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Accounting and financial reporting issues for financial institutions

December 2021

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A note from the author

Entering 2021, it might have been hard to predict what exactly would change, but it was relatively easy to forecast change would be coming. In the midst of finalizing tweaks to major standards such as current expected credit loss (CECL) and leases, the Financial Accounting Standards Board (FASB) issued an invitation to comment on where it should turn its attention next. The U.S. Securities and Exchange Commission (SEC) installed its new chair, which brought a new agenda and priorities, including environmental, social, and governance (ESG) topics. The federal financial institution regulators have also turned their sights to ESG matters, largely focused on climate risk and its impact on our financial systems. Another topic of focus for a broad range of stakeholders, including standard-setters and regulators, is digital assets. The final path forward on these topics for the FASB, the SEC, and the federal financial institution regulators will come into focus in the coming months.

In the interim, we hope you and yours remain safe and healthy and that you find this publication helpful for your year-end financial reporting as well as for looking to the future.

Sydney K. Garmong

Partner, Crowe

From the FASB: Major final standards

Credit losses

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

The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, 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, financial statement preparers should address the following guidelines included in the standard:

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

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

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

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

Troubled debt restructurings

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

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Beneficial interests

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

Disclosures

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

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

Transition

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

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

Effective dates

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

The effective dates are as follows:

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

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

CARES Act provides option to delay

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

As such, eligible registrants could elect to take the delay. Registrants had to make the election for the first quarter of 2020. During the delay, those registrants continued to use the incurred loss model for the ALLL for each quarter. The delay ends at the earlier of the termination of the national emergency or Dec. 31, 2020. Regardless of when the national emergency ends, those banks were slated to adopt CECL in the fourth quarter of 2020, retrospective to Jan. 1, 2020. The result would have been all calendar year registrants reflecting CECL in their 2020 Form 10-K.

H.R. 133, *Consolidated Appropriations Act, 2021*, which was signed into law on Dec. 27, 2020, extends certain provisions of the CARES Act. Section 4013 of the CARES Act provided temporary relief from TDR and is amended by Division N, Section 541 of H.R. 133, by extending the end date from Dec. 31, 2020, to the earlier of Jan. 1, 2022, or 60 days after the date on which the COVID-19 national emergency terminates. It also adds specific reference to insurance companies in addition to the previously covered financial institutions.

Division N, Section 540 of H.R. 133 extends CARES Act Section 4014, which provided optional temporary relief from CECL guidance. Under this extension, insured depository institutions, bank holding companies, and their affiliates would not be required to adopt FASB ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," before the earlier of the first day of the entity's fiscal year that begins after the date on which the COVID-19 national emergency terminates or Jan. 1, 2022.

After the CARES Act was enacted on March 27, 2020, the SEC staff clarified that once the deferral was elected by a registrant, Dec. 31, 2020, adoption of CECL was required, retrospective to Jan. 1, 2020 (absent an early termination of the national emergency). Under the amendments, a registrant electing the delay under the CARES Act is further delayed until Jan. 1, 2022, effective as of Jan. 1, 2022 (absent an early termination of the national emergency). With regard to the amendments to Section 4014, the SEC staff indicated it would not object to a registrant early adopting on Dec. 31, 2020, retrospective to Jan. 1, 2020, or Jan. 1, 2021, effective as of Jan. 1, 2021.

Clarifications: TRG meetings and related standard-setting

Codification improvements

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

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

On April 25, 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." The ASU includes changes to three existing ASUs on credit losses, recognition and measurement, and hedging activities.

The changes to credit losses include:

- Topic 1: Codification improvements resulting from the June 11, 2018, and Nov. 1, 2018, Credit Losses TRG meetings
  - Issue 1A: Accrued interest
    - Measure the allowance on accrued interest receivable (AIR) balances separately from other components of the amortized cost basis and 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 identified by stakeholders
  - Issue 2A: Conforming amendment to Subtopic 310-40, "Receivables **–** Troubled Debt Restructurings by Creditors" – corrects a cross-reference such that an entity is required to use the fair value of collateral when foreclosure is probable.
  - Issue 2B: Conforming amendment to Subtopic 323-10, "Investments **–** Equity Method and Joint Ventures (Topic 323)" – clarifies the equity method losses allocation guidance Subtopic 323-10 by adding cross-references to Subtopics 326-20 and 326-30 for subsequent accounting when the investor has other investments, such as loans and debt securities, in the equity method investee.

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  - 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.
  - 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.

For entities that have not yet adopted ASU 2016-13, topics 1, 2, and 5 of ASU 2019-04 are effective on the same dates as ASU 2016-13. For entities that have already adopted ASU 2016-13, these amendments are effective for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.

Final ASU on negative allowances for PCD assets and other clarifications

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

Other technical improvements include:

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

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Vintage disclosures: Gross write-offs and gross recoveries

At its Nov. 7, 2018, meeting, the board decided to clarify that gross recoveries and gross write-offs should be presented by vintage year and by class of financing receivable within the credit quality information vintage disclosure described in paragraph 326-20-50-6. This question was posed in response to the illustrative disclosure in example 15 in ASU 2016-13.

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

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

At its July 14, 2021 meeting, the board discussed its current project on whether gross write-offs and recoveries should be presented in the vintage disclosure or if this project should be removed from its technical agenda and considered in conjunction with the credit losses post-implementation review process. Given the importance to investors, the board decided to keep the project on the technical agenda.

At its Oct. 13, 2021, meeting, the board continued its deliberations on vintage disclosures. The board decided to require an entity to disclose current year gross write-offs, but not recoveries, by year of origination within its vintage disclosure with a prospective transition approach for the proposed amendments. As a reminder, the vintage disclosure table is optional for nonpublic business entities. The board directed the staff to draft a proposed ASU with a 30-day comment period. The proposed ASU was issued on Nov. 23, 2021, addressing both vintage disclosures and TDRs. See details in next section.

Troubled debt restructurings

At its Oct. 13, 2021, meeting, the board addressed TDR guidance for creditors that have adopted ASU 2016-13 and agreed that TDR recognition and measurement guidance will be eliminated for those adopters. Further, the board decided to require enhanced disclosures by creditors associated with modifications made to borrowers experiencing financial difficulty and to not require disclosure of modifications that represent only an insignificant delay in payment. For the TDR amendments related to recognition and measurement, the board decided on a prospective transition approach, with an option to elect a modified retrospective transition approach. In addition, disclosure enhancements related to modifications made to borrowers experiencing financial difficulties will be prospective. The board directed the staff to draft a proposed ASU with a 30-day comment period.

On Nov. 23, 2021, the FASB issued a proposed ASU, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures," incorporating decisions made at its Oct. 13, 2021, board meeting and addressing areas identified as part of its post-implementation review of CECL. The proposed amendments would eliminate the accounting guidance for TDRs by creditors while enhancing disclosure requirements for loan refinancings and restructurings by creditors made to borrowers experiencing financial difficulty. Under the proposal, an entity would apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 to 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. Related to vintage disclosures, the proposed ASU would require that a public business entity disclose current period gross write-offs by year of origination for financing receivables and net investments in leases. Comments are due Dec. 23, 2021.

