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Accounting and financial reporting issues for financial institutions

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A note from the author

At long last, we have reached the eve of adoption of the current expected credit loss (CECL) model for all business entities. We look forward to removing the more than a dozen pages on both credit losses and leases from this document.

For those with investments in tax credits, the new year should be good news. At its Dec. 1, 2022, meeting, the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF), voted to proceed to expand the use of the proportional amortization methods for investments in tax credits beyond low-income housing. The FASB plans to meet in January to consider ratifying the consensus.

You might now be wondering what comes next. In 2021, the FASB issued an invitation to comment on its agenda, and the board issued its final agenda consultation report this summer. The FASB agenda evolved over the course of the year to encompass the agenda consultation feedback received, and we see a definite focus on investor needs. Investor views shaped the addition and, in some cases, deletion of projects from the FASB's agenda. Readers should expect to see agenda consultation projects become proposed accounting standards updates in the coming year.

Environmental, social, and governance topics and crypto assets remain areas of focus for the financial institution regulators, and we keep you up to date on the latest developments.

We hope 2023 finds you well and ready to engage on the topics most impactful to you.

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

Sydney K. Garmong

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Final FASB standards: Recognition and measurement

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 Financial Accounting Standards Board (FASB) is replacing the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The largest impact will be on lenders and the allowance for loan and lease losses (ALLL).

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, 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 required to support the length of the period, but consideration should be given to consistency with other forecasts made or used at the same institution.

- Various methods may be used, including a discounted cash flow approach, loss rate methods, probability-of-default methods, and aging schedules.

AFS debt securities

The final standard also refines the other-than-temporary impairment (OTTI) model for AFS debt securities. Debt securities classified as “available-for-sale” are excluded from the scope of the CECL model and will continue to be within the scope of ASC 320, with the following modifications:

- A valuation allowance instead of a direct write-down of cost will be used for recognizing impairment losses, which will allow an entity to recognize reversals of credit losses.
- An entity is no longer required to consider the length of time that the fair value of an AFS debt security has been less than its amortized cost basis when estimating whether a credit loss exists.
- When estimating whether a credit loss exists, an entity is no longer required to consider recoveries or additional declines in the fair value after the balance sheet date.

In addition, a fair value floor is incorporated into the credit loss model for AFS debt securities such that the credit losses are limited to the difference between the debt security’s amortized cost basis and its fair value.

The guidance about when to recognize impairment for the full difference between amortized cost and fair value is retained and requires an entity to consider whether it intends to sell the security or it more likely than not will be required to sell the security before the recovery of its amortized cost basis. In addition, the requirement to consider the historical or implied volatility is removed and is no longer a factor that must be considered when estimating whether a credit loss exists. However, an entity is not prohibited from considering the volatility.

Purchased credit deteriorated (PCD) assets

The purchased credit impaired (PCI) model is replaced with the PCD model. At acquisition (that is, on day one), the par or principal amount, allowance, and noncredit discount are recorded for all acquired assets with evidence of credit deterioration.

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

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

In addition, the scope is expanded from assets acquired with “significant” credit deterioration under the PCI methodology to those that are acquired with “more than insignificant” credit deterioration under the PCD methodology.

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

Troubled debt restructurings

Credit losses on TDRs should be measured using the CECL methodology – a change from existing GAAP, which limits the measurement techniques for credit losses on TDRs to a discounted cash flow technique, fair value of the collateral, or fair value of the loan. Cost-basis adjustments will not be required, and credit losses – including the concession given to the borrower from a TDR – will be recognized using an allowance account. This allows for reversal upon increases in cash flows. Note that the FASB subsequently amended this guidance with ASU 2022-02.

