Updates – Effective Dates

The effective dates for all Accounting Standards Updates can be found on the FASB website here.
Revenue Recognition
Post-Implementation Review (PIR) Update

Activities Since Initial Round of Topic 606 Adoption

• Conducted outreach with 130+ different stakeholders
  • Including investors (buy and sell-side), preparers, auditors, regulators, trade groups, and academics
• Conducted multiple Public Meetings/Webcasts
• Responded to technical inquiries and additional implementation questions
General PIR Feedback Received

Key Benefits
- Greater comparability
- Better depiction of an entity’s performance
- Improved understanding of contracts and revenue generating activities

Key Cost Drivers
- Contract review process
- Variable consideration
- Effect of regulatory environment

Continued Challenges
- Identifying performance obligations
- Principle vs agent (gross vs net)
- Consideration payable to a customer
ASU 2021-02: Practical Expedient—Revenue Recognition for Private Company Franchisors

A private company franchisor may account for certain pre-opening services as distinct from franchise license

- Simplifies Step 2 performance obligation analysis by providing a list of acceptable services that may be accounted for as distinct.
- Leverages existing concept of initial services, with some modifications.
- Retains standalone selling price guidance.
- **Scope:** Only applicable to entities within the scope of Topic 952, Franchisors, that are not public business entities.

**Transition:**
- Private franchisors that have not yet adopted ASC 606 should follow the ASC 606 transition requirements in 606-10-65-1.
- Those that have already adopted ASC 606 are permitted to immediately adopt the practical expedient, but the private franchisors who have implemented ASC 606 and then elect to adopt the practical expedient must apply it retrospectively.
Credit Losses (CECL)
Post-Implementation Review (PIR) Update

Activities Since Initial Round of CECL Adoption

• Conducted outreach with 120+ different stakeholders
  • Including investors (buy and sell-side), preparers, auditors, regulators, trade groups, and academics
• Hosted a public roundtable in May 2021
• Conducted multiple educational workshops
• Monitored 10-Qs, 10-Ks, earnings calls, and call reports
• Responded to technical inquiries and additional implementation questions
# General PIR Feedback Received

| **Users** | • Generally supportive of additional information provided under CECL  
• Current disclosures lack consistency across institutions and are not sufficiently detailed  
• Shared views on accounting for purchased loans |
|---|---|
| **Financial Institution and Non-Financial Institution Adopters** | • Attributed successful CECL adoption to robust planning, testing, and controls throughout implementation  
• Provided feedback on challenges during implementation and ongoing application  
• Shared views on accounting for purchased loans  
• Shared views on TDR accounting  
• No major effect on allowance levels after adoption (non-financial institutions) |
| **Financial Institution Non-Adopters** | • Focus on development of implementation tools (e.g., SCALE)  
• Continue implementation efforts without a significant delay  
• Many plan to use an outside vendor |
Recent Board Decisions:

- In response to the feedback provided at the May 2021 roundtable and through general PIR outreach, the Board added the following projects to its technical agenda at the July 14th Board meeting:

  1) Accounting for acquired financial assets within the scope of Update 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

  2) Accounting for TDRs by creditors who have adopted Update 2016-13

- In addition to the projects added, the Board decided to keep the following project on its technical agenda and begin initial deliberations:
  - Vintage Disclosure: Gross Writeoffs and Gross Recoveries

- The Tentative Board Decisions (TBDs) from the July 14 Board meeting can be found [here](#).
Accounting for TDRs by Creditors

**Objective**

- Consider removing creditor TDR recognition and measurement guidance for entities that have adopted CECL and enhance certain loan modification disclosures

**Feedback Received**

- For entities that have adopted CECL, the impact of most concessions currently recognized as TDRs is included in the allowance for credit losses
- Current TDR disclosures have informational utility, but could be replaced with enhanced disclosures for certain modifications to provide users with more decision-useful information

**Consequences**

- If TDR recognition and measurement guidance is replaced with enhanced loan modification disclosures, all modifications would apply the loan modification guidance Subtopic 310-20
TDRs: Feedback on Disclosure Enhancements

- Users provided feedback that important disclosures include information on the types of modifications, the effect on the financial statements, and the effectiveness of the modifications on borrower performance.

