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July 2021

Keeping you informed

Second quarter accounting and financial reporting developments

Contents

Message from Sydney Garmong, Partner, National Office

Dear readers,

The FASB continues to work on its technical agenda, including the post-implementation review of its major standards on revenue recognition, leasing, and credit losses. We continue to see a great deal of interest in environmental, social, and governance (ESG) as well as climate change disclosures. The past quarter garnered more attention from the SEC, investors, and other stakeholders from around the world.

We hope you find this report useful, and we welcome any feedback.

Second quarter highlights

During the second quarter of the 2021 calendar year, the Financial Accounting Standards Board (FASB) issued one new accounting standard on modifications or exchanges of freestanding equity-classified written call options.

The FASB also issued proposals during the quarter addressing the following:

- Improvements to hedge accounting guidance
- Discount rate for lessees that are not public business entities

The Securities and Exchange Commission (SEC) released a risk alert on environmental, social, and governance (ESG) investing; provided statements on the alert; provided remarks on ESG reporting; discussed materiality and costs related to ESG disclosures; discussed the London Interbank Offered Rate (LIBOR); addressed special purpose acquisition companies (SPACs); updated guidance on conducting shareholder meetings; reopened the comment period on the universal proxy rule; issued a directive related to proxy voting rules; and updated its regulatory agenda.

The Public Company Accounting Oversight Board (PCAOB) approved the formation of a new standards advisory group and issued documents addressing the staff's outlook on and audit committee resources for 2021 inspections.

The American Institute of Certified Public Accountants (AICPA) issued working drafts on illustrative financial statements for construction contractors and on accounting issues for insurance entitites. The AICPA also updated guidance for healthcare entities.

The Center for Audit Quality (CAQ) published an analysis of ESG reporting, a report on effective governance over ESG reporting, a SPACs alert, and a report on the effectiveness of management review controls.

In addition to these highlights from the quarter, we have included recent developments from the Governmental Accounting Standards Board (GASB).

Checklists for the effective dates of FASB Accounting Standards Updates (ASUs) and GASB statements are provided in the appendix.

From the FASB

Final standards

Modifications or exchanges of freestanding equity-classified written call options

On May 3, 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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," to clarify an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. Based on this ASU, an entity must treat a modification of the terms or conditions of an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as an exchange of the original instrument for a new instrument. The amendments provide guidance on how an entity should measure the effect of the modification or exchange distinguishing between transactions to issue or modify debt and transactions to issue equity or for other reasons. The amendments provide recognition guidance for the effect of the modifications or exchanges based on the substance of the transaction, in the same manner as if cash had been paid as consideration. In a modification that includes both debt financing and equity financing (referred to as a multiple-element transaction), the total effect of the modification should be allocated to the respective elements in the transaction.

Effective dates

For all entities, the amendments are effective for fiscal years beginning after Dec. 15, 2021, including interim periods within those fiscal years. Early adoption is permitted. The amendments should be applied prospectively to modifications or exchanges occurring on or after the effective date of the amendments.

Proposals

Improvements to hedge accounting guidance

On May 5, 2021, the FASB issued a proposed ASU, "Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method," to assist entities that elect to apply the portfolio layer method (currently referred to as the last-of-layer method) of hedge accounting in accordance with Topic 815. The proposed amendments expand the current single-layer model to allow multiple-layer hedges of a single closed portfolio of prepayable financial assets or one or more beneficial interests secured by a portfolio of prepayable financial instruments. The proposal would result in changing the name of the "last-of-layer" method to the "portfolio layer" method. The proposed amendments specify that eligible hedging instruments in a single-layer strategy may include spot-starting or forward-starting constant-notional swaps, or spot- or forward-starting amortizing-notional swaps and that the number of hedged layers (single or multiple) corresponds with the number of hedges designated.

The proposal provides additional guidance on accounting for and disclosure of fair value hedge basis adjustments that would be applicable to both the current single-layer model and the proposed multiple-layer model. The proposal also indicates how fair value hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio.

The proposed ASU does not yet include an effective date.

Comments were due on July 5, 2021.

Discount rate for lessees that are not PBEs

On June 16, 2021, the FASB issued a proposed ASU, "Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities," to provide entities that are not public business entities (PBEs) with more flexibility in how they determine the discount rate and make the risk-free rate election to reduce initial adoption and ongoing implementation costs associated with adopting the new leasing standard. Currently, Topic 842 provides lessees that are not PBEs with a practical expedient that allows them to elect an accounting policy to use a risk-free rate as the discount rate for all leases. The proposed amendments would 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 would be required to disclose to which asset classes it has elected to apply the risk-free rate. Under the proposed amendments, 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 proposed ASU would be effective at the same time that they adopt Topic 842. For entities that already have adopted Topic 842, the proposed amendments would be effective for fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022. Early adoption would be permitted.

Comments were due July 16, 2021.

From the SEC

Environmental, social, and governance (ESG) focus

Risk alert on ESG investing

The SEC Division of Examinations released, on April 9, 2021, a risk alert, "The Division of Examinations' Review of ESG Investing," detailing observations from recent exams of investment advisers, registered investment companies, and private funds offering ESG products and services. The alert is intended to highlight risk areas and assist firms in developing and enhancing their compliance practices. The alert notes that entities approach ESG investing in various ways. It details observations of deficiencies and internal control weaknesses related to ESG investing from the examinations and provides observations of effective practices. The alert also says that firms should present disclosures that are clear, precise, and tailored to firms' specific approaches to ESG investing and that align with the firms' actual practices.