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

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

- A description and discussion of the factors that influenced management's current estimate of expected credit losses, including reasonable and supportable forecasts about the future
- The method applied to revert to historical credit loss experience for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts
- The policies for writing off uncollectible receivables (which is current GAAP)
- The policies for accounting for nonaccrual financial assets, including policies for placing financial assets on nonaccrual status (which is current GAAP)
- Qualitative disclosures relating to collateralized financial assets (which applies only to collateral-dependent financial assets)
- A roll-forward of the allowance for credit losses, for both financial assets measured at amortized cost (for example, loans held for investment by portfolio segment) and fair value through other comprehensive income (OCI) (for example, AFS debt securities by major security type)
- Vintage disclosure – a disaggregation of the credit-quality indicators for all classes of financing receivables (excluding revolving lines of credit such as credit cards) that are disclosed under current GAAP, by year of the asset's origination (that is, vintage year). With the issuance of ASU 2022-02, gross charge-offs are required as part of the vintage table:
    - The disaggregation year is limited to no more than five annual reporting periods, with the balance for financing receivables originated before the fifth annual reporting period shown in aggregate.
    - For an interim reporting period, the year-to-date originations of the current annual reporting period would be considered to be current-period originations.
    - For the purpose of determining the vintage year for disaggregated credit-quality disclosures, an entity uses the guidance for determining a new loan resulting from loan refinancing or restructurings in current GAAP.
    - Certain entities are offered relief for the vintage disclosure:
        - For public business entities (PBEs) that are not Securities and Exchange Commission (SEC) filers (as discussed under "Effective dates"), a practical expedient in transition is available to disclose only three years of the required vintage information in the year of adoption and four years in the year after adoption. In years thereafter, these entities must comply with the full five-year disclosure requirement.
        - For entities that are not PBEs, the vintage disclosure is optional.

Transition
- For debt securities with OTTI, the guidance 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 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.

Clarifications: TRG meetings and related standard-setting

The FASB formed a Transition Resource Group (TRG) for Credit Losses to assist the staff with transition and implementation issues. The TRG for Credit Losses met four times prior to the first round of adopters – April 1, 2016; June 12, 2017; June 11, 2018; and Nov. 1, 2018 – to discuss implementation issues. The TRG's memos and meeting agendas are available on its meetings page.

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

The changes include:

- Topic 1: Codification improvements resulting from the June 11, 2018, and Nov. 1, 2018, Credit Losses TRG meetings
  - Issue 1A: Accrued interest
    - Measure the allowance on accrued interest receivable (AIR) balances separately from other components of the amortized cost basis and of associated financial assets.
    - Make an accounting policy election to present AIR and the related allowance from the associated financial assets and net investments in leases on the balance sheet. If the AIR and related allowance are not presented as a separate line item on the balance sheet, an entity would disclose the AIR and related allowance for credit losses and where the balance is presented.
    - Elect a practical expedient to separately disclose the total amount of AIR included in the amortized cost basis as a single balance for certain disclosure requirements.
    - Make an accounting policy election to write off AIR by either reversing interest income or adjusting the allowance for credit losses.
    - Make an accounting policy election not to measure an allowance on AIR if an entity writes off the uncollectible accrued interest receivable balance in a timely manner.

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  - Issue 1B: Transfers between classifications or categories for loans and debt securities
    - Reverse into earnings any allowance for credit losses or valuation allowance previously measured on a loan or debt security, transfer the loan or debt security to the new classification or category, and apply the applicable measurement guidance in accordance with the new classification or category.
  - Issue 1C: Recoveries
    - Include recoveries when estimating the allowance.
    - Recoverable amounts included in the allowance should not exceed the aggregate of amounts previously written off and expected to be written off. For collateral-dependent financial assets, an allowance that is added to the amortized cost basis should not exceed amounts previously written off.

- Topic 2: Codification improvements to ASU 2016-13
  - Issue 2A: Conforming amendment to Subtopic 310-40, "Receivables – Troubled Debt Restructurings by Creditors" – corrects a cross-reference such that an entity is required to use the fair value of collateral when foreclosure is probable.
  - Issue 2B: Conforming amendment to Subtopic 323-10, "Investments – Equity Method and Joint Ventures (Topic 323)" – clarifies the equity method losses allocation guidance Subtopic 323-10 by adding cross-references to Subtopics 326-20 and 326-30 for subsequent accounting when the investor has other investments, such as loans and debt securities, in the equity method investee.
  - Issue 2C: Clarification that reinsurance recoverables are within the scope of Subtopic 326-20 – clarifies the board's intent to include all reinsurance recoverables in the scope.
  - Issue 2D: Projections of interest-rate environments for variable-rate financial instruments – clarifies the board's intent to provide flexibility by removing the prohibition of using projections of future interest-rate environments when using a discounted cash flow method to measure expected credit losses on variable-rate financial instruments. An entity should use the same projections or expectations of future interest-rate environments both in estimating expected cash flows and in determining the effective interest rate (EIR) used to discount those expected cash flows.
  - 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.