- Users have suggested the following information could be informative to their analyses:
  - Qualitative information of the types of modification or modification programs offered
  - Quantitative information of how modifications and subsequent performance are factored into the determination of the allowance
    - Number of loans that have been modified
    - Duration of any time-based modifications and the loans that exited such a time-based deferral
    - Reperformance of loans after modification
Accounting for Acquired Financial Assets

Objective

• Expand the scope of the PCD (purchased financial assets with credit deterioration) accounting model to all loans acquired in a business combination
• Modify the presentation of expected credit losses for acquired financial assets that meet the definition of PCD

Feedback Received

• Some stakeholders have expressed that non-PCD accounting is unintuitive and leads to a perceived double count of credit losses
• PCD accounting is compelling to users for held for investment loans purchased in a business combination

Status

• Performing additional research and outreach to finalize the scope of project
• Conducting outreach to gather feedback and determine the effects of expanding the scope of the PCD model and modifying the presentation for assets that meet the definition of PCD
Objective

- The objective of this project is to discuss requiring disclosure of gross writeoffs and gross recoveries within the vintage table disclosures.

Status

- Board decided to require disclosure of gross write-offs in the Vintage Table.

Next Steps

- ED expected in Q-4.
Leases
Board and staff stand ready to assist stakeholders

- **Board meetings** held to date on Topic 842 implementation:
  - November 2016 (leases implementation update)
  - May 2017 (leases implementation update)
  - June 2017 (technical corrections)
  - August 2017 (land easements)
  - November 2017 (land easements and targeted improvements)
  - January 2018 (technical corrections)
  - March 2018 (transition method and practical expedient)
  - July 2018 (narrow-scope improvements)
  - October 2018 (narrow-scope improvements)
  - December 2018 (codification improvements)
  - February 2019 (codification improvements)
  - July 2019 (operating lease receivable impairment)
  - July 2020 (targeted improvements)
  - December 2020 (post-implementation review)
  - February 2021 (targeted improvements)
  - April 2021 (lessors – leases with variable lease payments)
  - April 2021 (discount rate for lessees that are not public business entities)
  - September 2021 (discount rate for lessees that are not public business entities)

- **Standard-setting activities:**
  - Land easements ASU 2018-01 (issued in January 2018)
  - Codification Improvements ASU 2018-10 (issued in July 2018)
  - Targeted Improvements ASU 2018-11 (issued in July 2018)
  - Narrow-Scope Improvements ASU 2018-20 (issued in December 2018)
  - Leases Codification Improvements ASU 2019-01 (issued in March 2019)
  - Effective Date ASU 2019-10 (issued in November 2019)
  - Effective Date ASU 2020-05 (issued in June 2020)
  - Lessors—Certain Leases with Variable Lease Payments—ASU 2021-05 (issued in July 2021)
  - Discount Rate for Lessees That Are Not Public Business Entities—ASU expected Q4 2021
Preliminary Outreach Takeaways

Users

- Mixed feedback on operating lease liabilities and assets
  (a) Used without adjustments
  (b) Used with adjustments
  (c) Not used, revert to legacy analyses (6-8x expense)
- Mixed feedback on single operating lease cost compared to interest and amortization
- Continue to evaluate disclosures and trends
- Recommended improvements to certain disclosures

Preparers and Practitioners

- Feedback on challenges during implementation and ongoing application
- No fundamental changes recommended
- Select areas for improvement suggested (for example, modifications accounting)
- Support for continued educational efforts by FASB
2021 Activities

- **PIR**
  - Monitor public company ongoing application and nonpublic company implementation (Stage 1)
  - Continued outreach with preparers/practitioners/users (Stages 1 and 2)
  - Academic discussions (Stage 2)
  - Analyze public filings and monitor earnings calls (Stage 2)
  - Survey on implementation and ongoing costs (Stage 2)

- **Technical**
  - Lessors – certain leases with variable lease payments
  - Discount rate for lessees that are not public business entities
  - Modification accounting
  - Agenda requests/technical inquiries
ASU 2021-05
Lessors—Certain Leases with Variable Payments
ASU 2021-05: Lessors—Certain Leases with Variable Payments

Issue

- Lessors were required to recognize a selling loss at lease commencement (day-one loss) for a sales-type lease with a certain magnitude of variable payments even if the lessor expects the arrangement will be profitable overall.
- Resulting financial information for those transactions was not decision useful.