Electing the fair value option at adoption

On May 15, 2019, the FASB issued ASU 2019-05, "Financial Instruments – Credit Losses (Topic 326):

Targeted Transition Relief." Upon adoption of the new credit losses standard, this ASU allows entities to make an irrevocable one-time election to use the fair value option to measure financial assets measured at amortized cost (except for held-to-maturity debt securities). The election is to be applied on an instrument-by-instrument basis.

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

Incorporating SEC SAB 119

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

FASB staff Q&As

Staff Q&A document: WARM method

On Jan. 10, 2019, the FASB staff released a question-and-answer document, "Topic 326, No. 1, Whether the Weighted-Average Remaining Maturity Method Is an Acceptable Method to Estimate Expected Credit Losses," to address questions the staff has received about 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." Within the Q&A document, the staff provides answers to 16 frequently asked questions on the development of an estimate of expected credit losses. Topics covered include modeling requirements, using historical loss information, internal and external data sources, developing reasonable and supportable forecasts, the reversion to historical loss information, and qualitative factor adjustments among others.

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Previous meetings of the Transition Resource Group for Credit Losses

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

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

AICPA credit losses task force and Depository Institutions Expert Panel

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

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

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

While primarily written for auditors, the practice aid will be directly beneficial to lenders preparing to implement the new standard.

On Nov. 11, 2021, the AICPA issued its credit losses audit and accounting guide. In addition to addressing items covered in the practice aid, the guide also provides implementation observations and addresses accounting issues 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

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- 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 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. 20-22, 2021, CECL was a focal point. Key takeaways from the CECL presentations include the following:

- Regulators reminded bankers to remain vigilant, as credit risk is still elevated and uncertainty remains surrounding the path of the coronavirus and the ultimate end to the pandemic.
- Based on interaction between the FASB and stakeholders as part of the post-implementation process, feedback on the CECL standard has been positive, although stakeholders would like to see certain aspects of the standard improved.
- Large banks are comparing their disclosures to those of international banks that have adopted International Financial Reporting Standard (IFRS) 9, as its required disclosures are more robust than what are required under the CECL standard.

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

Discussions about CECL at the AICPA credit unions conferenceCECL was also covered, in several sessions, at the AICPA & CIMA Conference on Credit Unions, which was held Oct. 18-20, 2021.

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

Post-implementation review

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

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

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

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

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

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

Certain of these actions resulted in forthcoming additional guidance, including the FASB decision in its Oct. 13, 2021, meeting to issue a proposed ASU to address TDRs and vintage disclosure guidance. That proposed ASU was issued on Nov. 23, 2021.

Roundtable on CECL implementation

As part of the FASB's post-implementation review process, the FASB hosted, on May 20, 2021, a virtual roundtable on implementation of the CECL standard and related technical issues. Feedback from varying stakeholders primarily addressed implementation, purchased financial assets with credit deterioration accounting, and consideration of TDRs.

Participant insight into CECL implementation included how CECL performed for large public institutions considering the dynamic environment as a result of COVID-19, the lack of comparability in CECL disclosures across entities, and whether sufficient flexibility exists in required disclosures for institutions of different sizes. The participants also addressed observations on applying the PCD accounting model to all acquired assets, including a general consensus that the PCD model should be applied to non-PCD assets in an acquisition. Additionally, participants discussed the relevance of TDRs as a measure of troubled loans, including consideration of discontinuing the use of the TDR label as the impairment would be measured through CECL.

The FASB planned to further analyze the feedback and determine if a project or projects should be added to the technical agenda.

At the FASB board meeting on July 14, 2021, the board added two projects to its technical agenda. The first project will address whether to remove the accounting for TDRs for entities that have adopted the CECL guidance in ASC Topic 326, "Financial Instruments – Credit Losses." This project also will consider enhancing loan modification disclosures. The second project will consider expanding the scope of the PCD model to all loans acquired in a business combination and modifying the presentation guidance.

Leases

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

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

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

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Lessees

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

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

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

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

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

Lessee lease classification

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

Lessors

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

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

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residual value equals or exceeds substantially all of the fair value of the leased asset, and 2) it is probable that the lessor will collect the lease payments and any guaranteed residual value.

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

Lessor lease classification

Lease type	Direct-finance or sales-type lease	Operating lease
Balance sheet	• Net investment in the lease (unless for sales-type lease, collectibility is not probable, and the leased asset is not derecognized)	• Continue to recognize underlying asset
Income statement	• Direct-finance: Interest and profit over lease term, loss at commencement • Sales-type: Interest over lease term, profit/loss at commencement if collectibility is probable	• Lease income, typically straight-line
Cash flow statement	• Operating – cash received for lease payments	• Operating – cash received for lease payments

Sale and leaseback transactions

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

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

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

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

Sale and leaseback transition guidance

Previously qualified as a sale under existing GAAP

Sale and leaseback transactions that occurred prior to the effective date and qualified as a sale under

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

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

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

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

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

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

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

Clarifications

1. Discount rate guidance for lessees
   On Nov. 11, 2021, the FASB issued 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. Prior to this update, Topic 842 provided lessees that are not PBEs with a practical expedient to elect an accounting policy to use a risk-free rate as the discount rate for all leases. The amendments allow those lessees to make the risk-free rate election by class of underlying asset rather than at the entitywide level. In making the risk-free rate election, entities are required to disclose to which asset classes it has elected to apply the risk-free rate. Under the ASU, when the rate implicit in the lease is readily determinable for any individual lease, the lessee would use that rate regardless of whether it has made a risk-free rate election.

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For entities that have not adopted Topic 842, the amendments are effective when they adopt Topic 842. For entities that already have adopted Topic 842, the amendments are effective for fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022. Early adoption is permitted.

2. Leases with variable lease payments
On July 19, 2021, the FASB issued 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.

Prior to this update, under Topic 842, a lessor may have been required to recognize a selling loss at lease commencement (day-one loss) for a sales-type lease with variable payments, even if the lessor expected the arrangement would be profitable overall. During the post-implementation review of Topic 842, stakeholders commented that this accounting treatment resulted in financial reporting that did not faithfully represent the underlying economics either at lease commencement or over the lease term and did not provide decision-useful information. To address this matter, the amended ASU requires a lessor to classify and account for a lease with variable payments as an operating lease in both of these situations:

1) The lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in paragraphs 842-10-25-2 and 25-3.
2) The lessor otherwise would have recognized a day-one loss.

As a day-one loss or profit is not recognized under operating lease accounting, this is expected to result in more decision-useful information and more closely represent the economics of the underlying lease.

Subject to certain transition requirements, the ASU is effective for all entities for fiscal years beginning after Dec. 15, 2021, and for interim periods within those fiscal years for public business entities and interim periods within fiscal years beginning after Dec. 15, 2022, for all other entities. Early adoption is permitted.

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

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

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

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

The amendments, other than the exception to interim disclosure requirements, are effective for PBEs for fiscal years beginning after Dec. 15, 2019, and interim periods within those fiscal years.

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For all other entities, the effective date is for years beginning after Dec. 15, 2019, and interim periods within years beginning after Dec. 15, 2020. Early application is permitted.

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

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

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

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

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

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

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

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- Transition guidance for sale and leaseback transactions
- Impairment of net investment in the lease
- Unguaranteed residual asset
- Effect of initial direct costs on rate implicit in the lease
- Failed sale and leaseback transaction

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

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

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

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

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

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

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

Effective dates

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

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

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

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

Early adoption is permitted upon issuance.