Negative allowances for PCD assets and other clarifications
On Nov. 26, 2019, the FASB issued ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses," to permit entities to recognize expected recoveries (negative allowances) of previously written-off or expected-to-be-written-off PCD assets. However, recoveries or expected

recoveries of the unamortized noncredit discount or premium are not included in the allowance for credit losses. The ASU retains existing guidance that prohibits entities from recognizing a negative allowance on available-for-sale debt securities.

Other technical improvements include:

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

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

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

For entities that have adopted ASU 2016-13, the amendments are effective for fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years. For entities that have not adopted ASU 2016-13, the effective dates for the amendments are the same as the effective dates in ASU 2016-13. Early adoption is permitted if ASU 2016-13 has been adopted, including adoption in an interim period, and the amendments can be early adopted by topic. If an entity elects to adopt the amendments in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes the interim period.

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

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

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.

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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.

AICPA audit and accounting guide on credit losses

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

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

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

Those accounting issues are included in Chapter 4 as follows:

- Scope exception for loans and receivables between entities under common control
- Scope of purchased financial assets with credit deterioration guidance for beneficial interests within FASB ASC 325-40
- Application of FASB ASC 325-40 for trading securities
- Refinancing and loan prepayments
- Measurement inputs for short-term arrangements
- Discounting inputs using a method other than a discounted cash flow method
- Reasonable and supportable forecast – developing the period and use of historical information
- Reversion method: Estimation versus accounting policy
- Determining the life of a credit card receivable
- Zero expected credit losses
- Accounting for troubled debt restructurings
- Capitalized interest
- Gains and losses on subsequent disposition of leased assets

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- Accounting for changes in foreign exchange rates
- Inclusion of future advances of taxes and insurance payments
- Considerations related to FASB ASC 326 for insurance-entity-specific balances
- Transition guidance for pools of financial assets
- Application of subsequent events

Discussions about CECL at the AICPA 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. 12-14, 2022, CECL was a focal point. Crowe has issued a comprehensive report covering key takeaways from the conference and insights on economic, accounting, and regulatory updates as well as other banking hot topics.

FASB staff Q&As

Staff Q&A document: WARM method
On Jan. 10, 2019, the FASB staff released a question-and-answer document, "Topic 326, No. 1, Whether the Weighted-Average Remaining Maturity Method Is an Acceptable Method to Estimate Expected Credit Losses," to address questions 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.

Post-implementation review

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

This was the first in a series of discussions as part of the FASB's PIR on the CECL standard and focused on trade receivables. Specifically, members noted that the adoption had an insignificant financial impact on the allowance for credit losses related to trade receivables. Given the minimal impact, FASAC members discussed whether the standard should be amended to either exclude trade receivables or provide an option to not apply the guidance to trade receivables. It was also noted that

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that there might be a benefit for private companies applying the standard to trade receivables as it might provide more standardization in how entities calculate their trade receivables allowance for credit losses.

At its board meeting on Dec. 2, 2020, the FASB discussed feedback received on the post-issuance date implementation monitoring and post-effective date evaluation of costs and benefits. The board identified and discussed four issues for which it could consider making certain targeted improvements:

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

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

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

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

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

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.

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.

<u>Lessee lease classification</u>

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

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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 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.

<u>Lessor lease classification</u>

Lease type	Direct-finance or sales-type lease	Operating lease
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).

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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 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

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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.

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.

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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. 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

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- 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
- 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."

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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.

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

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- **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 culture, involvement of key stakeholders, accounting policies and judgments, and systems and controls
- **Other implementation considerations**, such as transition methods and disclosure requirements

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.

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.

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

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

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

Hedge accounting: Portfolio layer method

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

- Maintain basis adjustments in an existing hedge on a closed portfolio basis (that is, not allocated to individual assets)
- Immediately recognize and present the basis adjustment associated with the amount of the dedesignated layer that was breached in interest income
- Disclose the breach amount and circumstances that led to the breach
- Disclose the total amount of the basis adjustments in existing hedges as a reconciling amount if other areas of GAAP require the disaggregated disclosure of the amortized cost basis of assets included in the closed portfolio

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

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

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 for transition

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

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.

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).