Statement on ESG risk alert

SEC Commissioner Hester M. Peirce issued, on April 12, 2021, a statement following the release of the staff ESG risk alert on April 9. Peirce says, "Firms claiming to be conducting ESG investing need to explain to investors what they mean by ESG and they need to do what they say they are doing." She says that the risk alert requires some context and should not be interpreted as a sign that ESG investment strategies are a unique consideration for examiners. As with any other investment strategy, the SEC examiners will be looking for consistency between claims and practices, not assessing whether a firm's strategy is a good one and not attempting to insert the SEC's own views in the investment advisory process.

In addition, Peirce notes that the risk alert should be considered with the SEC's two recent proxy voting interpretive releases, and she clarifies that firms do not need a special set of policies and procedures for ESG or for any investment strategy. Firms' policies and procedures should be designed around the investment strategies the firm uses, and the risk alert does not create new obligations for registrants. Peirce says that the staff's role is to understand whether firms are adhering to their own ESG claims.

Peirce concludes that while the risk alert raises questions, she hopes that it will be a useful tool for sellers of ESG products and services and that it will help protect buyers.

Remarks on ESG reporting

On April 28, 2021, SEC Commissioner Peirce provided remarks before the International Swaps and Derivatives Association Derivatives Trading Forum on Regulatory Change. Peirce spoke about the enhanced focus on ESG reporting among other topics.

Peirce warned the audience that it must learn from the London Interbank Offered Rate (LIBOR) situation before rushing into the ESG space. She said that LIBOR lacked precision and that many are diving right into adopting ESG measures that portray an impression of precision but may not be as precise with such varying approaches. She noted that it is very difficult to measure how green a particular investment, issuer, or transaction is, and numerous factors need to be considered when making capital decisions. She further stressed caution and the need to proceed with care as ESG strategies are implemented, as there is a responsibility to shareholders and customers not to embrace approaches that will harm the capital markets, the financial system, or the planet..

Testimony on ESG guidance

While testifying on market volatility before the House Committee on Financial Services on May 6, 2021, SEC Chair Gary Gensler was questioned about the increased focus on climate-related disclosures and updates to climate disclosure guidance. In response, Gensler said that the staff has been asked to prepare recommendations based on public input about what climate-related disclosures and climate risk areas are important to investors to help bring consistency and comparability to such disclosures.

Determinations about guidance will be made through those recommendations; economic analysis; information gathered by the ESG task force; and other critical input from the public, including responses to the request for public comment on climate change disclosures issued by former acting Chair Allison Herren Lee. Comments on that request were due in June 2021. Based on analysis of the information gathered, the SEC will prepare a proposal for public comment.

ESG disclosure materiality misconceptions

On May 24, 2021, SEC Commissioner Lee presented keynote remarks at the 2021 ESG Disclosure Priorities Event hosted by the American Institute of CPAs, the Chartered Institute of Management Accountants, the Sustainability Accounting Standards Board, and the Center for Audit Quality. Her remarks concentrated on the misconceptions about materiality specifically related to ESG and required disclosures.

She explained that materiality is a fundamental proposition in the securities laws and in the capital markets and disclosure is focused on providing information that is important to reasonable investors. Lee identified four misconceptions about materiality specifically related to ESG:

- **"Myth #1: ESG matters (indeed all matters) material to investors are already required to be disclosed under the securities laws."** Lee said that without a specific requirement to disclose, the existence of material or important information by itself does not mandate its disclosure. She also noted that current securities laws do not include much regarding specific ESG disclosure requirements.
- **"Myth #2: Where there is a duty to disclose climate and ESG matters, we can rest assured that such disclosures are being made."** To this point, Lee shared that determinations about what is material are judgment calls that might differ for all parties involved and disclosures might not include all information considered material to reasonable investors.
- **"Myth #3: SEC disclosure requirements must be strictly limited to material information."** According to Lee, this is not what the law requires and not how the SEC approaches rules about disclosures.
- **"Myth #4: Climate and ESG are matters of social or 'political' concern, and not material to investment or voting decisions."** Lee pointed out that the SEC is seeing increased interest from market participants in ESG factors as significant drivers of decision-making, risk assessment, and capital allocation.

Lee closed with a warning not to believe these misconceptions. She shared her hope that the misconceptions can be overcome as the deliberations continue on how best to craft a rule proposal on climate and ESG risks and opportunities.

Potential costs of ESG disclosures

On June 3, 2021, before the Environmental, Social, and Governance Board Forum, SEC Commissioner Elad L. Roisman spoke on ESG disclosures and the potential costs of requiring specific disclosures. He shared reservations regarding the SEC issuing ESG disclosure requirements because it would be difficult to standardize such requirements to provide meaningful and not misleading information. He then raised several questions that the SEC would need to address when crafting new rules over ESG disclosures and ways to mitigate costs and difficulties of new requirements.

Roisman first identified the importance of minimizing costs and burdens related to understanding what investors want. He warned of the foreseeable costs not only of obtaining and presenting new information but also of increased liability related to such new disclosures. Roisman stated that if the costs are foreseeable, they can be addressed beforehand as the new rules are developed.

Roisman then offered ways to tailor ESG disclosure requirements, including:

- Scaling the disclosures for public issuers based on size
- Providing flexibility in sources and methodologies
- Considering safe harbors for companies that are making an earnest effort to provide this new information
- Considering having the disclosure information furnished to instead of filed with the SEC
- Extending the implementation period and having a phased-in approach

In closing, Roisman said, "any new ESG disclosure rules will inevitably come with costs. Especially since such disclosure would involve information that is based on uncertain underlying assumptions, or is difficult to calculate, the Commission should be particularly careful to ensure that (1) investors understand the limitations of the information disclosed and (2) companies can actually provide such information without incurring undue costs and burdens."