Transition

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

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

Practical expedients for transition

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

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

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

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

- **Understanding the new leases standard**, including identification of all contracts with leases and for lessees, measurement of the new ROU asset, and lease liability
- **Evaluating the company's impact assessment**, including disclosure of the expected impact on the financial statements as well as the impact on debt covenants, regulatory compliance, and other considerations
- **Evaluating the implementation project plan**, including an evaluation of the timeline, the corporate

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culture, involvement of key stakeholders, accounting policies and judgments, and systems and controls

- **Other implementation considerations**, such as transition methods and disclosure requirements

Proposed changes to lease guidance

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

The amendments in the proposed ASU target the following areas:

- For lessors, it would amend lease classification requirements for leases in which the lease payments are predominantly variable by requiring lessors to classify and account for those leases as operating leases. This topic resulted in the issuance of ASU 2021-05.
- For lessees, it would provide the option to remeasure lease liabilities for changes in a reference index or a rate affecting future lease payments at the date that those changes take effect. This topic was subsequently removed from the FASB's technical agenda.
- For both lessees and lessors, it would provide that when a separate lease component within a contract is terminated and the economics of the remaining lease components remain substantially the same as before the partial termination of that contract, a lessee or lessor would not apply modification accounting to the remaining lease components. The staff is currently considering a more holistic revision to the lease modifications guidance if warranted based on stakeholder feedback.

Comments were due Dec. 4, 2020.

Roundtable discussion on leases implementation

On Sept. 18, 2020, the FASB held its public roundtable discussion on its leases accounting standard implementation. The discussion focused on broad technical issues that organizations have found challenging.

Hedging activities

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

These are the most significant changes applicable to financial institutions:

Fair value hedges

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

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Cash flow hedges

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

Both fair value and cash flow hedges

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

Clarifications

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

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

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

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

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

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

2. Hedge accounting clarifications

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

- Issue 3A: Partial-term fair value hedges of interest-rate risk
  - Clarifies that an entity may designate and measure the change in fair value of a hedged item attributable to both interest-rate risk and foreign exchange risk in a partial-term fair value hedge. The proposal also clarifies that one or more separately designated partial-term fair value hedging relationships of a single financial instrument can be outstanding at the same time.
- Issue 3B: Amortization of fair value hedge basis adjustments
  - Clarifies that an entity may, but is not required to, begin to amortize a fair value hedge basis adjustment before the fair value hedging relationship is discontinued. If an entity elects to amortize the basis adjustment during an outstanding partial-term hedge, that

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basis adjustment should be fully amortized on or before the hedged item's assumed maturity date in accordance with paragraph 815-25-35-13B.

- Issue 3C: Disclosure of fair value hedge basis adjustments
  - Clarifies that available-for-sale debt securities should be disclosed at their amortized cost and that fair value hedge basis adjustments related to foreign exchange risk should be excluded from the disclosures required by paragraph 815-10-50-4EE.
- Issue 3D: Consideration of the hedged contractually specified interest rate under the hypothetical derivative method
  - Clarifies that an entity should consider the contractually specified interest rate being hedged when applying the hypothetical derivative method.
- Issue 3E: Scope for not-for-profit entities
  - Clarifies that a not-for-profit entity that does not separately report earnings may not elect the amortization approach for amounts excluded from the assessment of effectiveness for fair value hedging relationships. Also updates the cross-references in paragraph 815-10-15-1 to further clarify the scope of Topic 815 for entities that do not report earnings separately.
- Issue 3F: Hedge accounting provisions applicable to certain private companies and not-for-profit entities
  - Clarifies that a private company that is not a financial institution as described in paragraph 942-320-50-1 should document the analysis supporting a last-of-layer hedge designation concurrently with hedge inception. Also clarifies that not-for-profit entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market) should be provided with the same subsequent quarterly hedge effectiveness assessment timing relief provided to certain private companies in paragraph 815-20-25-142.
- Issue 3G: Application of a first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments
  - Clarifies that application of the first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments continues to be permitted.
- Issue 3H: Update 2017-12 transition guidance
  - Provides clarification about the three transition requirements in ASU 2017-12:
    1. Clarifies that when an entity modifies a fair value hedge to measuring the hedged item using the benchmark rate component of the contractual coupon, the hedging relationship can be rebalanced, but new hedged items and hedging instruments cannot be added to the hedge.
    2. Clarifies that an entity may transition from a quantitative method of hedge effectiveness assessment to a method comparing critical terms without dedesignating an existing relationship.
    3. Clarifies that debt securities reclassified from HTM to available-for-sale following paragraph 815-20-65-3(e)(7) would not call into question an entity's assertion to hold to maturity those securities that continue to be classified as HTM, are not required to be designated in a last-of-layer hedge relationship and may be sold after reclassification.

<u>Effective dates</u>

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

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

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

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

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

The proposed ASU provides clarifications to guidance on:

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

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

Comments were due Jan. 13, 2020.

4. Proposed portfolio layer (formerly referred to as last-of-layer) method guidance
On May 5, 2021, the FASB issued a proposed ASU, "Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method." This exposure draft was issued to provide additional guidance on the last-of-layer hedge method that was added with the issuance of ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The last-of-layer method permits the fair value hedge of a closed portfolio of prepayable financial assets or one or more beneficial instruments secured by prepayable financial instruments. In response to questions raised by entities and practitioners, the proposed amendments would:

- Expand the current single-layer model to allow multiple-layer hedges of a single closed portfolio, and rename the last-of-layer method to the portfolio layer method
- Specify that spot-starting and forward-starting constant notional and amortizing-notional interest-rate swap may be used in the portfolio layer method
- Provide additional guidance on the accounting and disclosures of the fair value hedge basis adjustments for both single-layer and multiple-layer hedges
- Prohibit considering basis adjustments from existing hedges when determining credit losses
- Permit a one-time transfer of debt securities that qualify for the portfolio layer method from held-to-maturity to the available-for-sale category upon adoption

The amendments would be effective pending feedback on the proposed ASU. Adoption of the multiple-layer method will be on a prospective basis, while accounting for basis adjustments under the portfolio layer method will be on a modified retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings. Proposed amendments to disclosures can be made either on a prospective or modified-retrospective basis upon adoption of the amendments.

Comments were due July 5, 2021.

Financial instruments: Recognition and measurement

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

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

Clarification between accounting standards

On Jan. 16, 2020, the FASB issued ASU 2020-01, "Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815 (a Consensus of the Emerging Issues Task Force)." The ASU clarifies the interaction between ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," and the ASU on equity method investments.

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

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

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

From the FASB: Other final standards

Income taxes

Simplifications to income tax accounting

On Dec. 18, 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," to reduce cost and complexity in accounting for income taxes in Topic 740.

The amendments remove the following exceptions from Topic 740:

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

Simplifications included in the ASU relate to:

- Franchise taxes that are partially based on income
- Transactions with a government that result in a step up in the tax basis of goodwill
- Separate financial statements of legal entities that are not subject to tax
- Enacted changes in tax laws in interim periods

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- Employee stock ownership plans and investments in qualified affordable housing projects when using the equity method

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

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

Reference rate reform

Accounting relief from reference rate reform

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

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

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

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

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

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

Reference rate reform 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

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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).

