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Accounting and Financial Reporting Issues for Financial Institutions

December 2019

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A note from the author

Some SEC filers will be adopting the new accounting standard for credit losses in the first quarter of 2020. Most companies have other new accounting standards to consider as they prepare their 2019 annual financial statements. The first quarter of 2019 marked the adoption of the lease and hedging standards for calendar year-end public business entities (PBEs), while non-PBEs are working on the adoption of revenue recognition for their 2019 annual financial statements. As I noted last year, for most financial institutions, the leasing and hedging standards will take more effort than revenue recognition. And indeed, the Financial Accounting Standards Board (FASB) has been busy with clarifications as preparers continue their adoption efforts for credit losses, leases, and hedging.

In the fourth quarter, the FASB issued an Accounting Standards Update (ASU) to provide private entities and certain smaller public companies additional time to implement the standards on current expected credit loss (CECL), leases, and hedging.

Most institutions have determined adoption of the major standards cannot happen sequentially due to the magnitude of the effort required. In fact, practitioners currently working on the adoption of CECL have also encountered many complexities, which has prompted various stakeholders including the American Institute of CPAs (AICPA), the FASB's Transition Resource Group for Credit Losses, and the board itself to be focused on assisting in clarification efforts. Despite their best efforts, operational complexities remain, and there continues to be stakeholder discussion on various topics. I expect the run to the finish line for certain SEC filers will be a mad dash. As a reminder, SEC-registered financial institutions must keep users informed of the status of their implementation efforts through disclosure.[1]

The FASB has been relatively quiet for 2019, as it continues to monitor implementation of the major standards. While there have been 11 standards issued thus far, most have been fairly narrow codification improvements or not broadly applicable to financial institutions.

Standards with effective dates for PBEs and non-PBEs later than Jan. 1, 2019, are covered herein along with relevant updates from other stakeholders, including the federal financial institution regulators. We hope you find this information valuable, and we welcome your feedback.

Finally, I am grateful for the significant contributions of Alissa Doherty, senior manager in the Crowe national office, to this publication.

Sydney K. Garmong

Partner, Crowe LLP

[1] See SEC Staff Accounting Bulletin No. 74 (Topic 11.M), "Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period," which requires disclosure of the potential effects of adoption of recently issued accounting standards in registration statements and reports filed with the SEC. This guidance was updated with an SEC staff announcement at an Emerging Issues Task Force meeting on Sept. 22, 2016 (and later codified by the FASB with Accounting Standards Update 2017-03), addressing disclosure in situations where an SEC registrant does not know or cannot reasonably estimate the impact that adoption of the recent major accounting standards is expected to have on the financial statements.

Effective dates for major standards

Accounting Standards Update (ASU)	PBE effective date	Non-PBE effective date
Recognition and Measurement ASU 2016-01	Fiscal years beginning after Dec. 15, 2017, and interim periods within. • First applies to March 31, 2018, interim financial statements for calendar year-ends. For the following one item, early adoption was permitted immediately in interim or annual financial statements that have not yet been issued: • The fair value change resulting from own credit risk for financial liabilities measured under the fair value option recognized through other comprehensive income (OCI)	Fiscal years beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019. • First applies to Dec. 31, 2019, annual financial statements for calendar year-ends. Early adoption using the PBE effective dates is permitted. For the following two items, early adoption is permitted immediately in interim or annual financial statements that have not yet been made available for issuance: • The fair value change resulting from own credit risk for financial liabilities measured under the fair value option recognized through OCI • The elimination of fair value disclosure requirements for financial instruments not recognized at fair value
Revenue Recognition ASU 2014-09 ASU 2015-14 (deferral of effective date)	Annual reporting periods beginning after Dec. 15, 2017, and interim periods within. • First applies to March 31, 2018, interim financial statements for calendar year-ends. Earlier adoption was permitted only as of annual reporting periods beginning after Dec. 15, 2016, and interim reporting periods within. *Certain PBEs are subject to an optional effective date deferral provided by the SEC.*[2]	Annual reporting periods beginning after Dec. 15, 2018, and interim periods in annual periods beginning after Dec. 15, 2019. • First applies to Dec. 31, 2019, annual financial statements for calendar year-ends. Earlier application is permitted, but only as of either: • An annual reporting period beginning after Dec. 15, 2016, and interim periods in that reporting period • An annual reporting period beginning after Dec. 15, 2016, and interim periods in annual periods that begin one year after that annual adoption period

[2] Codified in ASU 2017-13, an SEC staff announcement at the July 20, 2017, EITF meeting 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 allow certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition and lease accounting standards only. For "certain PBEs" with calendar year-ends, the revenue

Accounting Standards Update (ASU)	PBE effective date	Non-PBE effective date
Leases ASU 2016-02 ASU 2019-10 (deferral of non-PBE effective date)	Annual periods beginning after Dec. 15, 2018, and interim periods within. • First applies to March 31, 2019, interim financial statements for calendar year-ends. Early adoption is permitted. *Certain PBEs are subject to an optional effective date deferral provided by the SEC.*[3]	Fiscal years beginning after Dec. 15, 2020, and interim periods in fiscal years beginning after Dec. 15, 2021. • First applies to Dec. 31, 2021, annual financial statements for calendar year-ends. Early adoption is permitted.
Hedging Activities ASU 2017-12 ASU 2019-10 (deferral of non-PBE effective date)	Annual periods beginning after Dec. 15, 2018, and interim periods within. • First applies to March 31, 2019, interim financial statements for calendar year-ends. Early adoption is permitted, including in an interim period.	Fiscal years beginning after Dec. 15, 2020, and interim periods in fiscal years beginning after Dec. 15, 2021. • First applies to Dec. 31, 2021, annual financial statements for calendar year-ends. Early adoption is permitted, including in an interim period.
Credit Losses ASU 2016-13 ASU 2018-19 (deferral of Non-PBE effective date) ASU 2019-10 (further deferral of effective date)	SEC filers, excluding smaller reporting companies (SRCs) – Fiscal years beginning after Dec. 15, 2019, and interim periods within. • First applies to March 31, 2020, interim financial statements for calendar year-end SEC filers. SEC filers that are not SRCs; all other PBEs that are not SEC filers – Fiscal years beginning after Dec. 15, 2022, and interim periods within. • First applies to March 31, 2023, interim financial statements for calendar year-ends. Early adoption is allowed in fiscal years beginning after Dec. 15, 2018, and interim periods within.	Fiscal years beginning after Dec. 15, 2022, and interim periods within. Early adoption is allowed in fiscal years beginning after Dec. 15, 2018, and interim periods within.

recognition guidance is effective for Dec. 31, 2019, annual financial statements. For certain PBEs, the lease accounting standard is effective for Dec. 31, 2021 (as amended by ASU 2019-10), annual financial statements for calendar year-end entities.

[3] Ibid.

From the FASB: Major final standards

Revenue recognition

In an effort to improve current GAAP and eliminate industry-specific guidance, the FASB and the International Accounting Standards Board (IASB) took on a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards (IFRS). On May 28, 2014, the two boards jointly issued their converged standard on the recognition of revenue from contracts with customers. The new revenue recognition standard, ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)," consists of three sections:

- "Section A – Summary and Amendments That Create Revenue From Contracts With Customers (Topic 606) and Other Assets and Deferred Costs – Contracts With Customers (Subtopic 340-40)"
- "Section B – Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables"
- "Section C – Background Information and Basis for Conclusions"

The new standard is intended to substantially enhance the quality and consistency of how revenue is reported while also improving the comparability of the financial statements of companies using GAAP and those using IFRS. The standard replaces previous GAAP guidance on revenue recognition in Accounting Standards Codification (ASC) 605 and eliminates industry-specific guidance.

The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, the following five steps are applied:

- **Step one:** Identify the contract with a customer.
- **Step two:** Identify the performance obligations (promises) in the contract.
- **Step three:** Determine the transaction price.
- **Step four:** Allocate the transaction price to the performance obligations in the contract.
- **Step five:** Recognize revenue when (or as) the reporting organization satisfies a performance obligation.

The AICPA formed 16 industry task forces to help develop a new accounting guide on revenue recognition; the task forces are seeking to provide helpful hints and illustrative examples for how to apply the new standard. One of the task forces is dedicated to the depository institutions industry.

In addition, the FASB and the IASB have formed a joint Transition Resource Group (TRG) for Revenue Recognition, which includes preparers, auditors, regulators, users, and other stakeholders. Its objective is to promote effective implementation and transition. As a result of the TRG's work, the FASB has issued multiple clarifications to the revenue standard, which are discussed next.

Clarifications

1. Identifying performance obligations and licensing

   On April 14, 2016, the FASB issued the final standard, ASU 2016-10, "Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing," in order to add guidance for identifying performance obligations. The ASU clarifies that an entity does not have to identify performance obligations involving goods and services that are immaterial. It also provides guidance for evaluating the criterion of "separately identifiable." In addition, the ASU clarifies both the licensing implementation guidance and the scope for a sales-based or usage-based royalty promised in exchange for an intellectual property license.