Climate and ESG resource page

The SEC has created a new page addressing the SEC's response to climate and ESG risks and opportunities. The page brings together all of the recent climate- and ESG-related actions in one location.

Public statements and announcements

Executive trading plans

On June 7, 2021, SEC Chair Gensler announced he had directed the staff to recommend changes to Exchange Act 10b5-1, which provides affirmative defenses for corporate insiders and companies themselves to buy and sell stock when trading plans are adopted in good faith (that is, before insiders or the company become aware of material nonpublic information).

Remarks on LIBOR

SEC Chair Gensler discussed LIBOR transition in his June 11, 2021, remarks to the Financial Stability Oversight Council (FSOC). He encouraged the FSOC to consider his concerns regarding the robustness of the Bloomberg Short-Term Bank Yield Index (BSBY), which is a rate that "a number of commercial banks are advocating as a replacement for LIBOR." He remarked that he believes BSBY has many of the same flaws as LIBOR and cautioned against the pitfalls of allowing BSBY as a replacement rate. As an alternative, Gensler supports as a preferable alternative to LIBOR the Secured Overnight Financing Rate (SOFR), which is based on a nearly trillion-dollar market.

Remarks on regulatory change and LIBOR

On April 28, 2021, SEC Commissioner Peirce provided remarks before the International Swaps and Derivatives Association Derivatives Trading Forum on Regulatory Change. Among other topics, Peirce spoke about upcoming changes related to the discontinued use of the LIBOR.

Peirce shared her thoughts on the importance of embracing changes and warns of consequences of not addressing changes. As LIBOR is set to be discontinued, Peirce, referencing others' statements, warns that LIBOR discontinuation "could have a significant impact on the municipal securities market and may present a material risk for many issuers of municipal securities and other obligated persons." She said that trillions of dollars of contracts still reference LIBOR, that many of these contracts lack fallback language, and that changing to alternative reference rates creates a diverse mix of significant challenges. She noted that the SEC is continuing to closely follow developments in this area and is working with other regulators and entities to help ensure steps are being taken to address this challenge. She mentioned the SEC risk alert covering LIBOR transition readiness and the work that the SEC, in conjunction with other regulators, has been doing to address the transition from LIBOR. Peirce also discussed proposed legislation that would insert a fallback into contracts that do not include one, and the concern that such legislation would override private contracts.

Special purpose acquisition companies

On April 8, 2021, acting Director of the Division of Corporation Finance (Corp Fin) John Coates released a statement discussing special purpose acquisition companies (SPACs), initial public offerings (IPOs), and liability risk under the securities laws. According to the statement, over the past six months, a significant increase in the use and popularity of SPACs has raised concerns and has increased the scrutiny of these transactions as they continue to evolve.

Coates says that SEC staff members are looking carefully at SPAC filings and disclosures and their private targets and are providing guidance so that the public can make informed investment and voting decisions about these transactions. The statement also describes basics of a typical SPAC and notes some of the complexities of the transactions. SPACs might offer private companies an alternative pathway to go public and obtain a stock exchange listing, a broader shareholder base, status as a public company with securities registered under the Exchange Act, and a liquid market for its shares, and this raises questions regarding securities law liability exposure, investor protections, and other filing requirements.

In his statement, Coates says that those involved in promoting, advising, processing, and investing in SPACs should understand the limits on any alleged liability difference between SPACs and conventional IPOs. He adds that providing greater clarity on the scope of the safe harbor in the Private Securities Litigation Reform Act (PSLRA) might offer advantages.

Coates' statement follows the release of a March 31, 2021, staff statement on SPACs. That statement addresses certain accounting, financial reporting, and governance issues that should be carefully considered before a private operating company undertakes a business combination with a SPAC.

On March 31, 2021, acting Chief Accountant Paul Munter also issued a statement, which outlines considerations relating to markets and timing, financial reporting, internal controls, corporate governance, and audit committees. Munter's statement provides auditing considerations, including independence issues relating to de-SPAC mergers (that is, the combination of the SPAC with the target operating company).

On April 12, 2021, Coates and Munter issued a statement on accounting and reporting considerations for warrants issued by SPACs. The statement provides that certain warrants issued by a SPAC should be classified as liabilities rather than equity and, therefore, these warrants would need to be measured at fair value, with the changes in fair value included in net income. As this treatment may require some SPACs to change their classification of certain warrants, companies and their auditors should consider whether financial statements previously filed contain a material error that would require restatement.

Rules and guidance

Conducting shareholder meetings

The SEC has updated sections of its staff guidance for conducting shareholder meetings in light of disruptions caused by the COVID-19 pandemic. The April 7, 2021, update addresses changes to the date, time, or location of a shareholder meeting and delays in printing and mailing of full set of proxy materials. The April 9, 2021, update deals with presentation of shareholder proposals in person.

Universal proxy rule

The SEC, on April 16, 2021, reopened the comment period for the proposed universal proxy rule that was originally published in the Federal Register on Nov. 10, 2016. The proposal would require the use of universal proxy cards in all nonexempt solicitations in connection with contested elections of directors. The proposed rules create new procedures for the solicitation of proxies and address other improvements to the proxy voting process. The comment period was reopened as there have been significant developments in proxy contests, corporate governance over funds, and shareholder activism since 2016.