Consolidation and business combinations

Consistency in accounting for 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.

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

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

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

In addition, the ASU revises the analysis for determining whether a decision-making fee paid by a VIE is a variable interest such that indirect interests in a VIE held through related parties in common control arrangements would be considered on a proportional basis (thus eliminating the requirement to consider

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such indirect interests as the equivalent of a direct interest). This revision is consistent with the analysis for determining whether a reporting entity in a related party group is the primary beneficiary of a VIE by including indirect interests on a proportional basis (pursuant to amendments in ASU 2016-17).

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

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

Transition
Retrospective application to the earliest period presented is required.

Goodwill and intangibles

Implementation costs in a cloud computing arrangement

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

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

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

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

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

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

Transition
An entity can choose between prospective and retrospective transition.

Goodwill impairment

On Jan. 26, 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." What started as a recommendation by the PCC to permit private entities to amortize goodwill has resulted in a standard to simplify goodwill impairment testing for

all entities that have goodwill reported in their financial statements, by eliminating the second step in the current goodwill impairment test. The topic of amortizing goodwill remains on the FASB's research agenda.

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

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

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

Effective dates (as amended by ASU 2019-10)
For PBEs that are SEC filers, excluding entities eligible to be smaller reporting entities as defined by the SEC, the standard is effective for annual or any interim goodwill impairment tests in fiscal years beginning after Dec. 15, 2019. For calendar year-end SEC filers, it first applies to tests performed on or after Jan. 1, 2020.

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

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

Transition
Prospective application is required.

Goodwill triggering event accounting alternative

On March 30, 2021, the FASB issued ASU 2021-03, "Intangibles – Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events." This ASU provides private companies and not-for-profit entities with an alternative to monitor and evaluate goodwill impairment triggering events only as of the reporting date, whether the reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period. Under the alternative, an entity should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. The ASU does not require incremental disclosures beyond existing disclosure requirements.

Effective dates and transition
The ASU is effective on a prospective basis for fiscal years beginning after Dec. 15, 2019. Early adoption is permitted for both interim and annual financial statements that had not yet been issued or made available for issuance as of March 30, 2021. Furthermore, an entity should not retroactively adopt this ASU for interim financial statements already issued. The ASU provides an unconditional one-time option to adopt the amendments prospectively after its effective date without assessing preferability under Topic 250.

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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.

Clarifications on accounting for written call options

On May 3, 2021, the FASB issued ASU 2021-04, "Earnings Per Share (Topic 260), Debt – Modifications and Extinguishments (Subtopic 470-50), Compensation – Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a Consensus of the Emerging Issues Task Force)." The ASU was issued to clarify and reduce diversity in practices for modification and exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after the exchange. The amendments do not apply to modifications or exchanges of financial instruments within another topic (for example, Topic 718). The ASU provides guidance on how to measure the effect of the modification or exchange and how that effect should be recognized.

Effective dates

The ASU is effective for all entities for fiscal years beginning after Dec. 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date. Early adoption is permitted.

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

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

Effective dates

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

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Other codification improvements

Codification improvements

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

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

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

Effective dates

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

Nonrefundable fees and other costs related to receivables

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

Effective dates

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

Transition

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

Narrow-scope improvements to financial instruments guidance

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

- Issue 1 – Clarifies that all entities (not just PBEs) are required to provide fair value option disclosures
- Issue 2 – Clarifies the applicability of the portfolio exception in measuring fair value for nonfinancial items accounted for as derivatives
- Issue 3 – Clarifies that disclosure requirements in Topic 320 apply to disclosure requirements in Topic 942 for depository and lending institutions
- Issue 4 – Adds cross-reference of line-of-credit or revolving-debt arrangements guidance to guidance in accounting for fees between debtor and creditor and third-party costs directly related to exchanges or modifications of debt instruments
- Issue 5 – Clarifies that fair value measurement disclosure requirements do not apply to entities using the net asset value per share practical expedient

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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.

Presentation and disclosure

Disclosures by business entities about government assistance

On Nov. 17, 2021, the FASB issued ASU 2021-10, "Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance," to increase transparency by requiring business entities to disclose information about certain types of government assistance they receive. Examples of such government assistance include cash grants and grants of other assets.

The ASU requires annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other accounting guidance such as a grant model within Subtopic 958-605, "Not-for-Profit Entities – Revenue Recognition," or International Accounting Standards 20, "Accounting for Government Grants and Disclosure of Government Assistance." Required disclosures include:

- The nature of the transactions
- The related accounting policy used to account for the transactions
- Amounts presented in the financial statement by line item
- Significant terms and conditions of the transactions, including commitments and contingencies

Effective date
The amendments are effective for all entities, excluding not-for-profit entities and employee benefit plans, that account for a transaction with a government by applying a grant or contribution accounting model by analogy to other accounting guidance, for financial statements issued for annual periods beginning after Dec. 15, 2021. Early application is permitted.

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SEC guidance in the FASB codification

The FASB issued, on Aug. 9, 2021, ASU 2021-06, "Presentation of Financial Statements (Topic 205), Financial Services – Depository and Lending (Topic 942), and Financial Services – Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures About Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants," which reflects the incorporation of SEC Releases 33-10786, "Amendments to Financial Disclosures About Acquired and Disposed Businesses," and 33-10835, "Update of Statistical Disclosures for Bank and Savings and Loan Registrants," into the FASB codification.

SEC guarantor financial disclosures

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

Effective date

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

Defined benefit plan disclosures

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

The ASU removes the following disclosures:

- The amounts in accumulated other comprehensive income that the entity expects to recognize in net periodic benefit cost during the next fiscal year
- The amount and timing of plan assets expected to be returned to the employer
- Information about the June 2001 amendments to the *Japanese Welfare Pension Insurance Law*
- Certain related-party disclosures
- For nonpublic entities, the roll forward of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy (but requires disclosures of amounts of transfers in and out of Level 3 as well as Level 3 plan asset purchases)
- For public entities, the effects of a 1 percentage point change in assumed healthcare cost trend rates on the net periodic benefit costs and the benefit obligation for postretirement healthcare

The ASU clarifies the following disclosure requirements:

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

The ASU adds the following disclosure requirements:

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

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

From the FASB: In the pipeline

Recognition and measurement

Identifiable intangible assets and subsequent accounting for goodwill

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

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

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

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

Comments were due Oct. 7, 2019.

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

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

- Consideration of a default period other than 10 years for amortization
- Management's ability to deviate from a default period and justification for that difference
- Cap or floor on an amortization period
- Transition challenges

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Continuing its discussions on considering changes to goodwill accounting, the FASB board met on April 7, 2021, to specifically discuss "(1) subsuming certain identifiable intangible assets in a business combination into goodwill and (2) factors entities could consider when estimating the useful life of goodwill if they choose to deviate from the default period and how such factors might affect the specifics of a potential cap on the amortization period." As a result of the discussions, the board directed staff to perform additional research and outreach related to:

- Users' perspectives on what types of intangible assets provide decision-useful information and which should be incorporated into goodwill
- Factors that might be used to estimate the useful life of goodwill, including management's estimated payback period

While the board made no decisions at its June 23, 2021, meeting, the board discussed, in the context of its tentative decision to amortize goodwill, unit of account and frequency of goodwill impairment testing as well as the timing of an entity's goodwill impairment assessment.