2. Principal versus agent (reporting gross versus net)

   On March 17, 2016, the FASB issued the final standard, ASU 2016-08, "Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)." Under the new revenue guidance in ASU 2014-09, when another party, along with the entity, is involved in providing a good or service to a customer, the entity must determine if the nature of its obligation is to provide a good or service to a customer (that is, to be a principal) or is to arrange for the good or service to be provided to the customer (that is, to act as an agent).

   The TRG discussed the analysis, and the FASB took on a project to improve the guidance. The amendments of this ASU are intended to clarify items such as:

   - "An entity determines whether it is a principal or an agent for each specified good or service promised to a customer.
   - "An entity determines the nature of each specified good or service (for example, whether it is a good, a service, or a right to a good or service).
   - "When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of (a) a good or another asset from the other party that it then transfers to the customer; (b) a right to a service that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf; or (c) a good or service from the other party that it combines with other goods or services to provide the specified good or service to the customer.
   - "The purpose of the indicators in paragraph 606-10-55-39 is to support or assist in the assessment of control. The amendments in paragraph 606-10-55-39A clarify that the indicators may be more or less relevant to the control assessment and that one or more indicators may be more or less persuasive to the control assessment, depending on the facts and circumstances."

   Further, the amendments modify specific illustrative examples from ASU 2014-09 and offer additional examples to help in the application of the guidance.

3. Narrow-scope improvements and practical expedients

   On May 9, 2016, the FASB issued the final standard, ASU 2016-12, "Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," to address implementation issues related to the collectability criterion in ASU 2014-09, an accounting policy election for the presentation of sales taxes, noncash consideration, contract modifications at transition, and completed contracts at transition.

   Related to transition, this update also provides a technical correction – an entity that retrospectively applies the new revenue recognition standard to each prior reporting period is required to disclose only the effect of the changes on any prior periods retrospectively adjusted and not the effect for the period of adoption. Without this change, transition costs would have been significantly increased as contracts would have to be accounted for under former GAAP and Topic 606 for one additional year.

4. Technical corrections and improvements

   ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue From Contracts With Customers," was released by the FASB on Dec. 21, 2016, to address narrow aspects of ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)." The ASU addresses 13 issues, including one clarification of interest to financial institutions:

   - Guarantee fees within the scope of Topic 460, "Guarantees," are not in the scope of Topic 606, so those fees should continue to be accounted for in accordance with Topic 460. For guarantees accounted for as a derivative, entities should follow the guidance in Topic 815, "Derivatives and Hedging."

5. Rescission of Securities and Exchange Commission (SEC) guidance

   ASU 2017-14, "Income Statement – Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue From Contracts With Customers (Topic 606)," was released by the FASB in November 2017 to codify Staff Accounting Bulletin (SAB) 116, which was previously issued by the SEC on Aug. 18, 2017. SAB 116 eliminates previous revenue guidance issued by the SEC, to conform to the FASB's revenue guidance in ASC Topic 606. In particular, it eliminates SAB Topic 13, "Revenue Recognition," which includes interpretations and four specific criteria for the FASB's previous revenue model in ASC Topic 605. Once the guidance in ASC Topic 606 is adopted, reference to previous guidance in SAB Topic 13 will no longer be appropriate.

The effective dates for all of the clarification ASUs are consistent with the revenue recognition standard. See "Effective dates," later in the section.

Scoping issues for financial institutions

Given that most financial instruments (including debt securities, loans, and derivatives) are not in the scope of ASC 606, wholesale changes are not expected for the financial institutions industry. However, noninterest income revenue streams will need to be evaluated.

The AICPA revenue recognition task force for depository institutions evaluated the various areas to determine what is in scope and what is not, and the task force submitted issues to the TRG for consideration. Two implementation issues were posted to the task force's page on the AICPA's Financial Reporting Center and were included in the AICPA Audit and Accounting Guide for Revenue Recognition:

- Issue No. 1, "Scope Issues," which addresses the revenue recognition scoping issues for financial institutions

  The following table lists various revenue streams that are in and out of scope for the revenue recognition standard.

Out of scope	In scope
Interest income	Service charges on deposit accounts
Trading revenue	Asset management fees
Loan servicing fees	Gains or losses on other real estate owned
Credit card fees	Interchange fees
Guarantee fees	

- Issue No. 4, "Sale of Non-Operating Assets (Other Real Estate Owned)"

Effective dates

For Topic 606, the FASB uses the term "public entity," which it defines as:

1. "A public business entity"
2. "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"
3. "An employee benefit plan that files or furnishes financial statements to the SEC" (Because items 2 and 3 do not apply to financial institutions, we will simply refer to "PBEs.")
   - For PBEs, the standard is effective for annual reporting periods beginning after Dec. 15, 2017, including interim reporting periods in those annual reporting periods.
     - For PBEs, earlier application is permitted only as of annual reporting periods beginning after Dec. 15, 2016, including interim reporting periods in those annual reporting periods.

- 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 revenue recognition standard. See ASU 2017-13, which codifies the SEC staff announcement from the July 20, 2017, Emerging Issues Task Force (EITF) meeting. That means certain PBEs may elect to apply the revenue guidance for annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2019, which, if elected, first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities.
- For non-PBEs (and not-for-profit entities and employee benefit plans that do not meet the criteria in the standard for the earlier effective date), the standard is effective for annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods in annual reporting periods beginning after Dec. 15, 2019.
    - For non-PBEs, early application is permitted in either of these situations:
        - An annual reporting period beginning after Dec. 15, 2016, including interim reporting periods in that reporting period
        - An annual reporting period beginning after Dec. 15, 2016, and interim reporting periods in annual reporting periods beginning one year after the annual reporting period in which an entity first applies the guidance

Transition
Transition is allowed with the selection of one of two methods:

1. Full retrospective application to each prior reporting period presented, and an election of any of the following practical expedients:
    - Completed contracts that begin and end within the same annual reporting period do not need to be restated.
    - When variable consideration is included in completed contracts, the transaction price at the contract completion date may be used to record revenue rather than estimating variable consideration amounts in the comparative reporting periods.
    - In reporting periods prior to the date of initial application, disclosure may be omitted for both the amount of the transaction price allocated to remaining performance obligations and for an explanation of when the entity expects to recognize that remaining revenue.
2. Modified retrospective application with a cumulative effect adjustment to the opening retained earnings balance in the year of adoption. Under this method, an entity must disclose the following in the interim and annual reporting periods that include the initial application:
    - The quantitative impact in the current reporting period, by financial statement line item, of the application of the new revenue recognition standard as compared to prior GAAP
    - An explanation of the reasons for significant changes

Crowe resources
On May 25, 2017, Crowe released "Just Around the Corner: Applying the 'New' Revenue Recognition Standard to Financial Institutions," an article evaluating the scoping exercises that financial institutions should consider for noninterest income revenue streams.

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 includes substantial changes for equity investments, including securities and certain partnership interests, deferred-tax assets (DTAs) on available-for-sale (AFS) securities, and certain disclosures.

Equity investments

- Equity investments are required to be measured at fair value with changes in fair value recognized in net income (FV/NI), except for certain investments that are accounted for under the equity method of accounting and those that qualify for the practicability exception to fair value measurement. The current AFS option for equity investments is eliminated. Equity securities will be carried at fair value, but the fair value changes will be reported in earnings rather than OCI.
- The standard provides a measurement alternative for investments without a "readily determinable fair value."
    - Measure at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical investment or a similar investment of the same issuer. In a significant change from existing guidance, upward adjustments to fair value will be recorded.
    - Test for impairment under the one-step model, which includes an assessment of indicators identified in the standard, and when an impairment indicator is identified, the investment must be measured at fair value.
    - This measurement alternative is not available for broker-dealers (ASC Topic 940), investment companies (ASC Topic 946), or investments in an equity security that qualifies for the practical expedient to estimate fair value in accordance with paragraph ASC 820-10-35-59 (net asset value practical expedient).

Fair value option

- The unconditional fair value option in existing GAAP under ASC Topic 825, "Financial Instruments," is retained.
- For financial liabilities that are measured at fair value under the fair value option election, the portion of the total fair value change caused by a change in instrument-specific credit risk should be presented separately in OCI. Under current GAAP, this amount is presented on the income statement and can create counterintuitive changes in income when an institution's own credit risk changes.
- As noted under "Effective dates and transition" later, early adoption of this specific provision is permitted for all entities immediately, as of the beginning of the fiscal year, for interim or annual financial statements of fiscal years or interim periods that have not yet been issued (by PBEs) or that have not yet been made available for issuance (by non-PBEs).

Valuation allowance on a DTA related to debt securities classified as AFS

- Requires a DTA valuation allowance related to an AFS debt security to be assessed in combination with other DTAs. Today, practice is mixed. Some evaluate the DTA on AFS debt securities separately on the basis that management can control its realizability.

Disclosure

- The board distinguished between PBEs and non-PBEs for certain disclosures. In addition, consistent with existing GAAP, trade receivables and payables with a maturity date of less than one year are outside the scope of the new standard for disclosures.