Comments were due June 7, 2021.

Proxy voting rules

SEC Chair Gensler, on June 1, 2021, issued a directive to SEC staff to consider whether to recommend further regulatory action specifically related to the September 2019 interpretation and guidance addressing the application of the proxy rules to proxy voting advice businesses and the July 2020 amendments to Rules 14a-1(l), 14a-2(b), and 14a-9 concerning proxy voting advice. He also asked staff to consider whether to recommend that the SEC revisit its 2020 codification of the definition of solicitation as encompassing proxy voting advice, the 2019 interpretation and guidance regarding that definition, and the conditions on exemptions from the information and filing requirements in the 2020 rule amendments.

Responding to Gensler's directive, Corp Fin staff announced that it will not recommend enforcement action to the SEC based on the 2019 interpretation and guidance or the 2020 rule amendments during the period in which the SEC is considering further regulatory action in this area. Also, if regulatory action leaves the 2020 exemption conditions in place with the current compliance date of Dec. 1, 2021, the staff will not recommend any enforcement action based on those conditions for a reasonable period of time.

In response to the directive from Gensler and the Corp Fin announcement, SEC commissioners Roisman and Peirce noted that they are open to seeing what, if any, rule changes the staff recommends. However, they said they find it difficult to imagine what has changed since the amendments were issued in July 2020, especially considering that the compliance date has not yet occurred. They stated that the amendments that were adopted already reflected a long analysis process that considered a broad range of input. They also shared that they hope that any actions would not "deprive users of proxy voting advice of information they need to properly consider such advice or lead them to make decisions based on misinformation."

Regulatory agenda

On June 11, 2021, the SEC announced updates to its regulatory agenda, which lists short- and long-term regulatory actions the SEC plans to take. They include:

- Disclosure relating to climate risk; human capital, including workforce diversity and corporate board diversity; and cybersecurity risk
- Market structure modernization within equity markets, treasury markets, and other fixed-income markets
- Transparency around stock buybacks, short sale disclosure, securities-based swaps ownership, and the stock loan market
- Investment fund rules, including money market funds, private funds, and ESG funds
- 10b5-1 affirmative defense provisions

- Unfinished work directed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, including, among other things, securities-based swaps and related rules, incentive-based compensation arrangements, and conflicts of interest in securitizations
- Enhancement of shareholder democracy
- Special purpose acquisition companies
- Mandated electronic filings and transfer agents

The SEC's current agenda is maintained by the Office of Management and Budget. Commissioners Roisman and Peirce provided perspectives on certain aspects of Chair Gensler's regulatory agenda on June 14, 2021.

Staffing updates

On June 14, 2021, the SEC announced that Renee Jones has been appointed director of the Division of Corporation Finance. John Coates, Corp Fin's current acting director, has been named SEC general counsel. Both appointments were effective June 21, 2021. Jones most recently taught courses on various aspects of corporate and securities law and governance while serving as professor of law and associate dean for academic affairs at Boston College Law School. Previously, she practiced at Hill & Barlow law firm. Coates has served as the Corp Fin's acting director since February 2021.

On May 3, 2021, the SEC announced that Jessica Wachter has been named chief economist and director of the Division of Economic and Risk Analysis (DERA). She has been a professor at the Wharton School at the University of Pennsylvania since 2003 and is a leading academic researcher on financial markets. DERA is involved in a wide range of SEC activities, including policymaking, rulemaking, enforcement, and examination, and the division assists in identifying, analyzing, and responding to economic and market issues. DERA also provides subject-matter expertise and cost-benefit economic analysis for rule proposals and final rules.

The Senate confirmed Gary Gensler as chair of the SEC on April 14, 2021, and he was sworn in on April 17. His nomination by President Joe Biden was approved on March 10 by a vote of 14-10 by the Senate Committee on Banking, Housing, and Urban Affairs, to fill both the remaining term of retired Chair Jay Clayton and for a full term ending on June 5, 2026.

From the PCAOB

New acting chair and search for new board candidates

On June 4, 2021, the SEC announced that Duane M. DesParte would serve as acting chair of the Public Company Accounting Oversight Board (PCAOB), replacing William D. Duhnke, effective immediately. DesParte has been a member of the PCAOB since early 2018. In addition to this change, the SEC, which selects all members and the chair of the PCAOB, announced that it will be seeking candidates for all five board positions and on June 8, 2021, Chair Gensler announced the commencement of the appointment process.

New standards advisory group

At its meeting on March 29, 2021, the PCAOB unanimously approved the formation of a new standards advisory group (SAG) that will increase stakeholder engagement and provide opportunities for investors and other stakeholders to advise the PCAOB on key initiatives.

As detailed in its charter, the purpose of the SAG is to advise the PCAOB on:

- Existing auditing and related attestation standards as well as quality control, ethics, and independence standards
- Proposed standards
- Potential new or amended standards
- Matters other than standards that are significant to the PCAOB

The SAG will perform specific tasks assigned by the PCAOB, and task forces of the SAG will play a critical role in deliberating, producing deliverables, and sharing information on key issues.

The charter establishes an 18-person group of experts, with representatives from the investor community (five), external auditors (four), audit committee members or directors (three), financial reporting oversight personnel (three), and academics and others with specialized knowledge (three).

On April 12, 2021, the PCAOB announced that it was seeking nominations for the SAG for both the 2021-2023 term and the 2021-2024 term. Nominees must meet certain qualifications described in the SAG charter. The deadline for nominations was June 14, 2021.