At its Nov. 17, 2021, meeting, the board continued discussions on the elements of an estimated goodwill amortization model, including discussion of an overall amortization period, a possible list of factors, a cap and a floor on the amortization period, and the reassessments of an estimated goodwill amortization period. No decisions were made.

Investments in tax credits project

At its Sept. 22, 2021, board meeting, the FASB voted to add a new project on investments in tax credits to the EITF agenda. The project will focus on expanding the existing proportional amortization method used for certain low-income housing tax credits investments to other investments in tax credits, such as new markets tax credits, historic rehabilitation tax credits, and renewable energy tax credits. The project will explore whether the existing criteria for an investment to be accounted for using the proportional amortization method would work for different types of tax credits and whether certain clarifications and changes are needed.

Fair value measurement guidance for certain equity securities

On Sept. 15, 2021, the FASB issued a proposed ASU, "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 proposal would affect all entities that have investments in equity securities measured at fair value that are subject to contractual restrictions preventing the sale of those securities.

Comments were due Nov. 14, 2021.

Disclosure and presentation

Proposed changes in response to SEC actions

On May 6, 2019, the FASB issued a proposed ASU, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative," to address matters identified by the SEC in its August 2018 Release 33-10532, "Disclosure Update and Simplification."

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

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

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

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

Comments were due June 28, 2019.

Proposed changes to interim disclosures

Separate from its efforts discussed previously under “Proposed changes in response to SEC actions,” 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 are due Jan. 31, 2022.

Proposed improvements to income tax disclosures

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

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

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

For all entities:

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

For public business entities:

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

Comments were due May 31, 2019.

Segment reporting

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

The FASB planned to use the feedback to help inform the board about the costs and benefits of the various improvement ideas being considered. A summary of the findings on segment reporting were presented to the board at the Dec. 11, 2019, meeting. Based on the feedback, the board directed the staff to perform outreach with investors on certain potential segment disclosure improvements and to accelerate work on clarifying the requirements in Topic 280, "Segment Reporting," to encourage greater reporting of total assets by reportable segment for public entities. At the July 15, 2020, board meeting, the board again discussed segment reporting and the investor feedback and decided to discontinue work on clarifying the meaning of "regularly provided segment information" and on permitting multiple segment performance measure disclosures.

The FASB met again on Oct. 7, 2020, and discussed alternative bases for developing a principle-based disclosure requirement that could potentially result in public entities having to disclose significant segment expense categories by reportable segment. At the Jan. 20, 2021, meeting, the board continued discussions of a principle-based disclosure requirement to report the significant segment expenses that are both 1) regularly provided to the chief operating decision maker and 2) included in the reported measure of segment profit or loss. As a result of this meeting, several directives were given to the staff to continue to research additional matters.

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At its March 10, 2021, meeting, the board tentatively decided each significant expense category would be required to be reconciled to its corresponding consolidated amount, and at its May 12, 2021, meeting, the board tentatively decided, among other items, that a public entity would be required to apply the significant expense principle on an interim basis in addition to an annual basis. A summary of cumulative decisions to date is available.

At its Oct. 13, 2021, meeting, the FASB continued discussions of a principle-based disclosure requirement. The board made the following additional decisions:

- To include the easily computable concept, which would require public entities to disclose significant segment expense categories and amounts that are easily computable from the management reports that are regularly provided to the chief operating decision-maker
- To not require public entities to map each consolidated expense amount to the income statement lines
- To specify that single reportable segment entities should apply all disclosure requirements in Topic 280, "Segment Reporting," consistent with requirements for multiple reportable segment entities

The board also identified the next steps of the project, including deliberation of disclosure framework analysis, transition method, external review and discussion of any sweep issues, costs and benefits analysis, and comment letter period.

ESG developments

From the FASB

In response to the growing stakeholder focus on environmental, social, and governance matters, the FASB issued on March, 19, 2021, an educational paper that outlines how current GAAP intersects with ESG topics. The paper also provides an overview of ESG reporting and outlines the FASB's role in financial accounting standard-setting.

From the federal financial institution regulators and other stakeholders

The federal financial institution regulators and other stakeholders (for example, the Financial Stability Board (FSB) and the Financial Stability Oversight Council (FSOC)) have also taken steps to address ESG matters, including climate risk. Among other actions:

- The Federal Reserve (Fed) announced the formation of a Supervision Climate Committee and a Financial Stability Climate Committee.
- The Office of the Comptroller of the Currency (OCC) announced the appointment of its first climate change risk officer and its membership in the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).
- On Aug. 3, 2021, in testimony before the Senate Committee on Banking, Housing, and Urban Affairs, the acting comptroller outlined a vision for how the OCC will take action to manage climate risk in its supervisory capacity.
- The FSB, on July 7, 2021, issued a road map for addressing climate-related risks. The FSB also published in October 2021 its status report on climate-related financial disclosures as well as two companion documents, which provide guidance on metrics, targets, and transition plans

and implementation guidance related to the recommendations of the Task Force on Climate Related Financial Disclosures, respectively.
- The FSOC published, on Oct. 21, 2021, its 2021 "Report on Climate-Related Financial Risk." Fed Chair Jerome Powell subsequently issued a statement in support of the FSOC's work.

ESG topics also arose in multiple panel discussions, including panels of regulators, preparers, and standard-setters, at both the AICPA & CIMA National Conference on Banks and Savings Institutions held Sept. 20-22, 2021, and the AICPA & CIMA Conference on Credit Unions held Oct. 18-20, 2021.

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From the federal financial institution regulators

Loan modifications

TDR relief guidance to conform with *Consolidated Appropriations Act*

H.R. 133, *Consolidated Appropriations Act, 2021*, which was signed into law on Dec. 27, 2020, extends certain provisions of the CARES Act. Section 4013 of the CARES Act provided temporary relief from TDR accounting and is amended by Division N, Section 541 of H.R. 133, by extending the end date from Dec. 31, 2020, to the earlier of Jan. 1, 2022, or 60 days after the date on which the COVID-19 national emergency terminates. In response, the OCC updated its two-page reference guide, "TDR Designation and COVID-19 Loan Modifications," to conform to the extended TDR provisions.

Updated FAQs on COVID-19 supervisory and regulatory response

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

Credit losses

Fed CECL tool

The Fed, on July 15, 2021, released a CECL implementation tool for community banks with assets of less than $1 billion, to help them calculate their CECL allowances. The Scaled CECL Allowance for Losses Estimator (SCALE) is spreadsheet-based and was created from publicly available regulatory and industry data. The CECL methodology became effective for many larger public financial institutions beginning in 2020, and most community banks with assets under $1 billion will implement CECL in 2023.

OCC CECL handbook

On April 15, 2021, the OCC issued the new "Allowances for Credit Losses" booklet of the Comptroller's Handbook. The 115-page booklet is prepared for OCC examiners in connection with their examination and supervision of OCC-regulated institutions that have adopted the CECL methodology of estimating allowances for credit losses (ACLs). According to OCC Bulletin 2021-20, "Allowances for Credit Losses: New Comptroller's Handbook Booklet," the booklet:

- "Describes the CECL methodology's scope, risks associated with ACLs, and seven primary components used to estimate ACLs
- "Discusses documentation and considerations for
  - "Expected credit losses
  - "Estimation processes, including validation of and internal controls over these processes
  - "The maintenance of appropriate ACLs
  - "The responsibilities of boards of directors and management
  - "Examiner reviews of ACLs
- "Provides procedures to aid examiners when assessing appropriateness of a bank's ACL methodologies and balances
- "Is consistent with the 'Interagency Policy Statement on Allowances for Credit Losses' conveyed by OCC Bulletin 2020-49 and the 'Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses' conveyed by OCC Bulletin 2019-17."