ASU 2021-05 amends lessor classification requirements to address the issue of day-one loss

- Lessors will classify a lease with variable lease payments that do not depend on an index or a rate as an operating lease if:
  1. The lease would have been classified as a sales-type lease or direct financing lease
  2. The lessor would have otherwise recognized a selling loss at lease commencement.

Lessors do not recognize selling loss (or profit) for operating leases.

Resulting financial reporting is expected to improve the decision usefulness of information for users.
ASU 2021-05: Lessors—Certain Leases with Variable Payments (contd.)

• Effective Date:
  • Fiscal years beginning after December 15, 2021, for all entities
  • Interim periods within those fiscal years for public entities and interim periods within fiscal years beginning after December 15, 2022, for all other entities
  • Earlier application is permitted
ASU 2021-09
Discount Rate for Lessees That Are Not Public Business Entities
Discount Rate for Lessees That Are Not Public Business Entities

- **Objective**
  - To reconsider the risk-free discount rate accounting policy election afforded to lessees that are not public business entities

- **Scope**
  - Lessees that are not public business entities, including all not-for-profit entities and employee benefit plans

- **Issues**
  1. Level of accounting policy election
  2. Discount rate specified in accounting policy election
  3. Interaction between the rate implicit in the lease and the accounting policy election
1. **Level of Accounting Policy Election:** A lessee that is not a public business entity may make the risk-free rate accounting policy election by class of underlying asset. A lessee would be required to disclose its election, including the asset class to which it has made the accounting policy election.

2. **Discount rate specified in accounting policy election:** The risk-free rate would be retained for the discount rate accounting policy election, rather than another specified rate, such as a corporate bond rate or the prime rate.

3. **Interaction between the rate implicit in the lease and the accounting policy election:** A lessee using the discount rate accounting policy election would be required to use the rate implicit in the lease when it is readily determinable instead of the risk-free rate.
Upon issuance of final Update:

Lessees that have not adopted Topic 842:

Same transition and effective date provisions as those in Topic 842 (paragraph 842-10-65-1)

Lessees that have adopted Topic 842:

Modified retrospective transition method
Effective for annual reporting periods beginning after December 15, 2021 and interim reporting periods beginning after December 15, 2022

ASU expected in Q4 2021
Other Notable Activities
Other Notable Activities

- COVID 19 Response – Resource Reminder
- Accounting Alternative for Goodwill Triggering Event Evaluations
- Subsequent Accounting for Goodwill – Initial deliberations
- Bus Com Phase 3 - Contingent Consideration
- PCC Alternative – Share Based Payment
- Disclosures Associated with Government Assistance
COVID-19 Resources

- Pandemic-related financial reporting matters
- Resources for stakeholders include:
  - COVID-19 response resource page
  - Staff Q&A documents and staff educational paper
    - Education papers: Borrower’s Accounting for Debt Restructurings and Modifications
    - Staff Q&A on leases and hedge accounting during COVID-19
  - Board meetings and advisory group meeting
  - Technical inquiry service
- The FASB provided effective date delays on long-duration insurance for all entities and on leases and revenue recognition for certain private companies and organizations

Visit [www.fasb.org/COVID19](http://www.fasb.org/COVID19) to learn more.
Accounting Alternative for Evaluating Goodwill Triggering Events

- **Project Background**
  - Certain stakeholders expressed concern about the cost and complexity of private companies evaluating triggering events at an interim date when those entities only report annually.
  - The Board added a project to its agenda to explore an alternative for private and not-for-profit entities to defer the triggering event evaluation date to the end of the reporting period.
  - The feedback received from certain private company users led the Board to determine that impairments are more relevant and may be more informative to users of certain private companies if it is closely associated with the timing of the overall financial information being reported.