Staff outlook and audit committee resources on 2021 inspections

On April 6, 2021, the PCAOB issued two documents to help auditors and audit committees understand the PCAOB's 2021 inspection focus.

"Spotlight: Staff Outlook for 2021 Inspections" provides information auditors might find useful as they plan and perform current and upcoming audits. The document addresses the principal changes the PCAOB plans for 2021 inspections and areas of planned inspection focus:

- Audit areas with continued deficiencies
- Firms' quality control systems
- How firms comply with auditor independence requirements
- Fraud procedures
- Critical audit matters
- How firms implement new auditing standards
- Supervision of audits involving other auditors
- Responding to cyber threats
- Auditing digital assets

Audit committees can use the "Staff Outlook" with the companion "Audit Committee Resource: 2021 Inspections Outlook" to engage in meaningful dialogue with their auditor.

From the AICPA

New working drafts

Construction contractor illustrative financial statements

The AICPA's Financial Reporting Executive Committee (FinREC) published, on May 10, 2021, a working draft of an exposure draft of new illustrative financial statements for a nonpublic company construction contractor. The draft, "Construction Contractors Revised Sample Financial Statements," includes proposed guidance for implementing Accounting Standard Codification (ASC) Topic 606, "Revenue From Contracts With Customers," and Topic 842, "Leases."

The draft presents revenue recognition guidance that will be included in the AICPA Audit and Accounting Guide (AAG) "Construction Contractors" as Appendix H. The draft notes that the proposed sample financials statements provide nonauthoritative guidance, will be included for illustrative and informational purposes only, and are not intended to establish reporting requirements.

Comments were due July 12, 2021.

Insurance entities

On May 26, 2021, FinREC issued four working drafts addressing accounting issues for insurance entities. These drafts provide guidance on implementation of ASU 2018-12, "Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts." When finalized, the text will be included in the AAG "Life and Health Insurance Entities."

The newly released working drafts are:

- Issue 3: Market risk benefits – scope
- Issue 4D: Market risk benefits – retrospective adoption of market risk benefits guidance and the effect on purchase accounting
- Issue 6: Use of discount rates or yield curve for interest accretion on insurance liabilities under ASU 2018-12
- Issue 16: Level of aggregation for the measurement of the liability for future policy benefits

Comments are due July 29, 2021.

Revised TQAs

In April 2021, the AICPA revised Section 6400, "Health Care Entities" of its Technical Questions and Answers (TQAs) relating to provisions of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) specific to healthcare entities. The TQAs, originally issued in 2020, help nongovernmental healthcare entities account for payments received from the CARES Act, the Provider Relief Fund, and boosted Medicare and Medicaid payments.

The revised TQAs include:

- TQA Section 6400.63 – Background to Sections 6400.64-.70 – CARES Act Provisions Specific to Health Care Entities
- TQA Section 6400.64 – Accounting for Provider Relief Fund General and Targeted Distribution Payments
- TQA Section 6400.66 – Period of Accounting for Provider Relief Fund Phase 1 General Distribution Payments
- TQA Section 6400.68 – Accounting for Payments Received Under the Medicare Accelerated and Advance Payment Program

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From the CAQ

Analysis of ESG reporting

The Center for Audit Quality (CAQ), on April 29, 2021, published "S&P 100 and ESG Reporting," summarizing its findings from an examination of publicly available ESG information for S&P 100 companies through March 12, 2021. The CAQ reports that all companies provided some ESG information, most reported it in a separate stand-alone report, and 11 obtained assurance from a public company auditing firm for some of the information. The report shows which frameworks were most widely used and which standards were commonly referenced, information about what types of information assurance were obtained from auditors, and a description of assurances obtained from other providers such as engineering and consulting firms.

Effective governance over ESG reporting

On April 22, 2021, the CAQ and the American Institute of CPAs published "Key Actions for Establishing Effective Governance Over ESG Reporting" to provide guidance on the creation of high-quality ESG disclosures. The report describes key actions to establish effective governance over ESG reporting, including:

- Conducting materiality or risk assessments to determine which ESG topics are important or material to the organization, its investors, and other stakeholders
- Implementing appropriate board oversight of material ESG matters
- Integrating and aligning material ESG topics into the enterprise risk management process
- Integrating ESG matters into the overall company strategy

According to the CAQ, "Good governance plays a critical role in a company's ability to produce high-quality, accurate and reliable information," and this document provides a starting point with actions entities can take to reach that goal.

SPACs alert

The CAQ issued Alert 2021-01, "Auditor and Audit Committee Considerations Relating to Special Purposes Acquisition Company (SPAC) Initial Public Offerings and Mergers," on May 3, 2021. It describes the five phases of a SPAC life cycle and provides a listing of considerations for auditors and audit committees regarding challenges of a private company entering the public markets through a merger with a SPAC. While these considerations are intended for auditors and audit committees, members of management also might find them helpful.

Referring to the SEC statement on "Financial Reporting and Auditing Considerations of Companies Merging With SPACs," the alert repeats, "it is critical that the board of directors, audit committees (as applicable), management, and auditors of operating companies involved in a merger with a SPAC fully understand and fulfill their professional responsibilities so that companies meet their obligations under the federal securities laws and investors are provided with high quality financial reporting at the time of the merger and on an ongoing basis." To help address this responsibility, the alert lists numerous considerations related to SPAC merger transactions for auditors and audit committees. For audit committees, the alert describes considerations related to public company readiness; SPAC sponsor experience; corporate governance; accounting, reporting, and disclosure issues; and external auditor selection and oversight.