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

On May 8, 2020, the OCC, Fed, Federal Deposit Insurance Corp. (FDIC), and National Credit Union Administration (NCUA) issued an interagency policy statement on allowances for credit losses to promote consistency with the FASB's credit losses accounting standard. The statement describes the measurement of expected credit losses using the CECL methodology; the design, documentation, and validation of expected credit loss estimation processes; the maintenance of appropriate ACLs; the responsibilities of boards of directors and management; and examiner reviews of ACLs. The statement will be effective at the time of each institution's adoption of CECL.

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

Interagency FAQs on the CECL model

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

The original FAQs (Questions 1-23) cover:

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

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

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

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

- Collateral-dependent loans
- Reasonable and supportable forecasts
- Segmentation factors for credit cards
- Internal control considerations related to data used in CECL calculations

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- Practices in existing supervisory guidance on the allowance for loan and lease losses

The update reflects changes in implementation dates for nonpublic business entities. The agencies also have made technical and editorial changes to previously released FAQs and have provided links in the appendix to relevant resources for institutions to use in their CECL implementation.

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

Treasury study on CECL and regulatory capital

The U.S. Department of the Treasury issued a study, "The Current Expected Credit Loss Accounting Standard and Financial Institution Regulatory Capital," dated Sept. 15, 2020.

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

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

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

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

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

Leases

Basel Committee FAQs on capital treatment of right-of-use (ROU) asset

The Basel Committee on Banking Supervision issued a press release on April 6, 2017, to respond to three frequently asked questions on how to treat an ROU asset under the new lease accounting

standards issued in 2016 separately by the FASB and the IASB. The committee's responses indicate that an ROU asset should be treated as a tangible asset for capital reporting purposes, as long as the underlying asset being leased is a tangible asset.

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

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

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

LIBOR

The Fed, FDIC, and OCC on July 29, 2021, issued answers to frequently asked questions about the effects that the London Interbank Offered Rate transition will have on regulatory capital instruments. The FAQs address the issue of changing a reference rate from LIBOR to an alternative rate and clarify that such a transition would not change the capital treatment of the instrument, provided the alternative rate is economically equivalent with the LIBOR-based rate. While the FDIC and OCC issued only two FAQs related to the impact on regulatory capital instruments, the Fed also included questions for global systemically important bank holding companies and intermediate holding companies.

At the AICPA & CIMA National Conference on Banks and Savings Institutions held Sept. 20-22, 2021, federal bank regulators noted that they will view any LIBOR-based contract entered into after Dec. 31, 2021, as an unsafe and unsound banking practice.

OCC's Bank Accounting Advisory Series

On Aug. 16, 2021, the OCC released an update to the Bank Accounting Advisory Series (BAAS). The BAAS covers a variety of topics and promotes consistent application of accounting standards among national banks and federal savings associations. This edition of the BAAS reflects accounting standards issued by the FASB on such topics as hedging and credit losses and includes recent answers to frequently asked questions from the industry and examiners.

The revisions include new questions on topics such as:

- Loans held for sale
- Employee stock options
- Grants received by banks

Updates to topics include, but are not limited to:

- Investments in debt and equity securities
- Loans held for sale
- Intangible assets

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

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Other interim and final rules

Temporary relief from Part 363 audit and reporting requirements

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

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

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

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

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

The FDIC issued on Dec. 22, 2020, and reissued on Dec. 28, 2020, Financial Institution Letter (FIL) 116-2020 to provide information on how the FDIC intends to exercise the reservation of authority in relation to the October 2020 IFR that provides temporary relief from Part 363 audit and reporting requirements for those institutions experiencing asset growth as a result of their participation in pandemic-related stimulus programs.

The IFR allows institutions that surpassed the $500 million and $1 billion thresholds during 2020 to use total assets as of Dec. 31, 2019, to determine whether they are subject to the Part 363 audit requirements. The FDIC reserves the authority to require institutions to comply with Part 363 requirements. FIL 116-2020 outlines the factors the FDIC will use in deciding to exercise this reservation of authority. Some of the factors that the FDIC will consider on a case-by-case basis are:

- The extent of participation in pandemic-related government programs
- The institution's composite Uniform Financial Institutions rating
- Whether merger or acquisition transactions were supervisory in nature
- Whether the institution is required to have its financial statements audited by an independent public accountant for reasons other than being required by Part 363
- The supervisory concerns set forth in a Report of Examination
- The effectiveness of the institution's internal audit function

At the AICPA & CIMA National Conference on Banks and Savings Institutions held Sept. 20-22, 2021, the FDIC chief accountant addressed ongoing discussions at the FDIC about whether additional relief should be given to institutions that are required to comply with the provisions of Part 363 of the *Federal Deposit Insurance Corporation Improvement Act of 1991* (FDICIA).

Interagency temporary relief for community banks

On Nov. 20, 2020, the Fed, FDIC, and OCC issued an interim final rule in response to asset growth related to the PPP to allow banks with less than $10 billion in total assets as of Dec. 31, 2019, to use asset data as of Dec. 31, 2019, to determine the applicability of various regulatory asset thresholds

during calendar years 2020 and 2021. The Fed also is revising instructions to certain regulatory reports to align with these provisions.

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

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Key abbreviations and acronyms

AFS	available for sale
AICPA	American Institute of Certified Public Accountants
ALLL	allowance for loan and lease losses
AOCI	accumulated other comprehensive income
APIC	additional paid-in capital
ASC	Accounting Standards Codification (issued by the FASB)
ASU	Accounting Standards Update
BAAS	Bank Accounting Advisory Series (issued by the OCC)
BC	Basis for Conclusions
BOLI	bank-owned life insurance
CDO	collateralized debt obligation
CECL	current expected credit loss
CFE	collateralized financing entity
CFPB	Consumer Financial Protection Bureau
CLO	collateralized loan obligation
COLI	corporate-owned life insurance
CRI	customer-related intangible asset
DTA	deferred-tax asset
EITF	Emerging Issues Task Force (a standing FASB task force)
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corp.
FDICIA	*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	Veterans Benefits Administration
VIE	variable interest entity

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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
Leases **(ASU 2016-02)** Revises recognition and measurement for lease contracts by lessors and lessees; operating leases are recorded on balance sheet for lessees. Replaces Topic 840 with Topic 842. **Clarifying standards:** **ASU 2018-01** – Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840. **ASU 2018-10** – Provides 16 improvements and clarifications to the guidance in Topic 842. **ASU 2018-11** – Provides an optional transition method for adopting Topic 842 that will eliminate comparative period reporting under the new guidance in the adoption year. Provides a practical expedient for lessors to not separate nonlease components from the associated lease component in specified circumstances. **ASU 2018-20** – Improvements specific to lessors for evaluating sales taxes, recording reimbursed costs, and allocating variable payments to lease and nonlease components. **ASU 2019-01** – Provides improvements in determining fair value of underlying asset by lessors that are not manufacturers or dealers, presentation of the statement of cash flows for sales-type and direct financing leases, and transition disclosures. **ASU 2021-05** – Provides that lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if certain criteria are met.	**March 31, 2019[2]** **For ASU 2019-01, March 31, 2020, except for transition disclosure amendments which are consistent with ASU 2016-02** **For ASU 2021-05, March 31, 2022**	**Permitted**

[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.