- **Financial assets and financial liabilities** – On the balance sheet or in the footnotes, disclose all financial assets and financial liabilities grouped by measurement category (for example, fair value through income or fair value through OCI) and form (for example, securities or loans and receivables) of financial assets.
- **Fair value for amortized cost financial instruments** – The tabular disclosure that includes the fair value of financial assets and financial liabilities that are measured at amortized cost, in accordance with ASC 825, "Financial Instruments" (formerly known as FASB Statement 107, "Disclosures About Fair Value of Financial Instruments"), is changing as follows:
    - For non-PBEs, the FASB is removing the disclosure requirement completely. As noted under "Effective dates and transition" later, early adoption of this provision is permitted immediately for financial statements that have not yet been made available for issuance.
    - For PBEs, the FASB is raising the bar with an important change in how the fair values would be determined in this tabular disclosure. Currently, an exception in GAAP permits loans to be measured using an entry price, which commonly is computed by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This differs from the general requirement in GAAP to determine fair value using an exit price. Because the new disclosure requirement refers to "fair value" as it is defined in the ASC glossary, and it is the same definition as that for current GAAP fair value, the exception for measuring certain assets at an entry price has been removed. As such, entities will need to measure all financial instruments in this tabular disclosure based on an exit price. This requirement could present challenges, particularly for loan portfolios, given that common practice for those portfolios is to rely on the current exception in GAAP (ASC 825-10-55-3) to measure financial instruments using an entry price.
    - Also, an entity will disclose the level of the fair value hierarchy within which the fair value measurement of financial instruments measured at amortized cost is categorized in its entirety (Level 1, 2, or 3). Certain public companies (under the definitions before ASU 2013-12) already have this requirement, which was established by ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs."
    - In some good news for PBEs, the board is removing the requirements to disclose the method or methods and significant assumptions used to estimate the fair value for disclosure purposes of financial instruments measured at amortized cost. With these changes, the board also is removing the requirement to disclose any changes in methods and significant assumptions.
- **Equity securities without a readily determinable fair value using the measurement alternative** – Disclose the carrying amount of investments that are measured using the measurement alternative, as well as the amount of adjustments made to the carrying amount due to observable changes and impairment charge during the period. Also, the information an entity considered in reaching the carrying amount or upward or downward adjustments resulting from observable price changes.

Clarifications

1. Equity securities without a readily determinable fair value and fair value option liabilities

   With the issuance of ASU 2018-03, "Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," on Feb. 28, 2018, the FASB clarified the guidance in ASU 2016-01 specifically for equity securities without a readily determinable fair value and financial liabilities for which the fair value option is elected.

Equity securities without a readily determinable fair value

For equity securities without a readily determinable fair value, a measurement alternative is allowed under ASU 2016-01, and the clarifications primarily relate to those equities:

- An entity is allowed to change from the measurement alternative for these equity securities to a fair value method consistent with Topic 820, "Fair Value Measurement." The election is irrevocable and must be applied to all identical or similar investments of the same issuer including future purchases. Gains or losses resulting from the election should be recognized in earnings.
- Adjustments to the securities' value that reflect observable transactions for a similar security should be made as of the date that the observable transaction took place.
- Remeasurement of the entire value of forward contracts and purchased options is required when an observable transaction on the underlying equity investment occurs.
- Because of potential difficulties in determining the last observable transaction price for equity securities without a readily determinable fair value, the prospective transition approach is required when the measurement alternative is applied. For all other amendments in ASU 2016-01, the modified retrospective approach is required.

Fair value option (FVO) financial liabilities

- Presentation of financial liabilities for which the FVO has been elected is prescribed by ASC 825-10-45-5 (that is, the fair value change attributable to instrument-specific credit risk is recognized in OCI and the rest of the change in income). That guidance should also be applied to financial liabilities for which an entity elects to measure the entire hybrid financial instrument at fair value under ASC 815-15-25-4.
- For FVO financial liabilities denominated in a foreign currency, the fair value change for instrument-specific credit risk should first be measured in the currency of denomination when separately presented in OCI. Then, both fair value change components (for instrument-specific credit risk and for foreign currency) should be remeasured into the functional currency of the reporting entity.

Effective dates for ASU 2018-03

For PBEs, the ASU is effective for fiscal years beginning after Dec. 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. For PBEs with fiscal years beginning between Dec. 15, 2017, and June 15, 2018, adoption is not required until the interim period beginning after June 15, 2018, which first applies to the Sept. 30, 2018, interim financial statements, for calendar year-end PBEs. For PBEs with fiscal years beginning between June 15, 2018, and Dec. 15, 2018, adoption of this ASU is not required before ASU 2016-01. The board's intention is to allow entities to continue with their current adoption plans for ASU 2016-01.

For all other entities, the effective date is the same as the effective date in ASU 2016-01.

Early adoption is allowed for fiscal years beginning after Dec. 15, 2017, including interim periods within, as long as ASU 2016-01 has been adopted.

2. Elimination of SEC guidance on available-for-sale equity securities

On Nov. 29, 2017, the SEC staff issued SAB 117 to eliminate guidance in SAB Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Equity Securities." Because FASB ASC Topic 321, "Investments – Equity Securities," (codified by ASU 2016-01) eliminates the AFS classification for investments in equity securities, the SEC guidance in SAB Topic 5.M on classification and measurement for that security type is no longer applicable. Subsequent to an SEC registrant adopting ASC Topic 321, SAB Topic 5.M will no longer apply.

On March 9, 2018, the FASB codified SAB 117 by issuing ASU 2018-04, "Investments – Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update)."

3. Implementation clarifications

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

   - Issue 4A: Scope clarifications for Subtopics 320-10, "Investments – Debt Securities – Overall," and 321-10, "Investments – Equity Securities – Overall" – clarifies the board's intent to exclude health and welfare plans accounted for under Topic 965, "Health and Welfare Benefit Plans," from the scope of Subtopics 320-10 and 321-10.
   - Issue 4B: Held-to-maturity debt securities fair value disclosures – clarifies the board's intent to exempt entities other than PBEs from fair value disclosure requirements for financial instruments not measured at fair value on the balance sheet.
   - Issue 4C: Applicability of Topic 820, "Fair Value Measurement," to the measurement alternative – requires an entity to remeasure an equity security without readily determinable fair value at fair value when an orderly transaction is identified for an identical or similar investment of the same issuer in accordance with Topic 820, using fair value as of the date the observable transaction occurred. Applicable disclosure requirements in ASC 320 should be followed for a nonrecurring fair value.
   - Issue 4D: Remeasurement of equity securities at historical exchange rates – clarifies that the only equity securities required to follow paragraph 830-10-45-18 and remeasure at historical exchange rates are those equity securities without readily determinable fair values accounted for under the measurement alternative.

Effective dates and transition

For PBEs, the standard is effective in fiscal years beginning after Dec. 15, 2017, including interim periods in those fiscal years.

For non-PBEs, the standard will be effective for fiscal years beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019. Non-PBEs may early adopt the standard using the PBE effective dates.

For two items, early adoption is permitted immediately as of the beginning of the fiscal year for interim or annual financial statements that have not yet been issued (for PBEs) or that have not yet been made available for issuance (for non-PBEs) for the following:

- Fair value change resulting from own credit risk for financial liabilities measured under the fair value option recognized through OCI
- The elimination of fair value disclosure requirements for financial instruments not recognized at fair value by entities that are not PBEs

Upon adopting ASU 2016-01 an entity will be required to make a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective (that is, to take a modified retrospective approach). For example, to reclassify an AFS equity security to FV/NI, the entity will make an adjustment from accumulated other comprehensive income (loss) to retained earnings at the date of adoption. The practical expedient for equity securities without readily determinable fair values will be applied prospectively.

ASU 2019-04 is effective for fiscal years beginning after Dec. 15, 2019, including interim periods in those fiscal years. Early adoption is permitted in any interim period if the entity has adopted all of the amendments in ASU 2016-01.

Crowe resources
One of the most important changes for financial institutions is the change for the fair value disclosures from entrance to exiting pricing. For an in-depth discussion, refer to the Crowe article released on Dec. 13, 2017, "Complying With the New Fair Value Disclosure Requirements in 2018."

Also, an article published by Crowe, "It's Just an Oil Change After All: FASB Issues Final Standard for Recognition and Measurement of Financial Instruments," provides an in-depth discussion of the final standard.

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 IASB that both boards added to their agendas in July 2006. Earlier in 2016, the IASB issued IFRS 16, "Leases," which is converged with the FASB standard with respect to recording most leases on the balance sheet.

ASU 2016-02 was issued in three sections: "Section A – Leases: Amendments to the FASB ASC," "Section B – Conforming Amendments Related to Leases: Amendments to the FASB ASC," and "Section C – Background Information and Basis for Conclusions."

The lease standard applies to all lease contracts. A lease contract 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.

Lessee lease classification

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

Lessors

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

A lessor will determine whether a lease should be classified as sales-type based on applying the same five criteria as lessees, and if any are met (that is, the lessee effectively obtains control of the leased asset), the lease will be classified as a sales-type lease. If the lease does not meet any of those initial five criteria, a lessor will determine if the lease meets the two criteria that trigger direct-finance lease classification. Those two criteria are 1) the present value of the sum of the lease payments and any additional guaranteed residual value equals or exceeds substantially all of the fair value of the leased asset, and 2) it is probable that the lessor will collect the lease payments and any guaranteed residual value.