Effectiveness of management review controls

On April 21, 2021, the CAQ released "Issues Related to the Assessment of the Effectiveness of Management Review Controls: Roundtable Summary." This report summarizes the information gathered during a roundtable discussion led by the CAQ and the Financial Education & Research Foundation with preparers and auditors who did not participate in the research study on internal control over financial reporting management review controls, "Perspectives on Management Review Controls: Challenges and Solutions." The objective of the roundtable was to identify and share practices that can mitigate challenges of addressing management review controls. The report addresses planning and communication, design and precision, and operation and performance of management review controls. It identifies important best practices to address management review control challenges and provides a detailed listing of suggested actions to address challenges with management's assessment and the auditor's evaluation of the effectiveness of management review controls.

From the GASB

Final Standards

Implementation guidance update

On June 2, 2021, the Governmental Accounting Standards Board (GASB) issued Implementation Guide 2021-1, "Implementation Guidance Update – 2021," to clarify, explain, or elaborate on certain GASB pronouncements. The guide includes 23 new questions and answers to address application of existing GASB standards covering various topics including the following:

- Accounting and financial reporting for derivative investments (1)
- Fiduciary activities (2-3)
- Leases (4-22)
- Accounting and financial reporting for nonexchange transactions (23)

In addition, the guide also amends four previously issued questions and answers from Implementation Guides 2015-1 and 2019-1.

Effective dates

The requirements of this implementation guide are effective as follows:

- Questions 4.1-4.3, 4.23, 5.2-5.4, and the supersession of questions Z.51.4-Z.51.7 in Implementation Guide 2015-1 are effective for reporting periods beginning after June 15, 2022.
- Questions 4.4-4.21 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- Question 4.22 is effective for fiscal years beginning after June 15, 2021.
- Question 5.1 is effective for reporting periods beginning after June 15, 2023.

Early application is encouraged for guidance related to standards that already have been implemented.

Proposals

The annual comprehensive financial report

On April 13, 2021, the GASB issued an exposure draft, "The Annual Comprehensive Financial Report," proposing to change the "comprehensive annual financial report" to the "annual comprehensive financial report."

This proposed statement establishes the term "annual comprehensive financial report" and its acronym ACFR. That new term and acronym would replace instances of "comprehensive annual financial report" and its acronym in generally accepted accounting principles for state and local governments. This proposed statement was developed in response to concerns raised by stakeholders that the common pronunciation of the existing acronym for the report sounds like a racial slur. No changes have been proposed to the structure or content of the report.

Comments were due July 9, 2021.

Accounting changes and error corrections

On June 1, 2021, the GASB issued an exposure draft, "Accounting Changes and Error Corrections." The proposal is designed to improve the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The exposure draft proposes definitions for the following categories of accounting changes or error corrections:

- Changes in accounting principles
- Changes in accounting estimates
- Changes to or within the financial reporting entity
- Corrections of errors in previously issued financial statements

The proposed statement would establish accounting and financial reporting guidance for each category of accounting change and error correction, including display in financial statements, note disclosures, and presentation in required supplementary information and supplementary information.

Comments are due Aug. 31, 2021.

Accounting Standards Updates (ASU) effective dates

Checklist A

ASU effective dates for public business entities (PBEs)

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Leases (ASU 2016-02) Revises recognition and measurement for lease contracts by lessors and lessees; operating leases are recorded on the balance sheet for lessees. Replaces Topic 840 with Topic 842. Clarifying standards: **ASU 2018-01** – Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840. **ASU 2018-10** – Provides 16 improvements and clarifications to the guidance in Topic 842. **ASU 2018-11** – Provides an optional transition method for adopting Topic 842 that will eliminate comparative period reporting under the new guidance in the adoption year. Provides a practical expedient for lessors to not separate nonlease components from the associated lease component in specified circumstances. **ASU 2018-20** – Provides 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 assets 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.	**March 31, 2019[1,2]** **For ASU 2019-01, March 31, 2020, except for transition disclosure amendments which are consistent with ASU 2016-02**	**Permitted**

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

[2] ASU 2020-05 defers, for one year, the required effective date for a not-for-profit entity that has issued or is a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over-the-counter market that has not yet issued its financial statements (or made financial statements available for issuance) as of June 3, 2020. Those entities may elect to adopt the guidance for annual reporting periods beginning after Dec. 15, 2019, and for interim reporting periods within those fiscal years.s for calendar year-end entities.

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
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. **ASU 2019-10** – Deferral of effective dates.	**For SEC filers, excluding smaller reporting companies, tests performed on or after Jan. 1, 2020** **For all other PBEs, including smaller reporting companies, tests performed on or after Jan. 1, 2023**	**Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017**
Credit Losses (ASU 2016-13) Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables. Clarifying standards: **ASU 2018-19** – Clarifies that impairment of operating lease receivables is in the scope of ASC Topic 842, "Leases," and not the CECL model. **ASU 2019-04** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, vintage disclosures, and contractual extensions and renewal options. **ASU 2019-05** – Targeted transition relief provides an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. **ASU 2019-10** – Deferral of effective dates. **ASU 2019-11** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses expected recoveries for purchased financial assets with credit deterioration, transition relief for troubled debt restructurings, disclosures related to accrued interest receivables, financial assets secured by collateral maintenance provisions, and conforming cross-references to Subtopic 805-20. **ASU 2020-03** – Aligns contractual term to measure expected credit losses for a net investment in a lease to be consistent with the lease term determined under Topic 842. Clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded.	**For SEC filers, excluding smaller reporting companies, March 31, 2020** **For all other PBEs, including smaller reporting companies, March 31, 2023** **For ASU 2019-04, ASU 2019-05, ASU 2019-11, and ASU 2020-03, March 31, 2020, for entities that have adopted ASU 2016-13; otherwise effective dates the same as ASU 2016-13**	**Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within**