Deferral of sunset date

On April 20, 2022, the FASB issued a proposed ASU, "Reference Rate Reform (Topic 848) and Derivatives and Hedging (Topic 815): Deferral of the Sunset Date of Topic 848 and Amendments to the Definition of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate." The proposed ASU would extend the period of time preparers can use the reference rate reform relief guidance under ASC Topic 848 from Dec. 31, 2022, to Dec. 31, 2024, to address the fact that all LIBOR tenors were not discontinued as of Dec. 31, 2021, and some tenors will be published until June 2023. The ASU also would amend the FASB Master Glossary to include a new definition of an accepted benchmark rate for the Secured Overnight Financing Rate, using term considerations. This also would flow into the language in ASC 815, "Derivatives and Hedging." Comments were due June 6, 2022.

At its Oct. 5, 2022, board meeting, the FASB discussed it's project on reference rate reform – fair value hedging, as well as related staff research that has taken place since the December 2021 board meeting. Several alternatives were considered, including principles-based approaches for adding new benchmark rates to the Master Glossary. Ultimately, the FASB elected to remove this project from its technical agenda and revisit at a later date, citing a desire to reconsider the issue when market transition with certain reference rates is more mature to permit a more robust decision on a principles-based approach. The FASB also voted in favor of a moratorium on adding new benchmarks to the Master Glossary's existing list, in conjunction with this decision.

Next the FASB redeliberated a proposed ASU, "Reference Rate Reform (Topic 848) and Derivatives and Hedging (Topic 815): Deferral of the Sunset Date of Topic 848 and Amendments to the Definition of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate," which defers the sunset date of relief provisions within Topic 848 from Dec. 31, 2022, to Dec. 31, 2024. The board approved the extension.

Based on the moratorium action on the reference rate reform – fair value project, the board elected to not amend the definition of the SOFR overnight index swap rate within the Master Glossary. The proposed change would have had the effect of adding term SOFR as a benchmark interest rate. The FASB noted that while the board is observing the market transition for reference rates, it still is possible for entities to use hedge accounting without the proposed benchmark amendments.

While momentum has been developing in the derivative markets for the use of term SOFRs, without this addition, entities should be mindful of how term SOFR derivatives are used in hedge accounting including transition off LIBOR. For example, a term SOFR derivative could be used in a cash flow hedge of an instrument with the same contractually specified term SOFR without resulting in a mismatch. In contrast, to avoid a mismatch, hedges of benchmark rates (as might be designated in a fair value hedge or a cash flow hedge of rolling fixed rate debt) need to use a derivative tied to a benchmark rate such as SOFR Overnight Index Swap Rate or Fed Funds Effective Rate Overnight Index Swap Rate. Using term SOFR in a benchmark interest-rate hedge would result in a mismatch that would require the use of a more robust effectiveness assessment method such as regression analysis.

The final ASU is expected to be issued by Dec. 31, 2022.

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Business combinations

Acquired revenue contracts in a business combination

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

Effective dates and transition

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

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

Goodwill impairment

On Jan. 26, 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." What started as a recommendation by the PCC to permit private entities to amortize goodwill has resulted in a standard to simplify goodwill impairment testing for all entities that have goodwill reported in their financial statements, by eliminating the second step in the current goodwill impairment test.

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

The FASB also removed the requirements that reporting units with zero or negative carrying amounts perform a qualitative assessment, and if they fail that qualitative test, to perform step two. As such, the 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.

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

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

Transition
Prospective application is required.

Liabilities and equity

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

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

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

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.

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

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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.

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.

Premium amortization on callable debt securities

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:

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Issue 1 – Clarifies that all entities (not just PBEs) are required to provide fair value option disclosures
Issue 2 – Clarifies the applicability of the portfolio exception in measuring fair value for nonfinancial items accounted for as derivatives
Issue 3 – Clarifies that disclosure requirements in Topic 320 apply to disclosure requirements in Topic 942 for depository and lending institutions
Issue 4 – Adds cross-reference of line-of-credit or revolving-debt arrangements guidance to guidance in accounting for fees between debtor and creditor and third-party costs directly related to exchanges or modifications of debt instruments
Issue 5 – Clarifies that fair value measurement disclosure requirements do not apply to entities using the net asset value per share practical expedient
Issue 6 – Aligns the contractual term to measure expected credit losses for a net investment in a lease under the credit loss standard (Topic 326) with the lease term determined under the leases standard (Topic 842)
Issue 7 – Clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded in accordance with Topic 326

The changes clarify the ASC or correct unintended application of guidance. The changes are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.

Effective dates and transition
For issues 1, 2, 4, and 5, the amendments are effective for PBEs upon issuance of this update. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2019, and interim periods within those fiscal years beginning after Dec. 15, 2020. Early application is permitted.