- **ASU 2021-03 Issuance**
  - The Board issued ASU 2021-03 at the end of March 2021.
  - The alternative is applicable to all goodwill that is subsequently measured under Subtopic 350-20 and defers the triggering event evaluation date to the end of the reporting period, whether that reporting period is interim or annual.
  - Transition is prospective for fiscal years beginning after December 15, 2019.
Identifiable Intangible Assets and Subsequent Accounting for Goodwill
Recent Board Meetings

December 16, 2020
- The Board discussed the details of an amortization model.

April 7, 2021
- The Board discussed:
  - Determination of goodwill amortization period if default period (tentatively, 10 years) not chosen.
  - Identifiable intangible assets in a business combination.
- The Board directed the staff to perform additional research and outreach.
- The Board will further discuss determination of goodwill amortization period on October 27.

June 23, 2021
- The Board discussed the potential changes to the existing goodwill impairment model, including the unit of account, the frequency of testing, and the timing of the assessment.
Topics Still to Be Discussed

- Consequential Disclosures (TBD)
- Presentation (TBD)
- Future Board Meetings
- Scope (TBD)
- Transition (TBD)
Improving the Accounting for Asset Acquisitions and Business Combinations
Improving the Accounting for Asset Acquisitions and Business Combinations – Project Update

- Improve the accounting for asset acquisitions and business combinations by narrowing the differences between the two acquisition models.

1st Quarter 2017
- The Board clarified the definition of a business
- More acquisitions are now classified as asset acquisitions

3rd Quarter 2020
- The Board affirmed the objective of the project and removed narrowing the differences in the accounting for IPR&D from the project’s scope

2nd Quarter 2021
- The Board discussed the acquisition date accounting for contingent consideration
- Outreach with private company stakeholders

3rd Quarter 2021 / 4th Quarter 2021
- Continue discussion of accounting for contingent consideration and other issues
### Improving the Accounting for Asset Acquisitions and Business Combinations

#### Accounting for Contingent Consideration (CC)*

<table>
<thead>
<tr>
<th>Asset Acquisition</th>
<th>VIE that is not a Business</th>
<th>Equity Method Investment</th>
<th>Business Combinations/VIE that is a Business</th>
</tr>
</thead>
</table>
| • There is no specific guidance. Some practitioners recognize CC and, generally, a corresponding increase to the cost basis of the asset when:  
  • Probable and reasonably estimable (Statement No. 5)  
  • The contingency is resolved (consistent with the “beyond a reasonable doubt” language in Statement 141)  
  • Loss recoverability model — See Equity Method guidance. | • The primary beneficiary is required to recognize the consideration transferred at its acquisition date fair value in accordance with Topic 805. However, diversity in practice exists because it is unclear whether “consideration transferred” includes contingent consideration.  
• There is no subsequent measurement guidance. | • Generally, recognize contingent consideration when the contingency is resolved (or when probable and estimable) as part of the cost basis in the investment.  
• If there is a bargain purchase gain, the investor would record the lesser of (a) the maximum amount of CC not initially recognized and (b) the excess of the fair value of the investor’s share of the investee’s net assets. Upon resolution of the contingency, adjust the liability with the offset to the cost of the investment. | • Record at fair value at the acquisition date.  
• Acquirer’s obligation to pay contingent consideration is classified as a liability (Topic 480, Distinguishing Liabilities from Equity, Topic 815, Derivatives and Hedging) or equity (Subtopic 815-40, Derivatives and Hedging—Contracts in Entity’s Own Equity).  
• Subsequent changes in fair value are recognized through earnings if classified as an asset (contingently returnable consideration) or liability. |

*Assumes the contingent consideration arrangement is not a derivative.
ASU 2021-07
PCC Share-based Payment Practical Expedient
Current GAAP (Topic 718)