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

Lessor lease classification

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

Sale and leaseback transactions

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

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

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

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

Sale and leaseback transition guidance

Previously qualified as a sale under existing GAAP

Sale and leaseback transactions that occurred prior to the effective date and qualified as a sale under 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. Codification Improvements
   On March 5, 2019, the FASB issued ASU 2019-01, "Leases (Topic 842): Codification Improvements," which provides two clarifications for lessors that are not manufacturers or dealers, such as financial institutions and captive finance companies. The ASU also exempts lessees and lessors from certain interim disclosure requirements in the period of adoption of Topic 842.

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

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

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

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

2. 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.

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

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

4. 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.

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

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

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

Effective dates

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

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, EITF meeting. That means certain PBEs may elect to apply the lease guidance for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020, which if elected, first applies to Dec. 31, 2020, annual financial statement for calendar year-end entities.

For non-PBEs (and not-for-profit entities and employee benefit plans that do not meet the criteria in the standard for the earlier effective date), the standard is effective for fiscal years beginning after Dec. 15, 2020, and interim periods within the fiscal years beginning after Dec. 15, 2021, which first applies to Dec. 31, 2021, annual financial statements for calendar year-end entities.

Early adoption is permitted upon issuance.

Transition

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

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

Practical expedients for transition

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

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

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

Center for Audit Quality (CAQ) resource

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

- **Understanding the new leases standard**, including identification of all contracts with leases and for lessees, measurement of the new ROU asset, and lease liability
- **Evaluating the company's impact assessment**, including disclosure of the expected impact on the financial statements as well as the impact on debt covenants, regulatory compliance, and other considerations
- **Evaluating the implementation project plan**, including an evaluation of the timeline, the corporate culture, involvement of key stakeholders, accounting policies and judgments, and systems and controls
- **Other implementation considerations**, such as transition methods and disclosure requirements

Crowe resources

In addition to the article "Bigger Balance Sheets on the Horizon: FASB Issues New Leases Accounting Standard," Crowe published the article "Something Borrowed, Something New: Get Ready for the New Lease Accounting Standard," which provides an in-depth discussion of the final standard.

Hedging activities

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

These are the most significant changes applicable to financial institutions:

Fair value hedges

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

Cash flow hedges

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

Both fair value and cash flow hedges

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

Clarifications

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

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

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

Effective Rate, the OIS rate based on SOFR will be a swap rate based on the underlying overnight SOFR rate.

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

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

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

2. Hedge accounting clarifications

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

- Issue 3A: Partial-term fair value hedges of interest-rate risk
    - Clarifies that an entity may designate and measure the change in fair value of a hedged item attributable to both interest-rate risk and foreign exchange risk in a partial-term fair value hedge. The proposal also clarifies that one or more separately designated partial-term fair value hedging relationships of a single financial instrument can be outstanding at the same time.

- Issue 3B: Amortization of fair value hedge basis adjustments
    - Clarifies that an entity may, but is not required to, begin to amortize a fair value hedge basis adjustment before the fair value hedging relationship is discontinued. If an entity elects to amortize the basis adjustment during an outstanding partial-term hedge, that basis adjustment should be fully amortized on or before the hedged item's assumed maturity date in accordance with paragraph 815-25-35-13B.

- Issue 3C: Disclosure of fair value hedge basis adjustments
    - Clarifies that available-for-sale debt securities should be disclosed at their amortized cost and that fair value hedge basis adjustments related to foreign exchange risk should be excluded from the disclosures required by paragraph 815-10-50-4EE.

- Issue 3D: Consideration of the hedged contractually specified interest rate under the hypothetical derivative method
    - Clarifies that an entity should consider the contractually specified interest rate being hedged when applying the hypothetical derivative method.

- Issue 3E: Scope for not-for-profit entities

- Clarifies that a not-for-profit entity that does not separately report earnings may not elect the amortization approach for amounts excluded from the assessment of effectiveness for fair value hedging relationships. Also updates the cross-references in paragraph 815-10-15-1 to further clarify the scope of Topic 815 for entities that do not report earnings separately.

- Issue 3F: Hedge accounting provisions applicable to certain private companies and not-for-profit entities
    - Clarifies that a private company that is not a financial institution as described in paragraph 942-320-50-1 should document the analysis supporting a last-of-layer hedge designation

concurrently with hedge inception. Also clarifies that not-for-profit entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market) should be provided with the same subsequent quarterly hedge effectiveness assessment timing relief provided to certain private companies in paragraph 815-20-25-142.

- Issue 3G: Application of a first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments
  - Clarifies that application of the first-payments-received cash flow hedging technique to overall cash flows on a group of variable interest payments continues to be permitted.

- Issue 3H: Update 2017-12 transition guidance
  - Provide clarification about the three transition requirements in ASU 2017-12:
    1. Clarifies that when an entity modifies a fair value hedge to measuring the hedged item using the benchmark rate component of the contractual coupon, the hedging relationship can be rebalanced, but new hedged items and hedging instruments cannot be added to the hedge.
    2. Clarifies that an entity may transition from a quantitative method of hedge effectiveness assessment to a method comparing critical terms without dedesignating an existing relationship.
    3. Clarifies that debt securities reclassified from held-to-maturity (HTM) to available-for-sale following paragraph 815-20-65-3(e)(7) would not call into question an entity's assertion to hold to maturity those securities that continue to be classified as HTM, are not required to be designated in a last-of-layer hedge relationship and may be sold after reclassification.

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

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

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

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

Crowe resources
For more in-depth analysis, please read "FASB Just Moved a Mountain, Changed Landscape on Hedging," published by Crowe on Sept. 13, 2017.

Credit losses

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

The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, 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, 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, receivables between entities under common control, and derivatives and hedging instruments in the scope of ASC Topic 815.

Under the CECL model, financial statement preparers should address the following guidelines included in the standard:

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

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

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

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

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

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

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

<u>Disclosures</u>
The standard retains many existing disclosures and introduces new disclosures, including:

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

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

Codification improvements

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

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

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

The changes to credit losses include:

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

    - Reverse 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 Update 2016-13 identified by stakeholders
  - Issue 2A: Conforming amendment to Subtopic 310-40, “Receivables **–** Troubled Debt Restructurings by Creditors” – corrects a cross-reference such that an entity is required to use the fair value of collateral when foreclosure is probable.
  - Issue 2B: Conforming amendment to Subtopic 323-10, “Investments **–** Equity Method and Joint Ventures (Topic 323)” – clarifies the equity method losses allocation guidance Subtopic 323-10 by adding cross-references to Subtopics 326-20 and 326-30 for subsequent accounting when the investor has other investments, such as loans and debt securities, in the equity method investee.
  - 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 used to discount those expected cash flows.
  - Issue 2E: Consideration of prepayments in determining the effective interest rate (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 2019-4 are effective on the same dates as ASU 2016-13. For entities that have already adopted ASU 2016-13, these amendments are effective for fiscal years beginning after Dec. 15, 2019, including interim periods within those fiscal years.

Final ASU on negative allowances for PCD assets and other clarifications

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

Other technical improvements include:

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

Vintage disclosures: Gross write-offs and gross recoveries

At its Nov. 7, 2018, meeting, the board decided to clarify that gross recoveries and gross write-offs should be presented by vintage year and by class of financing receivable within the credit quality information vintage disclosure described in paragraph 326-20-50-6. This question was posed in response to the illustrative disclosure in example 15 in the ASU. The board had decided to issue a separate proposed ASU with a 60-day comment period.

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

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

The board plans to monitor the disclosures made upon adoption and consider additional outreach with investors to determine if changes should be made after the standard is effective.

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 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.

FASB staff Q&As

Staff Q&A document: WARM method

On Jan. 10, 2019, the FASB staff released a question-and-answer (Q&A) 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 whether the weighted-average remaining maturity (WARM) method is an acceptable method to estimate expected credit losses. 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 and planned workshops

On July 17, 2019, the FASB staff issued its second Q&A document focusing 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.

On Oct. 21, 2019, the FASB announced a series of workshops to help community banks and credit unions implement the CECL standard. Presented by FASB staff experts at conferences and other venues, these workshops are interactive sessions focusing on credit loss reserve estimation techniques, including the weighted average remaining maturity method; answers to frequently asked questions; and common implementation issues identified by community banks and credit unions.

The FASB is working with the Conference of State Bank Supervisors to plan additional workshops based on each state's training needs. Newly scheduled workshops will be announced on the FASB website as they become available.

Agenda requests

Accounting for acquired financial assets that do not meet the definition of purchased credit deterioration

Two regional banks have submitted agenda requests, one dated Jan. 28, 2019, and one dated March 27, 2019, to reevaluate the accounting for acquired financial assets that do not meet the definition of purchased financial assets with credit deterioration. For PCD assets, a portion of the purchase price is allocated to the allowance, with no day one earnings impact. For non-PCD assets, the day one allowance is established through a charge to earnings, which some refer to as "double-counting." The result is a different accounting model for non-PCD assets, as compared to originated financial assets, which is contrary to the board's stated intent, and non-PCD accounting that is confusing.