For issue 3, the amendments to ASU 2016-01 are effective for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.

For issues 6 and 7, the amendments to ASU 2016-13 are effective for PBEs that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC, for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years. ASU 2016-13 is effective for all other entities for fiscal years beginning after Dec. 15, 2022, including interim periods within those fiscal years. Early application is permitted. For entities that have not yet adopted ASU 2016-13, the effective dates and transition requirements for these amendments are the same as the effective date and transition requirements of ASU 2016-13. For entities that have adopted ASU 2016-13, the amendments are effective for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.

Final FASB standards: 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:

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- 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.

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

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.

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In the FASB pipeline: Recognition and measurement

Investments in tax credits

On Aug. 22, 2022, the FASB issued a proposed ASU, "Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method," that would expand the eligibility of the proportional amortization method of accounting to equity investments in tax credits beyond those generated by low-income-housing tax credit programs. The proposal would allow entities to elect the proportional amortization method, on a tax-credit-program-by-tax-credit-program basis, for all equity investments in tax credits that meet the eligibility criteria in ASC 323-740-25-1. Comments were due Oct. 6, 2022.

On Dec. 1, 2022, the EITF reached a final consensus to expand use of the proportional amortization method of accounting to equity investments in tax credit programs beyond those in low-income-housing tax credit (LIHTC) programs. The final consensus allows entities to elect the proportional amortization method, on a tax-credit-program-by-tax-credit-program basis, for all equity investments in tax credit programs meeting the eligibility criteria in ASC 323-740-25-1.

While the final consensus does not significantly alter the eligibility criteria, it does provide clarifications to address existing interpretive issues. It also prescribes specific information reporting entities must disclose about tax credit investments each period.

The final consensus is effective for reporting periods beginning after Dec. 15, 2023, for public business entities. All other entities will have an extra year to adopt. Early adoption is permitted. Entities will have the option of applying the forthcoming revisions using either a modified retrospective or retrospective adoption approach.

In January 2023, the FASB will meet to consider ratifying the EITF's consensus. Upon ratification, the FASB then would proceed with issuing a final ASU.

For more information on the consensus, see the Crowe article, "EITF Consensus Improves Accounting for Income Tax Credits."

Crypto assets

At its board meeting on Aug. 31, 2022, the FASB discussed accounting for and disclosure of crypto assets, agenda prioritization, and an update on its research agenda. The board decided that to be included in the scope of the project, crypto assets that are held by an entity must meet the following criteria:

1. "Meet the definition of intangible asset as defined in the Codification Master Glossary
2. "Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
3. "Are created or reside on a distributed ledger or 'blockchain'
4. "Are secured through cryptography
5. "Are fungible"

The board also decided that all entities would be within the scope of the project and that it would consider the applicability of its decisions to those entities. In addition, the board determined that potential measurement alternatives for crypto assets would be considered at a future meeting.

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At its board meeting on Oct. 12, 2022, the FASB decided to require an entity to:

1. "Measure crypto assets at fair value, using the guidance in Topic 820, Fair Value Measurement.
2. "Recognize increases and decreases in fair value in comprehensive income each reporting period.
3. "Recognize certain costs incurred to acquire crypto assets, such as commissions, as an expense (unless the entity follows specialized industry measurement guidance that requires otherwise)."

The board also decided not to consider measurement alternatives for crypto assets with inactive markets and not to provide additional application of fair value measurement guidance. The board decided that the recognition and measurement requirements should be the same for all entities.

Hedge accounting

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

The proposed ASU provides clarifications to guidance on:

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

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

Comments were due Jan. 13, 2020.

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

In the FASB pipeline: Presentation and disclosure

Segment reporting

On Oct. 6, 2022, the FASB issued a proposed ASU, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures," which would require public entities to disclose more information about a reportable segment's significant expenses. Significant expense categories and amounts subject to disclosure would be derived from expenses that are 1) regularly reported to an entity's chief operating decision-maker (CODM) and 2) included in a segment's reported measure of profit or loss. The proposal, however, does not establish a level for assessing the significance of each expense category in that population of expenses.

Public entities also would be required to disclose an amount for "other segment items," representing the difference between 1) segment revenue less significant segment expenses and 2) the reportable segment's profit or loss measure. A description of the composition of the "other segment items" would be required.