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

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Various Codification Improvements (ASU 2020-10) Amendments improve codification by having all disclosure-related guidance available in the disclosure sections of the codification. Prior to this ASU, various disclosure requirements or options to present information on the face of the financial statements or as a note to the financial statements were not included in the appropriate disclosure sections of the codification. Contains various other minor amendments to codification that are not expected to have a significant effect on current accounting practice.	**March 31, 2021**	**Permitted, including an interim period**
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.**
Long-Duration Insurance Contracts (ASU 2018-12) Revises the accounting for life insurance and annuity contracts by eliminating the method of locking in liability assumptions and the premium deficiency test for traditional and limited-payment contracts, among other methodology changes. Requires additional disclosure. Clarifying standards: **ASU 2019-09** – Deferral of effective dates. **ASU 2020-11** – Deferral of effective dates.	**For SEC filers, excluding smaller reporting companies, March 31, 2023** **For all other PBEs, including smaller reporting companies, Dec. 31, 2025**	**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.	**March 31, 2022**	**Permitted, including in an interim period**

Checklist B

ASU effective dates for nonpublic business entities (non-PBEs)

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

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Practical Expedient for Applying Topic 606 by Franchisors (ASU 2021-02) Provides a targeted practical expedient to Topic 606 (revenue from contracts with customers) for nonpublic business entities that meet the definition of a franchisor. Allows nonpublic franchisors the option to account for certain preopening services as a distinct performance obligation separate from the franchise license. If elected, a franchisor may also make accounting policy election to account for all preopening services as a single performance obligation; otherwise, it would need to apply the guidance in Topic 606 to determine whether the preopening services are distinct from one another.	**Dec. 31, 2021**	**Permitted, including in an interim period**
Hedging Activities (ASU 2017-12) Expands the nonfinancial and financial risk components that can qualify for hedge accounting and simplifies financial reporting for hedging activities. Clarifying standards: **ASU 2019-04** – Provides specific improvements and clarifications to the guidance in Topic 815. Among other areas, addresses partial-term fair value hedges of interest-rate risk, amortization and disclosure of fair value hedge basis adjustments, and consideration of hedged contractually specified interest rate under the hypothetical derivative method. **ASU 2019-10** – Deferral of effective dates.	**Dec. 31, 2021**	**Permitted, including in an interim period**
Certain Costs in Media and Entertainment Industry (ASU 2019-02) Applies to broadcasters and entities that produce and distribute films and episodic television series. Aligns the accounting of episodic television series with films, and provides more relevant financial reporting information to users of financial statements.	**Dec. 31, 2021**	**Permitted, including in an interim period**
Defined Benefit Plan Disclosure for Sponsors (ASU 2018-14) Removes and clarifies certain disclosures for sponsors of defined benefit plans. Adds disclosure for weighted-average interest credit rates for certain plans, and the reasons for significant gains and losses in the benefit obligation.	**Dec. 31, 2021**	**Permitted**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Implementation Costs for Cloud Computing Arrangements (CCAs) (ASU 2018-15) Aligns accounting for implementation costs of CCAs with or without a license (that is, regardless of whether the CCA is a service contract) by capitalizing implementation costs during the application development stage and amortizing the costs over the term of the arrangement.	**Dec. 31, 2021**	**Permitted, including in an interim period**
Variable Interest Entity (VIE) Model – Targeted Improvements for Related Parties (ASU 2018-17) Provides a private company accounting alternative not to apply VIE consolidation guidance to any arrangement with legal entities that are under common control if neither the parent nor the legal entity is a PBE (thus expanding the alternative for common control leasing arrangements to all common control arrangements). Also, revises the analysis for determining whether a decision-making fee paid by a VIE is a variable interest such that indirect interests in a VIE held through related parties in common control arrangements would be considered on a proportional basis (instead of as the equivalent to a direct interest).	**Dec. 31, 2021**	**Permitted, including in an interim period**
Collaborative Arrangements (Topic 808) (ASU 2018-18) Requires that Topic 606 be applied to collaborative arrangements when the arrangement participant is a customer and aligns the unit-of-account guidance in Topic 808 with Topic 606. Revenue in the scope of Topic 606 should be presented separately from revenue outside its scope.	**Dec. 31, 2021**	**Permitted, including in an interim period**
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**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
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 the balance sheet for lessees. Replaces Topic 840 with Topic 842. Clarifying standards: **ASU 2018-01** – Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840. **ASU 2018-10** – Provides 16 improvements and clarifications to the guidance in Topic 842. **ASU 2018-11** – Provides an optional transition method for adopting Topic 842 that will eliminate comparative period reporting under the new guidance in the adoption year. Provides a practical expedient for lessors to not separate nonlease components from the associated lease component in specified circumstances. **ASU 2018-20** – Provides 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 assets 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.	**Dec. 31, 2022**	**Permitted**
Contributed Nonfinancial Assets of Not-for-Profit Entities (ASU 2020-07) Improves financial reporting for not-for-profit entities by providing specific presentation and disclosure requirements for contributed nonfinancial assets other than contributed services.	**Dec. 31, 2022**	**Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
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**
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 CECL model for financial assets, including trade receivables, debt securities, and loan receivables. Clarifying standards: **ASU 2018-19** – Clarifies the effective date for non-PBEs and that impairment of operating lease receivables is in the scope of ASC Topic 842, "Leases," and not the CECL model. **ASU 2019-04** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, vintage disclosures, and contractual extensions and renewal options. **ASU 2019-05** – Targeted transition relief provides an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost. **ASU 2019-10** – Deferral of effective dates. **ASU 2019-11** – Provides specific improvements and clarifications to the guidance in Topic 326. Addresses expected recoveries for purchased financial assets with credit deterioration, transition relief for troubled debt restructurings, disclosures related to accrued interest receivables, financial assets secured by collateral maintenance provisions, and conforming cross-references to Subtopic 805-20. **ASU 2020-03** – Aligns contractual term to measure expected credit losses for a net investment in a lease to be consistent with the lease term determined under Topic 842. Clarifies that when an entity regains control of financial assets sold, an allowance for credit losses should be recorded.	**Dec. 31, 2023** **For ASU 2019-04, ASU 2019-05, ASU 2019-11, and ASU 2020-03, March 31, 2020, for entities that have adopted ASU 2016-13; otherwise, effective dates the same as ASU 2016-13**	**Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
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.	**March 31, 2024**	**Permitted as of the fiscal years beginning after Dec. 15, 2020, including interim periods within**
Long-Duration Insurance Contracts (ASU 2018-12) Revises the accounting for life insurance and annuity contracts by eliminating the method of locking in liability assumptions and the premium deficiency test for traditional and limited-payment contracts, among other methodology changes. Requires additional disclosure. Clarifying standards: **ASU 2019-09** – Deferral of effective dates. **ASU 2020-11** – Deferral of effective dates.	**Dec. 31, 2025**	**Permitted**