Both agenda requests assert that credit risk may be reliably isolated for acquired financial assets, the incremental cost of doing so would be negligible, and the credit expenses on non-PCD assets would not be insignificant when applied to a large portfolio of non-PCD assets. While the negative impact to earnings will gradually be “recaptured” through interest income accretion over the life of the acquired non-PCD financial assets, such an approach is counterintuitive and unnecessarily penalizes equity to some degree from acquisition date through the reporting period in which expected losses are ultimately realized in comparison to both acquired non-PCD and originated financial assets.

At its Sept. 18, 2019, meeting, the board decided not to add a project to its agenda to consider changing the accounting for acquired financial assets in a business combination that do not meet the definition of purchased financial assets with credit deterioration.

FASB roundtable discussion: Regional bank agenda request for presenting a portion of expense in AOCI

The FASB held a public roundtable discussion on the credit losses standard on Jan. 28, 2019. The predominant topic discussed was an agenda request to present a portion of credit losses in accumulated other comprehensive income (AOCI) rather than earnings. On Nov. 5, 2018, a group of primarily regional banks submitted an agenda request to the FASB. The proposed approach would retain the allowance for credit losses under the CECL methodology on the balance sheet but would allocate credit loss expense between earnings and AOCI. Representatives from the largest banks, community banks, and credit unions expressed concern with operational complexity and additional cost associated with the proposal.

The agenda, summary, and webcast audio are available on the FASB website.

At its April 3, 2019, meeting, the FASB board decided not to add to its agenda a project for the alternative presentation of the credit loss expense (that is, splitting expected credit loss expense between net income and other comprehensive income) as presented by the regional banks on Nov. 5, 2018, and as discussed at the public roundtable on the credit losses standard on Jan. 28, 2019. The board members agreed unanimously, primarily citing cost and complexity.

Previous meetings of the Transition Resource Group for Credit Losses

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

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

AICPA credit losses task force and Depository Institutions Expert Panel

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

Auditing

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. The practice aid is part of a broader AICPA initiative and will be included in the AICPA Credit Losses A&A Guide planned for release next year.

Accounting

The AICPA has released proposed resolutions for comment on the AICPA's Credit Loss Standard (CECL) Issues page.

On Aug. 9, 2018, the AICPA's Financial Reporting Executive Committee (FinREC) issued two drafts for comment. Comments were due Oct. 10, 2018.

- Issue 1, Zero Expected Credit Losses – Types of assets with an expected nonpayment of zero (such as agencies). The draft expands upon the guidance in ASU 2016-13, "Financial Instruments – Credit Losses," related to financial instruments where the expected credit loss determination is zero. Specifically, it covers example 8 in the ASU for U.S. Treasury securities and provides two additional examples – one for Ginnie Mae (GNMA) mortgage-backed securities and one for U.S. agency mortgage-backed securities.
- Issue 22, Reversion Method: Estimation vs. Accounting Policy. The draft provides FinREC's view that the reversion method that an entity selects in applying the CECL standard is an estimation technique and not an accounting policy election.

On Oct. 29, 2018, FinREC issued one draft for comment. Comments were due Dec. 31, 2018.

- Issue 6, Reasonable and Supportable Forecast – Developing the Period and Use of Historical Information. The draft covers FinREC's views on two issues: 1) considerations an entity would use to determine its reasonable and supportable forecast period and 2) how an entity would determine the historical loss information (that is, long-term average versus other methods) it will revert to once it is beyond a period in which it can make or obtain reasonable and supportable forecasts of future conditions that affect expected credit losses.

On Aug. 16, 2019, FinREC released three exposure drafts. Comments were due Oct. 15, 2019.

- Issue 21: Inclusion of Future Advances of Taxes and Insurance Payments in Estimates. Issues include whether a lender's expectations of future losses on payments of tax, insurance premiums, and other "costs" (that is, payments made by lenders that may not be recovered from borrowers) should be included in the estimate of expected lifetime credit losses prior to the lender advancing the funds or incurring the costs.
- Issue 23: Zero Expected Credit Loss Factors for Secured Financial Assets Secured by Collateral. Included are circumstances and factors appropriate to have no allowance for credit losses on secured financial assets.
- Issue 28: Scope Exception for Loans and Receivables Between Entities Under Common Control. Scope exception for loans and receivables between entities under common control apply to U.S. GAAP reporting at the subsidiary stand-alone level.

Crowe resources
An article published by Crowe in August 2016, "Inside the New Credit Loss Model: Requirements and Implementation Considerations," offers a comprehensive look at the new standard.

In addition, Crowe published a series of articles on adapting to the CECL model:

- June 2016, “Adapting to CECL – Part I: Identifying Portfolio Risks”
- July 2016, “Adapting to CECL – Part II: Taking Stock of the Data Requirements”
- September 2016, “Adapting to CECL – Part III: Establishing Effective Governance and Oversight”
- October 2016, “Adapting to CECL – Part IV: Developing Needed Resources and Technology”

From the FASB: Other final standards

Income taxes

Income tax reform – reclassification of stranded tax effects in AOCI

Under existing accounting guidance, deferred-tax assets and deferred-tax liabilities (DTAs and DTLs) must be adjusted for tax law changes in the reporting period of the tax law's enactment, and the effect must be included in income from continuing operations. This guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income (AOCI) were originally recognized in other comprehensive income. After the issuance of tax reform law known as the *Tax Cuts and Jobs Act* (H.R. 1), stakeholders raised the issue to the FASB that applying this guidance would cause the tax effects of items within AOCI not to reflect the appropriate tax rates, resulting in "stranded tax effects."

In an expedited response on Jan. 18, 2018, the FASB issued a proposal, and on Feb. 14 it issued the final ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income." It allows institutions to elect to reclassify the stranded tax effects from AOCI to retained earnings, limited only to amounts in AOCI that are affected by the tax reform law. This can include remeasuring DTAs (and related valuation allowances that were not originally charged to income from continuing operations) and DTLs related to items presented in AOCI at the newly enacted tax rate and other income tax effects on items remaining in AOCI.

Effective dates

Early adoption is permitted, and many institutions early adopted the ASU because the tax rate change was effective on Dec. 22, 2017. For those institutions that do not elect to early adopt, the ASU is effective for fiscal years beginning after Dec. 15, 2018, and interim periods within, which is March 31, 2019, interim financial statements for calendar year-ends.

Certain disclosures are required in the period of adoption for all entities, whether they elect to apply this reclassification option or not.

Transition

The amendments should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the *Tax Cuts and Jobs Act* is recognized.

Consolidation and business combinations

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

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

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

In addition, the ASU revises the analysis for determining whether a decision-making fee paid by a VIE is a variable interest such that indirect interests in a VIE held through related parties in common control arrangements would be considered on a proportional basis (thus eliminating the requirement to consider such indirect interests as the equivalent of a direct interest). This revision is consistent with the analysis for determining whether a reporting entity in a related party group is the primary beneficiary of a VIE by including indirect interests on a proportional basis (pursuant to amendments in ASU 2016-17).

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

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

Transition
Retrospective application to the earliest period presented is required.

Definition of a business

On Jan. 5, 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," which clarifies the definition of a business and is intended to help evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. That distinction determines whether goodwill is recorded or not. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. If substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, then the set of transferred assets and activities is not a business.

The amendments require a business to include at least one substantive process and remove the evaluation of whether a market participant could replace the missing elements. The revised definition will result in more transactions being recorded as asset acquisitions or dispositions as opposed to business acquisitions or dispositions.

Effective dates
For PBEs, the standard is effective for annual reporting periods beginning after Dec. 15, 2017, including interim periods in those periods, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs.

For all other entities, it is effective for annual reporting periods beginning after Dec. 15, 2018, and interim periods in annual periods beginning after Dec. 15, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities.

Early adoption is allowed as follows:

- For acquisitions before the adoption date, only when the acquisition has not already been reported in financial statements that have been issued or made available for issuance.
- For deconsolidation or derecognition transactions in which a subsidiary is deconsolidated or a group of assets is derecognized that occur before the adoption date of the amendments, only when such transaction has not been reported in financial statements that have been issued or made available for issuance.

Transition
Prospective application is required.

Intangibles

Implementation costs in a cloud computing arrangement

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

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

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

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

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

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

Transition
An entity can choose between prospective and retrospective transition.

Goodwill impairment

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

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

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

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

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

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

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

Transition
Prospective application is required.

Liabilities and equity

Distinguishing liabilities from equity – financial instruments with down round features

The FASB issued, on July 13, 2017, ASU 2017-11, "Earnings Per Share (Topic 260); Distinguishing Liabilities From Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments With Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception," to address two separate issues.

Part 1 of the guidance addresses concerns with the complexity of accounting for certain financial instruments with down round features (for example, features that reduce the strike price of a financial instrument based on future equity offerings at a price less than the stated strike price). This ASU eliminates the requirement that an entity consider down round features when determining whether a financial instrument is indexed to its own stock under the liability or equity classification analysis, so that under the new guidance, an instrument with down round features will not be liability classified solely because of the down round features. Instead, for warrants and other freestanding equity-classified financial instruments with down round features, companies that present earnings per share (EPS) will recognize the effect of a down round feature when it is triggered as a dividend and a reduction of income available to common shareholders in basic EPS.