The proposal would require public entities to provide at each interim period certain segment-related disclosures that are now required only on an annual basis. Public entities also would be required to disclose the name and title of the CODM. The proposed changes to the segment reporting guidance would apply retrospectively.

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Comments are due Dec. 20, 2022.

For more information, see the Crowe article "FASB Proposes Changing Segment Reporting Requirements."

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."

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. The ASU has yet to be issued.

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.

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Comments were due Jan. 31, 2022.

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

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.

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.

At its May 11, 2022, meeting, the board discussed the potential disclosure improvements to income taxes paid and the rate reconciliation and directed the staff to further explore, through outreach and research, approaches to 1) disaggregate income taxes paid by jurisdictions and 2) require disclosure of individual reconciling items in the rate reconciliation on the basis of a quantitative threshold and specific categories of reconciling items, such as the foreign tax rate differential by jurisdictions. No decisions were made at this meeting.

FASB technical agenda changes

Identifiable intangible assets and subsequent accounting for goodwill

Over the years, the FASB has made various improvements to the accounting for intangibles, including goodwill. At its Oct. 24, 2018, meeting, the board decided to add broad project on goodwill.

On July 9, 2019, the FASB issued an Invitation to Comment to seek stakeholder input on the accounting for certain identifiable intangible assets acquired in a business combination and subsequent accounting for goodwill. The FASB also held a public roundtable discussion on Nov. 15, 2019, to gather views on its ITC.

Over the following years, the board met several times and seemed to be proceeding toward a proposal to amortize goodwill for all entities.

At its June 15, 2022, board meeting, the FASB decided to deprioritize the identifiable assets and subsequent accounting for goodwill project and remove the project from its technical agenda.

Agenda consultation

The FASB on June 29, 2022, published its "2021 FASB Agenda Consultation Report," which summarizes the extensive stakeholder feedback obtained during the 2021 agenda consultation project and details how the feedback influenced the FASB's technical and research agendas and standard-setting process.

The feedback received resulted in the following:

- Redefining the scope and direction of existing technical agenda projects
- Adding new projects to the technical agenda
- Adding new projects to the research agenda
- Defining the path forward for the technical agenda
- Providing information about other potential projects

The report addresses each of these areas. Based on the input from stakeholders, the FASB added to the technical agenda projects related to accounting for and disclosures of digital assets, accounting for environmental credit programs, and accounting for and disclosure of software costs. New research projects added relate to accounting for exchange-traded commodities; accounting for financial instruments with environmental, social, and governance (ESG) features; hedge accounting; accounting for government grants; consolidation of business entities; financial key performance indicators; and statement of cash flows.

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.

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From the federal financial institution regulators and other stakeholders

The Federal Reserve (Fed) on Sept. 29, 2022, announced that six of the nation's largest banks will participate in a pilot climate scenario analysis exercise designed to enhance the ability of supervisors and firms to measure and manage climate-related financial risks. The exercise will begin in early 2023 and conclude near the end of the year.

Over the course of the exercise, participating banks will analyze the effects of different climate scenarios on specific portfolios and business strategies, according to the Fed. The climate scenario analysis will be separate from other required bank stress tests, which are designed to assess whether large banks have enough capital to continue lending to households and businesses during a financial crisis. The Fed indicated that the climate stress-testing exercises are exploratory in nature and will not have capital consequences.

The Fed will publish additional details at the beginning of the exercise about how the exercise will be conducted and the climate, economic, and financial variables that make up the scenario narratives.

The federal financial institution regulators and other stakeholders (for example, the Financial Stability Board (FSB) and the Financial Stability Oversight Council (FSOC)) took steps during 2021 to address ESG matters, including climate risk. The Office of the Comptroller of the Currency (OCC), on Dec. 16, 2021, issued a set of draft principles designed to support the identification and management of climate-related financial risks at OCC-regulated institutions with more than $100 billion in total consolidated assets. Comments were due Feb. 14, 2022. During 2022, the Basel Committee on Banking Supervision, on June 15, 2022, issued a final set of principles on the effective management and supervision of climate-related financial risks by large, globally active banks.

ESG topics also arose in multiple panel discussions, including panels of regulators, preparers, and standard-setters, at the AICPA & CIMA National Conference on Banks and Savings Institutions held Sept. 12-14, 2022.