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

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Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test. **Clarifying standards:** **ASU 2019-10** – Deferral of effective dates.	**For SEC filers, excluding smaller reporting companies, tests performed on or after Jan. 1, 2020** **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) Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables. **Clarifying standards:** **ASU 2018-19** – Clarifies that impairment of operating lease receivables is in the scope of ASC Topic 842, "Leases," and not the CECL model. **ASU 2019-04** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, vintage disclosures, and contractual extensions and renewal options. **ASU 2019-05** – Targeted transition relief provides an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. **ASU 2019-10** – Deferral of effective dates. **ASU 2019-11** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses expected recoveries for purchased financial assets with credit deterioration, transition relief for troubled debt restructurings, disclosures related to accrued interest receivables, financial assets secured by collateral maintenance provisions, and conforming cross-references to Subtopic 805-20. **ASU 2020-03** – Aligns contractual term to measure expected credit losses for a net investment in a lease to be consistent with the lease term determined under Topic 842. Clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded.	**For SEC filers, excluding smaller reporting companies, March 31, 2020** **For all other PBEs including smaller reporting companies, March 31, 2023** **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**

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Amendments to Various SEC Paragraphs (ASU 2020-09) Amends and supersedes various SEC paragraphs to reflect SEC Release No. 33-10762, which includes amendments to financial disclosure requirements applicable to registered debt offerings that include credit enhancements, such as subsidiary guarantees. SEC rules make it easier for a registrant to qualify for an exception to the requirement to file separate audited financial statements of a subsidiary issuer or guarantor of registered debt securities.	**SEC rules are effective Jan. 4, 2021**	**Permitted**
Clarifying Reference Rate Reform (ASU 2021-01) Clarifies that certain optional expedients and exceptions in Topic 848 (reference rate reform) for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. If an entity elects certain provisions in Topic 848, those provisions apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Clarifies that the provisions in Topic 848 optionally apply to all entities that designate receive-variable-rate, pay-variable-rate, cross-currency interest-rate swaps as hedging instruments in net investment hedges that are modified as a result of reference rate reform.	**Upon issuance on Jan. 7, 2021**	**Not applicable**
Simplifying Accounting for Income Taxes (ASU 2019-12) Simplifies the accounting for income taxes by removing certain exceptions in Topic 740. Improves consistent application of other areas of guidance within Topic 740 by clarifying and amending existing guidance.	**March 31, 2021**	**Permitted, including in an interim period**
Interaction Between Accounting for Equity Securities, Equity Method Investments, and Certain Derivative Instruments (ASU 2020-01) Clarifies the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contract and purchased options accounted for under Topic 815.	**March 31, 2021**	**Permitted, including in an interim period**
Accounting for Purchased Callable Debt Securities (ASU 2020-08) Clarifies amendments in ASU 2017-08, which amended the amortization period for certain purchased callable debt securities held at a premium by shortening the period to the earliest call date. The amendments require an entity to reevaluate whether a callable debt security that has multiple call dates is within the scope of paragraph 310-20-35-33 for each reporting period.	**March 31, 2021**	**Not permitted**

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Various Codification Improvements (ASU 2020-10) Amendments improve codification by having all disclosure-related guidance available in the disclosure sections of the codification. Prior to this ASU, various disclosure requirements or options to present information on the face of the financial statements or as a note to the financial statements were not included in the appropriate disclosure sections of the codification. Contains various other minor amendments to codification that are not expected to have a significant effect on current accounting practice.	**March 31, 2021**	**Permitted, including in an interim period**
Amendments to SEC Paragraphs (ASU 2021-06) Amends various SEC paragraphs to reflect SEC Final Rule Releases No. 33-10786, which addresses financial disclosures about acquired and disposed businesses, and No. 33-10835, which addresses update of statistical disclosures for bank and savings and loan registrants.	**Upon issuance on Aug. 9, 2021**	**Not applicable**
Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06) Clarifies the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments reduce number of accounting models for convertible debt instruments and convertible preferred stock. The cash conversion and beneficial conversion feature models were removed. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract. Improves disclosure requirements for convertible instruments and earnings-per-share guidance. Revises derivatives scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events.	**For SEC filers, excluding smaller reporting companies, March 31, 2022** **For all other PBEs, including smaller reporting companies, March 31, 2024**	**Permitted as of the fiscal years beginning after Dec. 15, 2020. An entity must adopt the guidance as of the beginning of the fiscal year and not in a subsequent interim period.**
Issuer's Accounting for Modifications or Exchanges of Freestanding Written Call Options That Are Classified in Equity (ASU 2021-04) Clarifies the guidance for a modification or an exchange of a freestanding equity-classified written call option (for example, warrants). The amendments provide that an entity should treat such modification or exchange as an exchange of the original instrument for a new instrument. The amendments provide guidance on how an entity should measure and recognize the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange. The amendments do not affect a holder's accounting for freestanding call options.	**March 31, 2022**	**Permitted, including in an interim period**

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Disclosures by Business Entities About Government Assistance (ASU 2021-10) Requires annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other accounting guidance such as a grant model within Subtopic 958-605, “Not-for-Profit Entities – Revenue Recognition,” or International Accounting Standards 20, “Accounting for Government Grants and Disclosure of Government Assistance.”	**March 31, 2022**	**Permitted**
Customer Contracts Acquired in a Business Combination (ASU 2021-08) 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**

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Appendix B: ASUs for financial institutions[3] – effective dates for nonpublic business entities (non-PBEs)

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
PCC Alternative for Evaluating Triggering Events (ASU 2021-03) Provides accounting alternative to perform goodwill impairment triggering event evaluation as of the end of the reporting period, whether reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired.	**Dec. 31, 2020**	**Permitted only as of annual periods beginning after Dec. 15, 2019, including interim periods within that have not been issued or made available for issuance as of March 30, 2021**
Premium Amortization on Purchased Callable Debt (ASU 2017-08) Shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, instead of to the maturity date. **Clarifying standard:** **ASU 2020-08** – Clarifies that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of paragraph 310-20-35-33 for each reporting period.	**Dec. 31, 2020** **For ASU 2020-08, Dec. 31, 2022**	**Permitted, including in an interim period** **For ASU 2020-08, permitted only as of annual periods beginning after Dec. 15, 2020, including interim periods within**
Clarifying Reference Rate Reform (ASU 2021-01) Clarifies that certain optional expedients and exceptions in Topic 848 (reference rate reform) for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. If an entity elects certain provisions in Topic 848, those provisions apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Clarifies that the provisions in Topic 848 optionally apply to all entities that designate receive-variable-rate, pay-variable-rate, cross-currency interest-rate swaps as hedging instruments in net investment hedges that are modified as a result of reference rate reform.	**Upon issuance on Jan. 7, 2021**	**Not applicable**