Also, companies now will apply existing guidance for contingent beneficial conversion features (BCFs) to their convertible instruments with down round features (for example, debt or preferred stock convertible to common stock). Similar to warrants, down round features for convertible instruments (or BCFs) will be recorded only when the triggering event occurs, but unlike warrants, triggered BCFs will be recognized regardless of whether EPS is presented. BCFs are recorded as a discount to the convertible instrument with an offsetting credit to additional paid-in capital (APIC), and debt discounts are accreted to interest expense, while discounts to preferred stock are accreted to retained earnings and reported as a deemed dividend.

The ASU also requires disclosure of the conversion and exercise price change features (such as down round features) for equity-classified instruments. In the period that the down round feature is triggered, companies are required to disclose that fact and the value of the effect of the feature that has been triggered.

Part II of the ASU addresses the 2003 effective date deferral of FASB Statement 150, "Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity," for mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests, which is memorialized in ASC 480-10-65-1. Some find that content in the codification difficult to read and navigate, so the board replaced the indefinite deferral with a scope exception. As such, there is no accounting impact.

Effective dates
Part I provisions related to down round features are effective for PBEs for fiscal years beginning after Dec. 15, 2018, and interim periods within. For all other entities, Part I provisions are effective for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020. Early adoption is permitted for all entities, including in an interim period.

Compensation and benefits

Improvements to nonemployee share-based payments

On June 20, 2018, the FASB issued ASU 2018-07, "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," to simplify the accounting for nonemployee share-based payments for goods or services to be used in a grantor's own operations, by aligning it with and including it within the scope of Topic 718 for employee share-based compensation. Although uncommon, some financial institutions may issue awards to nonemployees providing advisory or consulting services (for example, legal advice, investment banking advice).

The guidance clarifies that the following are outside the scope of Topic 718:

- Share-based payments to provide financing to the issuer
- Share-based payments to grant awards in conjunction with selling goods or services to customers as part of a contract under Topic 606, "Revenue From Contracts With Customers"

Under the new guidance, the following changes will apply to nonemployee share-based payment awards:

- Instead of measuring at the fair value of the consideration received or the fair value of the equity instruments issued as required under previous GAAP, the awards will be measured at grant date fair value.
- Instead of measuring at the earlier of when a commitment for performance by the counterparty is reached, or the date at which the counterparty's performance is complete, the awards will be measured at the grant date.
- Instead of measuring awards with performance conditions at the lowest aggregate fair value, the grantor will consider the probability of satisfying performance conditions contained in the awards.
- The classification of equity-classified awards will no longer need to be reassessed upon vesting unless award modifications occur after it vests and the nonemployee is no longer providing goods or services.

Effective dates
For PBEs, the ASU is effective for fiscal years beginning after Dec. 15, 2018, including interim periods within, which first applies to March 31, 2019, interim financial statements for calendar year-end PBEs. For all other entities, it is effective for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020. Early adoption is permitted, including in an interim period, but no earlier than the adoption of Topic 606, "Revenue From Contracts With Customers."

Net periodic pension and postretirement benefit costs

On March 10, 2017, the board issued ASU 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," to improve the presentation of defined benefit cost by addressing stakeholder feedback provided to the FASB. Stakeholders indicated that under existing GAAP, the net presentation lacks transparency and usefulness.

Rather than reporting pension expense as a net amount, the service cost component of pension expense will be presented consistent with other compensation for similar employees. Also, the other components (including interest, expected return on plan assets, any gain or loss on settlements or curtailments, and termination costs) of pension expense will be presented separately in the income statement, outside of operating income (where applicable). The income statement line item(s) that includes the other components of pension expense should be appropriately described, or if a separate line item is not used, the line(s) where the other components are presented must be disclosed.

Only the service cost component of pension expense is eligible for capitalization as part of assets such as inventory or premises and equipment. This is a change in GAAP as all components of pension expense are eligible for capitalization under existing GAAP.

Effective dates
The standard is effective for PBEs for annual reporting periods beginning after Dec. 15, 2017, including interim periods in that reporting period. For calendar year-end PBEs, it first applies to March 31, 2018, interim financial statements.

For non-PBEs, it is effective for annual reporting periods beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019. For calendar year-end entities, it first applies to Dec. 31, 2019, annual financial statements.

Early adoption is permitted as of the beginning of an annual period, which would mean adoption in the first interim period if an entity issues interim financial statements.

Transition
The income statement presentation amendments should be applied retrospectively, and the amendments for the capitalization of the service cost component should be applied prospectively.

A practical expedient is provided for entities to use the amounts for the prior comparative periods disclosed in the pension note to the financial statements as the estimation basis for applying retrospective presentation requirements. If the practical expedient is applied, that fact must be disclosed.

Other codification improvements

SEC codification sections
In July 2019, the FASB issued ASU 2019-07, "Codification Updates to SEC Sections," which amends certain SEC sections or paragraphs within the Accounting Standards Codification to reflect changes in SEC Final Rule Releases No. 33-10532, "Disclosure Update and Simplification," and 33-10231 and 33-10442, "Investment Company Reporting Modernization."

Other revisions in ASU 2019-07 update language in the codification to match the electronic Code of Federal Regulations.

Other
The FASB issued ASU 2018-09, "Codification Improvements," on July 16, 2018. The ASU contains 30 improvements to the codification, including the following:

- Clarifies that a financial institution must disclose the required and actual amounts of regulatory capital for each measure of regulatory capital for which the entity must comply
- Clarifies income tax accounting for certain quasi reorganizations
- Clarifies debt extinguishment guidance when the fair value option is elected
- Revises an example to align with guidance that prohibits the combination of freestanding financial instruments in the scope of ASC 480-10 with noncontrolling interest, unless the combination is required by Topic 815
- Clarifies that excess tax benefits should be recognized in the period when the tax deduction for compensation expense is taken on the tax return

- Eliminates the three tax allocation methods from ASC 805-740-25-13 because they are not systematic, rational, and consistent as required by Topic 740
- Clarifies that the intent to set off criteria is not required to offset derivative assets and liabilities when recognized at fair value and executed with the same counterparty under a master netting agreement
- Clarifies how to consider transfer restrictions for fair value measurement
- Clarifies balance sheet offsetting for broker-dealers

Effective dates
The effective dates vary by issue, as specified in the ASU. Some improvements were effective upon issuance, which was July 16, 2018, for both PBEs and non-PBEs. For year-end PBEs, other improvements are effective in the March 31, 2018, interim financial statements, and the rest are effective one year later. For year-end non-PBEs, other improvements are effective in the Dec. 31, 2019, annual financial statements, and the rest are effective one year later.

Early adoption is permitted, including in an interim period.

Premiums on callable debt securities
The FASB issued ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," on March 30, 2017, which will shorten the amortization period for premiums on callable debt securities by requiring that premiums be amortized to the first (or earliest) call date instead of as an adjustment to the yield over the contractual life. This change more closely aligns the accounting with the economics of a callable debt security and the amortization period with expectations that already are included in market pricing on callable debt securities.

This guidance is in response to a stakeholder request that the board address the accounting for the premium or discount (components of interest income) associated with the purchase of callable municipal securities. Under current GAAP, premiums and discounts are amortized and accreted over contractual life, not to call date. Some stakeholders observed that significant premiums on assets exist, particularly on instruments issued by municipalities that are likely to be repaid earlier than maturity. Under current GAAP, the result is overrecognition of interest income during the holding periods before the call and recognition of a loss during the period when the call occurs. The new standard eliminates the misalignment of accounting and economics in these transactions by requiring amortization to the earliest call date.

The guidance does not change the accounting for discounts on callable debt securities, as the discounts continue to be amortized to the maturity date.

The scope of the ASU includes only instruments that are held at a premium (that is, the amortized cost basis is in excess of the amount that is repayable by the issuer) and are callable based on an explicit decision by the issuer. The scope does not include instruments that contain prepayment features, nor does it include call options that are contingent upon future events or in which the timing or amount to be paid is not fixed.

Effective dates
For PBEs, the effective date is in fiscal years and interim periods within, beginning after Dec. 15, 2018, which first applies to March 31, 2019, interim financial statements for calendar year-end PBEs. For non-PBEs, it is effective in fiscal years beginning after Dec. 15, 2019, and interim periods in fiscal years beginning after Dec. 15, 2020.

Early adoption is permitted, including in an interim period.

Transition
Transition is on a modified retrospective basis with an adjustment to retained earnings as of the beginning of the period of adoption.

Derecognition and partial sales of nonfinancial assets

The FASB issued, on Feb. 22, 2017, ASU 2017-05, "Other Income – Gains and Losses From the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." The ASU addresses questions on ASC 610-20 guidance that was added by ASU 2014-09 (the revenue recognition standard) for transfers of nonfinancial assets (for example, intangible assets, land, buildings, and equipment) to noncustomers. The amendments in ASU 2017-05 exclude all businesses and nonprofit activities from the scope of ASC 610-20 and require derecognition of those nonfinancial assets to be accounted for in accordance with ASC 810.