Governmental Accounting Standards Board (GASB) statement effective dates

Checklist C

Effective dates for all GASB statements

GASB statement	Effective dates – reporting periods beginning after	Early adoption
Postponement of the Effective Dates of Certain Authoritative Guidance (GASB Statement 95) Postpones the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.	**Upon issuance, May 8, 2020**	**Not applicable**
Fiduciary Activities (GASB Statement 84) Improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Establishes criteria for identifying fiduciary activities of all state and local governments and clarifies whether and how business-type activities should report their fiduciary activities. Establishes criteria for identifying fiduciary activities of all state and local governments focused on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.	**Dec. 15, 2019**	**Permitted**
Majority Equity Interests (GASB Statement 90) Revises and clarifies the guidance for reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units.	**Dec. 15, 2019**	**Permitted**
Replacement of Interbank Offered Rates (GASB Statement 93) Addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notably the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments tied to LIBOR.	**June 15, 2020, except:** **Paragraph 11b, periods ending after Dec. 15, 2021** **Paragraphs 13 & 14, June 15, 2021**	**Permitted**

GASB statement	Effective dates – reporting periods beginning after	Early adoption
Accounting for Interest Cost Incurred Before the End of a Construction Period (GASB Statement 89) Supersedes guidance set forth in Statement 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements," which generally required capitalization of interest cost incurred before the end of a construction period. Statement 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus and not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.	**Dec. 15, 2020**	**Permitted**
Leases (GASB Statement 87) Revises recognition and measurement for lease contracts by lessors and lessees by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.	**June. 15, 2021**	**Permitted**
Omnibus 2020 (GASB Statement 92) Addresses a variety of topics including the effective date of Statement 87 and Implementation Guide No. 2019-3 for interim financial reports; reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; the applicability of Statements 73 and 74 to reporting assets accumulated for postemployment benefits (PEBs); the applicability of certain requirements of Statement 84 to postemployment benefit arrangements; measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and terminology used to refer to derivative instruments.	**Varies by issue (see pages 5 and 6 of the statement and page 2 of statement 95)** **Upon issuance, Feb. 5, 2020** **June 15, 2021**	**Permitted by topic**

GASB statement	Effective dates – reporting periods beginning after	Early adoption
Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans **(GASB Statement 97)** Clarifies how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units and modifies the applicability of certain component unit criteria as they relate to defined contribution pension and OPEB plans, and other employee benefit plans (for example, certain Section 457 plans). Establishes accounting and financial reporting requirements for Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans.	**Varies by issue (see pages 4 and 5 of the statement)** **Upon issuance, June 23, 2020** **June 15, 2021**	**Permitted by topic**
Conduit Debt Obligations **(GASB Statement 91)** Clarifies the definition of a conduit obligation and stipulates that a conduit debt obligation is a liability of the third-party obligor, not the issuer, thus eliminating the option for government issuers to recognize a conduit debt obligation as a liability. Establishes standards for accounting and financial reporting of additional commitments extended by issuers and arrangements associated with conduit debt obligations and improves required note disclosures.	**Dec. 15, 2021**	**Permitted**
Public-Private and Public-Public Partnerships and Availability Payment Arrangements **(GASB Statement 94)** Provides guidance for public-private and public-public partnership arrangements (PPPs), including those that are outside of the scope of the GASB's existing guidance for those transactions – namely Statement 60, "Accounting and Financial Reporting for Service Concession Arrangements," and Statement 87, "Leases." The statement also makes certain improvements to the guidance previously included in Statement 60 and provides accounting and financial reporting guidance for availability payment arrangements (APAs).	**June 15, 2022**	**Permitted**
Subscription-Based Information Technology Arrangements **(GASB Statement 96)** Provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. Defines a SBITA; establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires note disclosures regarding a SBITA.	**June 15, 2022**	**Permitted**

Learn more

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