Classify Award: Equity or Liability

- **Equity – Grant Date FV**
- **Compensation cost over service period**

- **Issue**

- **Liability – Remeasure at FV**
- **Compensation cost over service period**
History

- PCC has been considering simplifications to SBP for much of its history
- Several simplifications, some specific to private companies, have already been made for employee SBP (ASU 2016-09), non-employee SBP (ASU 2018-07), and instruments with down round features (ASU 2017-11)

Objective

The objective of this ASU is to provide a practical expedient for nonpublic entities for measuring the current price input for purposes of determining grant-date fair value of equity-classified share-based payment awards.
## Share-Based Payment Practical Expedient

### Final Decisions Made

<table>
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<tr>
<th>Expedient</th>
<th>Uses same description as Section 409A of the IRC to describe a reasonable application of a reasonable valuation*</th>
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<tr>
<td>Application</td>
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<tr>
<td>Scope (type of recipient)</td>
<td>Awards issued to both employees and non-employees</td>
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<tr>
<td>Scope (type of award)</td>
<td>Equity-classified awards within the scope of Topic 718</td>
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<tr>
<td>Disclosure</td>
<td>Disclose application of practical expedient</td>
</tr>
<tr>
<td>Transition</td>
<td>Prospective transition</td>
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</tbody>
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*as of the issuance date of the Final Update
The Practical Expedient

Describes a reasonable application of a reasonable valuation method, addressing the following characteristics:

• The date on which a valuation's reasonableness is evaluated
• The factors that a reasonable valuation should consider
• The scope of the information that a reasonable valuation should consider
• The criteria that should be met for the use of a previously calculated value to be considered reasonable

Uses the same characteristics as the Treasury Regulations of IRC Section 409A

• Characteristics are aligned as of the issuance date
• A valuation performed in accordance with the treasury regulations is one way to achieve the practical expedient
Effective Date:

- The practical expedient would apply to qualifying awards granted or modified during fiscal years beginning on or after December 15, 2021, and interim periods the following year.
- Early adoption, including adoption in an interim period, would be permitted for financial statements that have not been issued or made available for issuance as of the final Update.
Disclosures by Business Entities about Government Assistance
The objective of this project is to develop disclosure requirements about government assistance that improve the content, quality, and comparability of financial information and financial statements.
The disclosures should apply to a business entity that has accounted for a transaction with a government by analogizing to a grant or a contribution accounting model.

- For example, IAS 20, Accounting for Government Grants, or Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition

The amendments would be effective for fiscal years beginning after December 15, 2021, for all business entities. Early adoption is permitted.

The Board also concluded that the expected benefits of the amendments justify the expected costs and directed the staff to draft a final Accounting Standards Update for vote by written ballot.
Examples of transactions with the government that would require disclosure under the proposed guidance:

- A forgivable loan from the government in which a business entity concludes that the transaction is accounted for as a grant applying IAS 20 by analogy.

- A receipt of cash or other assets from the government that is accounted for as a contribution applying Subtopic 958-605 by analogy.

Examples of transactions with the government that would not require disclosure under the proposed guidance:

- Income tax credits within the scope of Topic 740, Income Taxes.

- A contract with a government in which the government is acting as a customer and is within the scope of revenue recognition guidance (Topic 606).

- A forgivable or below-market interest rate loan from the government in which a business entity concludes that the transaction is deemed to be a loan within the scope of Topic 470, Debt and is accounted for as such.
Pending ASU – Required Disclosures

- **Nature of Assistance, Related Accounting Policies and Effect on Financial Statement Amounts**
  - This includes which line of the balance sheet or income statement is affected by the assistance received

- **Significant Terms and Conditions of the Agreement**
  - Ex: duration, contingencies, commitments

- If an entity omits specific information required by the final disclosures because the information is legally prohibited from being disclosed, the entity should disclose a description of the general nature of the information omitted and the specific source of prohibition.
Next Steps

- The staff is drafting a final Update that is expected to be released during Q4 2021
- The staff will continue to monitor feedback received from the FASB’s Agenda Consultation project on the recognition and measurement of government grants.
Additional Questions