The ASU accomplishes two primary objectives. First, the amendments clarify the scope of Subtopic 610-20 by defining an "in substance nonfinancial asset," which is a new concept to many entities outside the real estate industry. The ASU defines that term, in part, as "a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets." If the definition is met, an entity is not required to separately account for the financial assets, as they are in substance nonfinancial assets and will use the guidance in ASC 610-20. For each distinct in substance nonfinancial asset and each distinct nonfinancial asset promised to a counterparty, an entity should allocate consideration to each distinct asset by applying the guidance in Topic 610-20. An entity derecognizes each distinct asset when it transfers control of the asset, and the entity records a gain or loss. In some cases, control might transfer at the same time such that there is no need to separate and allocate consideration to each asset.

Second, the ASU provides guidance on "partial sales," which is a term commonly used in the real estate industry when a seller retains an equity interest in the entity that owns the nonfinancial assets or has an equity interest in the buyer of the nonfinancial assets. Detailed guidance on partial sale transactions in Subtopic 360-20 was superseded in ASU 2014-09. Under this ASU, an entity derecognizes a distinct nonfinancial asset or distinct in substance nonfinancial asset in a partial sale when it 1) does not have, or ceases to have, a controlling financial interest in the legal entity that holds the asset in accordance with Topic 810 and 2) transfers control of the asset in accordance with Topic 606. Once an entity transfers control, any noncontrolling interest it receives, or retains, is measured at fair value (which can be a change from current GAAP as entities might use a carryover basis). If an entity transfers ownership interests in a consolidated subsidiary and continues to have a controlling financial interest in that subsidiary, the assets and liabilities of the subsidiary are not derecognized and the transaction is accounted for as an equity transaction, with no gain or loss recognized.

Effective dates

The amendments are effective consistent with the effective dates for ASU 2014-09, which was deferred by ASU 2015-14. For public business entities, the amendments are effective for annual reporting periods beginning after Dec. 15, 2017, including interim periods within, which is first applicable to the March 31, 2018, interim financial statements for calendar year-ends. For all other entities, the amendments are effective for annual reporting periods beginning after Dec. 15, 2018, and interim periods in annual periods beginning after Dec. 15, 2019.

Transition

Irrespective of the transition approach elected for ASU 2014-09, an entity may apply these amendments on either a retrospective basis (that is, to each period presented in the financial statements pursuant to ASC 250-10-45-5 through 45-10) or a modified retrospective basis (that is, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption).

An entity must apply the definition of a business included in ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," to contracts with counterparties that are not customers. When applying the amended definition of a business, if an entity concludes that a previously recorded disposal of a business is no longer a business, the entity should not reinstate amounts previously allocated to goodwill that relate to that disposal.

Income taxes: Intra-entity asset transfers

As part of the FASB's simplification initiative aimed at reducing the complexity of accounting standards, the board issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," on Oct. 24, 2016.

The standard eliminates the requirement to defer current and deferred-income tax consequences for intra-entity asset transfers until the asset or assets have been sold to an outside party. Intra-entity asset transfers in this context could include transfers of assets (such as loans or securities) between two members of a banking group (for example, between a bank and its investment subsidiary). An entity that transfers assets (other than inventory) to another legal entity, even if that entity is a related party and not an outside party, will be required to recognize the current and deferred tax consequences of the assets transferred when the transfers occur.

Effective dates

For PBEs, the ASU is effective for annual reporting periods beginning after Dec. 15, 2017, including interim reporting periods in those annual periods, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs.

For other entities, it is effective for annual reporting periods beginning after Dec. 15, 2018, and interim periods in annual periods beginning after Dec. 15, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities.

Early adoption is permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance.

Transition

Application is required on a modified retrospective basis with a cumulative-effect adjustment to retained earnings in the beginning of the adoption period.

Breakage for certain prepaid cards

On March 10, 2016, the FASB issued ASU 2016-04, "Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products."

The amendments of this ASU narrowly address breakage (that is, the monetary amount of the card that ultimately is not redeemed by the cardholder) for prepaid stored-value products that are redeemable for monetary values of goods or services but also may be redeemable for cash.

The scope of this guidance does *not* include the following:

- Prepaid stored-value products that are redeemable only for cash
- Prepaid stored-value products for which breakage is subject to escheatment in accordance with unclaimed property laws
- Prepaid stored-value products that are attached to a segregated bank account
- Customer loyalty programs or transactions in the scope of other topics (for example, ASC 606 on revenue from contracts with customers or ASC 924-405 on gaming chips for casinos)

Examples of prepaid stored-value products that are in scope include prepaid gift cards issued by specific payment networks and redeemable at network-accepting merchant locations, prepaid telecommunication cards, and traveler's checks.

The ASU (which initially was added to the EITF's agenda as Issue 15-B) addresses diversity in practice for the recognition in breakage (income) from prepaid stored-value product liabilities by concluding that they are financial liabilities. However, the ASU provides a scope exception from the derecognition guidance in ASC 405, which enables breakage recognition in a manner consistent with the model in ASC 606 as follows:

- If an entity expects to be entitled to breakage, derecognize amounts in proportion to the pattern of rights expected to be exercised by the product holder to the extent significant reversals will not subsequently occur.
- If an entity does not expect to be entitled to breakage, derecognize amounts when the likelihood of the product holder exercising its remaining rights becomes remote.

Effective dates
The ASU is effective for PBEs, certain not-for-profit entities, and certain employee benefit plans for fiscal years beginning after Dec. 15, 2017, and interim periods in those fiscal years, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs.

For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities.

Early application is permitted.

Transition
A modified retrospective transition may be applied with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Alternatively, a full retrospective transition may be applied to each period presented when the guidance is adopted.

Presentation and disclosure

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.

Fair value measurement disclosure

The FASB issued, on Aug. 28, 2018, ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement," part of the framework project, to remove from, modify, and add to existing fair value measurement disclosures requirements.

The disclosure requirements that are removed include the following:

- Transfers between Level 1 and Level 2 of the fair value hierarchy
- The policy for determining when transfers between any of the three levels have occurred
- The valuation processes used for Level 3 measurements
- For nonpublic entities, the changes in unrealized gains or losses presented in earnings for Level 3 instruments held at the balance sheet date

The following disclosure requirements are modified:

- The Level 3 roll forward is eliminated for nonpublic entities, but disclosure of transfers in and out of Level 3 as well as purchases and issuances are required
- For certain investments in entities that calculate the net asset value, requires disclosures about timing of liquidation and redemption restrictions lapsing if the latter has been communicated to the reporting entity
- Clarifies that the Level 3 measurement uncertainty disclosure should communicate information about the uncertainty at the balance sheet date

The following are additional or new disclosure requirements:

- For public entities, the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 instruments held at the balance sheet date
- For public entities, the range and weighted average of significant unobservable inputs used for Level 3 measurements, but, for certain unobservable inputs, adds an option to disclose other quantitative information in place of the weighted average to the extent that it would be a more reasonable and rational method to reflect the distribution of unobservable inputs
- Nonpublic entities, some form of quantitative information about significant unobservable inputs used in Level 3 fair value measurements

Effective dates
The ASU is effective for all entities in fiscal years beginning after Dec. 15, 2019, including interim periods, which is first effective for calendar year entities in the March 31, 2020, interim financial statements. Early adoption is permitted. In addition, an entity may early adopt any of the removed or modified disclosures immediately and delay adoption of the new disclosures until the effective date.

Cash flow statement classification issues

The FASB, on Aug. 26, 2016, issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which is designed to address the diversity in how eight specific cash receipts and cash payments are presented and classified in the statement of cash flows.

The ASU provides guidance on how to classify cash flows:

- **Debt prepayment or debt extinguishment costs.** Cash payments for debt prepayment or extinguishment costs should be classified as cash outflows for financing activities.
- **Settlement of zero-coupon bonds or debt with coupon interest rates that are insignificant in relation to the effective interest rate.** At settlement, the portion of the cash payment attributable to the accreted interest should be classified as a cash outflow for operating activities, and the portion of the cash payment attributable to the principal (original proceeds) should be classified as a cash outflow for financing activities. The scope of debt instruments for this sub-issue was further clarified to include instruments with coupon interest rates that are insignificant relative to the effective interest rate, including those without a stated coupon rate (for example, commercial paper). See BC9 of ASU 2016-15.
- **Contingent consideration payments made after a business combination.** Cash payments not made soon after a business combination, by an acquirer, for the settlement of a contingent consideration liability should be separated and classified as cash outflows for financing activities (for payments up to fair value, which is the amount of the contingent consideration liability and measurement-period adjustments) and operating activities (for any excess over fair value). Payments made soon after the acquisition date to settle contingent consideration should be classified in investing activities. “Soon after” is intended to be a relatively short period of time and is not specified in the standard; however, in the Basis for Conclusions, it is noted that some task force members believed that an example of a relatively short period of time would be three months or less. See BC16 of ASU 2016-15.
- **Proceeds from the settlement of insurance claims.** Classification of the proceeds received from insurance claims settlements excluding bank-owned and corporate-owned life insurance (BOLI and COLI) should be based on the nature of the insured loss, including those proceeds that are received in a lump-sum settlement for which reasonable judgment is required to determine the classification based on the nature of each insured loss in the settlement.
- **Proceeds from the settlement of BOLI and COLI policies:**
    - **Classification of proceeds received from the settlement of BOLI policies.** Cash proceeds received from the settlement of BOLI policies should be classified as cash inflows from investing activities.
    - **Aligning the classification of premiums and proceeds for BOLI policies.** Premiums paid and proceeds received related to BOLI policies will be permitted but not required to be classified in the same cash flow category. Specifically, the classification of premiums paid may be classified in operating, investing, or a combination of those two classes.
- **Distributions received from equity method investees.** An entity must elect to use one of the following approaches (this does not apply to equity method investments measured using the fair value option).
    - **Cumulative earnings approach.** In general, distributions received from an equity method investee should be classified as cash flows from operating activities (therefore, reflected as returns on investment). If cumulative distributions less prior-period distributions do not exceed cumulative equity in earnings, the distributions are considered to be returns on investment (a dividend) and classified as an operating cash flow. If cumulative distributions less prior-period distributions exceed cumulative equity in earnings, the current period distribution should be classified as a return of investment, an investing cash flow.
    - **Distribution approach (or look-through approach).** Under this approach, companies will determine whether distributions are returns on investment classified as operating activities or returns of investment classified as investing activities based on individual facts and