From the federal financial institution regulators

Credit losses

Fed’s second CECL tool

On June 16, 2022, the Fed released a second CECL tool to assist a broad range of community financial institutions with calculating their allowances under the CECL accounting standard. The Expected Loss Estimator (ELE) is a spreadsheet-based tool using the weighted-average remaining maturity (WARM) method. The ELE uses each institution’s own loan-level data and assumptions to calculate the allowance estimate. The Fed has noted that the ELE is intended for institutions that have determined the WARM method is an appropriate method to use, while reminding institutions that management is responsible for ensuring that methods used in the loss estimation process are appropriate for the financial institution’s size, complexity, and risk profile.

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OCC's Bank Accounting Advisory Series

On Aug. 15, 2022, 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 updates to clarify the application of FASB accounting standards on topics including the amortization of premiums on debt securities with a call option over a preset period and lessors' classification of certain leases with variable lease payments. This BAAS release does not include questions and answers related to ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures," which was issued on March 31, 2022.

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

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Key abbreviations and acronyms

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	Department of Veterans Affairs
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 With Variable Lease Payments (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, 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.	**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	**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**

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

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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. **ASU 2022-02** – Targeted amendments specific to troubled debt restructurings (TDRs) by creditors and vintage disclosure related to gross write-offs. An entity is required to apply the loan and refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan, rather than applying the recognition and measurement guidance for TDRs. Requires public business entities to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within scope of Subtopic 326-20.	**For ASU 2022-02, March 31, 2023, for entities that have adopted ASU 2016-13; otherwise, effective dates the same as ASU 2016-13**	
Convertible Instruments and Contracts in an Entity's Own Equity **(ASU 2020-06)** 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**
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,	**March 31, 2022**	**Permitted**

"Accounting for Government Grants and Disclosure of Government Assistance."		
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**
Portfolio Layer Method of Hedge Accounting (ASU 2022-01) Expands the scope of assets eligible for portfolio layer method hedging to include all financial assets. The amendments remove the requirement that all assets in the closed portfolio have a contractual maturity date on or after the earliest-ending hedge period. The amendments require an entity to maintain fair value hedge basis adjustments at the closed portfolio level for a currently designated hedge and prohibits an entity from considering portfolio layer method fair value hedge basis adjustments on a currently designated hedge in its determination of credit losses. When a breach occurs (that is, the aggregate amount of the hedged layers currently exceeds the amount of the closed portfolio), an entity is required to present the fair value hedge basis adjustments with a breach in interest income and disclose the amount along with the circumstances that led to the breach.	**March 31, 2023**	**Permitted, including in an interim period when amendments in ASU 2017-12 have been adopted**
Equity Securities Subject to Contractual Sale Restrictions (ASU 2022-03) **Clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Clarifies that an entity cannot recognize and measure a contractual sale restriction as a separate unit of account. The amendments include various disclosure requirements.**	**March 31, 2024**	**Permitted, including in an interim period**

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

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
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**
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	**Dec. 31, 2022**	**Permitted**

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

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 entity-wide 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.		
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**

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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."	**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. **ASU 2022-02** – Targeted amendments specific to troubled debt restructurings (TDRs) by creditors and vintage disclosure related to gross write-offs. An entity is required to apply the loan and refinancing and restructuring guidance to determine whether a modification results in a	**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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new loan or a continuation of an existing loan, rather than applying the recognition and measurement guidance for TDRs		
Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06) 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**
Portfolio Layer Method of Hedge Accounting (ASU 2022-01) Expands the scope of assets eligible for portfolio layer method hedging to include all financial assets. The amendments remove the requirement that all assets in the closed portfolio have a contractual maturity date on or after the earliest-ending hedge period. The amendments require an entity to maintain fair value hedge basis adjustments at the closed portfolio level for a currently designated hedge and prohibits an entity from considering portfolio layer method fair value hedge basis adjustments on a currently designated hedge in its determination of credit losses. When a breach occurs (that is, the aggregate amount of the hedged layers currently exceeds the amount of the closed portfolio), an entity is required to present the fair value hedge basis adjustments with a breach in interest income and disclose the amount along with the circumstances that led to the breach.	**Dec. 31, 2024**	**Permitted, including in an interim period when amendments in ASU 2017-12 have been adopted**
Equity Securities Subject to Contractual Sale Restrictions (ASU 2022-03) Clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Clarifies that an entity cannot recognize and measure a contractual sale restriction as a separate unit of account. The amendments include various disclosure requirements.	**Dec. 31, 2025**	**Permitted, including in an interim period**

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