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

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Hedging Activities **(ASU 2017-12)** Expands the nonfinancial and financial risk components that can qualify for hedge accounting and simplifies financial reporting for hedging activities. **Clarifying standards:** **ASU 2019-04** – Provides specific improvements and clarifications to the guidance in Topic 815. Among other areas, addresses partial-term fair value hedges of interest-rate risk, amortization and disclosure of fair value hedge basis adjustments, and consideration of hedged contractually specified interest rate under the hypothetical derivative method. **ASU 2019-10** – Deferral of effective dates.	**Dec. 31, 2021**	**Permitted, including in an interim period**
Defined Benefit Plan Disclosure for Sponsors **(ASU 2018-14)** Removes and clarifies certain disclosures for sponsors of defined benefit plans. Adds disclosure for weighted-average interest credit rates for certain plans and the reasons for significant gains and losses in the benefit obligation.	**Dec. 31, 2021**	**Permitted**
Implementation Costs for Cloud Computing Arrangements (CCAs) **(ASU 2018-15)** Aligns accounting for implementation costs of CCAs with or without a license (that is, regardless of whether the CCA is a service contract) by capitalizing implementation costs during the application development stage and amortizing the costs over the term of the arrangement.	**Dec. 31, 2021**	**Permitted, including in an interim period**
Variable Interest Entity (VIE) Model – Targeted Improvements for Related Parties **(ASU 2018-17)** Provides a private company accounting alternative not to apply VIE consolidation guidance to any arrangement with legal entities that are under common control if neither the parent nor the legal entity is a PBE (thus expanding the alternative for common control leasing arrangements to all common control arrangements). Also, revises the analysis for determining whether a decision-making fee paid by a VIE is a variable interest such that indirect interests in a VIE held through related parties in common control arrangements would be considered on a proportional basis (instead of as the equivalent to a direct interest).	**Dec. 31, 2021**	**Permitted, including in an interim period**
Collaborative Arrangements (Topic 808) **(ASU 2018-18)** Requires that Topic 606 be applied to collaborative arrangements when the arrangement participant is a customer and aligns the unit-of-account guidance in Topic 808 with Topic 606. Revenue in the scope of Topic 606 should be presented separate from revenue outside its scope.	**Dec. 31, 2021**	**Permitted, including in an interim period**

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Simplifying Accounting for Income Taxes (ASU 2019-12) Simplifies the accounting for income taxes by removing certain exceptions in Topic 740. Improves consistent application of other areas of guidance within Topic 740 by clarifying and amending existing guidance.	**Dec. 31, 2022**	**Permitted, including in an interim period**
Interaction Between Accounting for Equity Securities, Equity Method Investments, and Certain Derivative Instruments (ASU 2020-01) Clarifies the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contract and purchased options accounted for under Topic 815.	**Dec. 31, 2022**	**Permitted, including in an interim period**
Leases (ASU 2016-02) Revises recognition and measurement for lease contracts by lessors and lessees; operating leases are recorded on balance sheet for lessees. Replaces Topic 840 with Topic 842. **Clarifying standards:** **ASU 2018-01** – Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840. **ASU 2018-10** – Provides 16 improvements and clarifications to the guidance in Topic 842. **ASU 2018-11** – Provides an optional transition method for adopting Topic 842 that will eliminate comparative period reporting under the new guidance in the adoption year. Provides a practical expedient for lessors to not separate nonlease components from the associated lease component in specified circumstances. **ASU 2018-20** – Improvements specific to lessors for evaluating sales taxes, recording reimbursed costs, and allocating variable payments to lease and nonlease components. **ASU 2019-01** – Provides improvements in determining fair value of underlying asset by lessors that are not manufacturers or dealers, presentation of the statement of cash flows for sales-type and direct financing leases, and transition disclosures. **ASU 2019-10** – Deferral of effective dates. **ASU 2020-05** – Deferral of effective dates. **ASU 2021-05** – Provides that lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if certain criteria are met. **ASU 2021-09** – Allows risk-free rate election by class of underlying asset rather than at the entitywide level. When the rate implicit in the lease is readily determinable, the lessee must use that rate regardless of whether it has made the risk-free rate election.	**Dec. 31, 2022**	**Permitted**

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Various Codification Improvements (ASU 2020-10) Amendments improve codification by having all disclosure-related guidance available in the disclosure sections of the codification. Prior to this ASU, various disclosure requirements or options to present information on the face of the financial statements or as a note to the financial statements were not included in the appropriate disclosure sections of the codification. Contains various other minor amendments to codification that are not expected to have a significant effect on current accounting practice.	**Dec. 31, 2022**	**Permitted**
Issuer's Accounting for Modifications or Exchanges of Freestanding Written Call Options That Are Classified in Equity (ASU 2021-04) Clarifies the guidance for a modification or an exchange of a freestanding equity-classified written call option (for example, warrants). The amendments provide that an entity should treat such modification or exchange as an exchange of the original instrument for a new instrument. The amendments provide guidance on how an entity should measure and recognize the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange. The amendments do not affect a holder's accounting for freestanding call options.	**Dec. 31, 2022**	**Permitted, including in an interim period**
Practical Expedient in Measuring Current Price Input of Equity-Classified Share-Based Awards (ASU 2021-07) Allows a nonpublic entity to determine the current price of a share underlying an equity-classified share-based award using the reasonable application of a reasonable valuation method. The amendments provide characteristics of the reasonable application of a reasonable valuation method. A reasonable valuation performed in accordance with the Treasury Regulations is an example of a way to achieve the practical expedient.	**Dec. 31, 2022**	**Permitted for financial statements that have not been issued or made available for issuance as of Oct. 25, 2021**
Disclosures by Business Entities About Government Assistance (ASU 2021-10) Requires annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other accounting guidance such as a grant model within Subtopic 958-605, "Not-for-Profit Entities – Revenue Recognition," or International Accounting Standards 20, "Accounting for Government Grants and Disclosure of Government Assistance."	**Dec. 31, 2022**	**Permitted**

Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test. **Clarifying standards:** **ASU 2019-10** – Deferral of effective dates.	**Tests performed on or after Jan. 1, 2023**	**Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017**
Credit Losses (ASU 2016-13) Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables. **Clarifying standards:** **ASU 2018-19** – Clarifies the effective date for non-PBEs and that impairment of operating lease receivables is in the scope of ASC Topic 842, "Leases," and not the CECL model. **ASU 2019-04** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, vintage disclosures, and contractual extensions and renewal options. **ASU 2019-05** – Targeted transition relief provides an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. **ASU 2019-10** – Deferral of effective dates. **ASU 2019-11** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses expected recoveries for purchased financial assets with credit deterioration, transition relief for troubled debt restructurings, disclosures related to accrued interest receivables, financial assets secured by collateral maintenance provisions, and conforming cross-references to Subtopic 805-20. **ASU 2020-03** – Aligns contractual term to measure expected credit losses for a net investment in a lease to be consistent with the lease term determined under Topic 842. Clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded.	**Dec. 31, 2023** **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**

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Convertible Instruments and Contracts in an Entity's Own Equity **(ASU 2020-06)** Clarifies the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments reduce number of accounting models for convertible debt instruments and convertible preferred stock. The cash conversion and beneficial conversion feature models were removed. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract. Improves disclosure requirements for convertible instruments and earnings-per-share guidance. Revises derivatives scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events.	**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)** 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**

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