circumstances. If the company elects the distribution approach as its policy but lacks sufficient information to classify a specific distribution, it must 1) report a change in accounting principle on a retrospective basis and 2) apply the cumulative earnings method to that specific investee in all subsequent periods. The cash flows for the remainder of the company's investees will continue to be classified using the distribution approach.

- **Beneficial interests in securitization transactions:**
  - **Presentation of beneficial interests at inception of securitization.** The transferor's beneficial interest obtained in a securitization of financial assets as a noncash activity should be disclosed.
  - **Classification of cash receipts from beneficial interests in trade receivables.** Cash receipts from payments on a transferor's beneficial interests in securitized trade receivables should be classified as cash inflows from investing activities.
- **Predominant cash receipts and cash payments.** When cash receipts and payments have aspects of more than one class of cash flows, current GAAP provides an example of using the activity that is likely to be the predominant source of cash flow for determining the cash flow classification. This generally is referred to as the predominance principle and is applied inconsistently in current practice. The new guidance clarifies when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows, and when an entity should classify the aggregate of those cash receipts and payments into a single class of cash flows based on predominance.

  Under the new guidance, if there is no specific literature contained in ASC 230 or in other GAAP, an entity should:
  - First, determine each separately identifiable source (for cash inflows) or use (for cash outflows) on the basis of the underlying cash flows' nature.
  - Then, classify, in financing, investing, or operating activities, each separately identifiable source or use on the basis of the cash flows' nature.
  - In situations in which cash flows have aspects of more than one class and those aspects cannot be separately identified by source or use, the classification should depend on the activity that is likely to be the predominant source or use of cash flows for the item.

Effective dates
For PBEs, the amendments are effective for fiscal years beginning after Dec. 15, 2017, and interim periods in those fiscal years, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs.

For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods in fiscal years beginning after Dec. 15, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities.

Early adoption is permitted, and if elected, all amendments must be adopted in the same period.

Transition
The ASU should be adopted on a retrospective basis to each period presented. If a retrospective transition is impracticable for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable.

Cash flow statement classification of restricted cash

On Nov. 17, 2016, the board issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a Consensus of the FASB Emerging Issues Task Force)." Originally part of the Cash Flow Statement Classification Issues project, this issue related to restricted cash was separately addressed by the EITF and by the FASB.

In current practice, transfers between cash and restricted cash are reflected as operating, investing, or financing activities, or a combination, on the cash flow statement. Also, some entities present direct cash receipts from and payments to a restricted cash bank account on the cash flow statement, and others disclose those cash flows as noncash activities.

The new guidance requires that the statement of cash flows include restricted cash and cash equivalents in total cash and cash equivalents, and therefore, the transfers solely between cash and restricted cash would not be reflected in the cash flow activities.

In addition, the balance sheet line items that include restricted cash and cash equivalents and the related amounts must be disclosed either in the cash flow statement or in the notes to the financial statements, and they should reconcile to total cash and cash equivalents on the cash flow statement, which will include restricted cash and cash equivalents. The FASB decided not to define "restricted" in the final standard. However, an entity will be required to disclose the nature of restrictions on the restricted cash and cash equivalent amounts.

Effective dates
For PBEs, the amendments are effective for fiscal years beginning after Dec. 15, 2017, and interim periods in those fiscal years, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs.

For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods in fiscal years beginning after Dec. 15, 2019, which first applies to Dec 31, 2019, annual financial statements for calendar year-end entities.

Early adoption is permitted, including adoption in an interim period.

Transition
Retrospective application to all periods presented in the cash flow statement upon adoption is required.

From the FASB: In the pipeline

Codification improvements

The FASB has a standing project on its agenda to address suggestions received from stakeholders and to make other incremental improvements to GAAP. On Nov. 26, 2019, the FASB issued a proposed ASU, "Codification Improvements." Although the proposed ASU covered a number of topics, the ones most relevant for financial institutions include:

- "Receivables" (Topic 310)
- "Financial Instruments – Credit Losses" (Topic 326)
- "Intangibles – Goodwill and Other" (Topic 350)
- "Business Combinations" (Topic 805)
- "Derivatives and Hedging" (Topic 815)
- "Fair Value Measurement" (Topic 820)
- "Financial Instruments" (Topic 825)
- "Transfers and Servicing" (Topic 860)
- "Financial Services – Depository and Lending" (Topic 942)

The proposed 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.

Comments are due Dec. 26, 2019.

Disclosure and presentation

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 No. 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."

- o “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.”
- o “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.

Income taxes

Simplifications to income tax accounting

As part of its simplification initiative, the FASB issued, on May 14, 2019, a proposed ASU, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,” which is designed to decrease cost and complexity for the accounting for income taxes.

The proposed ASU would 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 proposed 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
- Reflecting enacted changes in tax laws in interim periods
- Employee stock ownership plans and investments in qualified affordable housing projects when using the equity method

Comments were due June 28, 2019.

Improvements to income tax disclosures

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

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 newly 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:
- "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"
- "Amount and explanation of the valuation allowance recognized and/or released during the reporting period"
- "Total amount of unrecognized tax benefits that offsets the deferred tax assets for carryforwards"

Comments were due May 31, 2019.

Accounting relief from reference rate reform

On Nov. 13, 2019, the FASB approved an ASU that will offer temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from LIBOR or other interbank offered rate on financial reporting. The final ASU is expected to be issued in early 2020. More information regarding the FASB's reference rate reform project can be found on the FASB website.

To ease the transition to new reference rates, the final ASU will provide optional expedients and exceptions for applying GAAP to contract modifications and hedge accounting relationships that are affected by reference rate reform. 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 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 would be in effect for a limited time and would not apply to contract modifications made and hedging relationships entered into or evaluated after Dec. 31, 2022.

Identifiable intangible assets and subsequent accounting for goodwill

In 2001, FASB eliminated the goodwill amortization when it issued guidance for business combinations and for goodwill and other intangible assets. Financial statement users indicated that goodwill amortization expense was not regarded as useful information in analyzing investments. As such, the board presumed that goodwill has an indefinite useful life and developed guidance on how to determine and measure goodwill impairment and required goodwill to be tested at least annually for impairment.

After 13 years of impairment testing, the FASB permitted private companies an alternative to:

1. Amortize goodwill over 10 years or less.
2. Test goodwill for impairment upon a triggering event, rather than annually.
3. Test impairment either at a reporting unit or at the entity level.
4. Subsume certain customer-related intangible assets and all noncompete agreements into goodwill (private companies that elect to follow this alternative must subsequently amortize goodwill over 10 years or less).

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

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

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

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

Comments were due Oct. 7, 2019.

The FASB held a public roundtable discussion on Nov. 15, 2019, to gather views on its ITC. The roundtable was recorded and is available on the FASB website for 90 days.

Segment reporting

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

The FASB plans to use the feedback to help inform the board about the costs and benefits of the various improvement ideas being considered. A summary of the findings will be presented to the board at a future public board meeting.

The study, which is expected to last no more than four months, is the FASB’s second study on segment reporting. In 2018, the first study focused on improving the aggregation criteria and determining the reportable segments.

Distinguishing liabilities from equity

The FASB issued, on July 31, 2019, a proposed ASU, "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." The proposal attempts to improve guidance for certain financial instruments – including convertible instruments – with characteristics of liabilities and equity. In response to feedback that identified "liabilities and equity guidance as overly complex, internally inconsistent, and the source of frequent financial statement restatements," the proposed ASU targets convertible instruments and the derivatives scope exception for contracts in a company's own equity guidance.

The proposed ASU reduces the number of accounting models for convertible debt instruments and convertible preferred stock, and reduce accounting conclusions based on form over substance and driven by remote contingent events under the derivatives scope exception guidance. Additionally, the proposal addresses the related disclosure and earnings-per-share guidance.

Comments were due Oct. 14, 2019.

Clarifications of relationships between accounting standards

On July 30, 2019, the FASB issued a proposed ASU, "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)," that would increase the comparability of accounting for the ASU on recognition and measurement of financial instruments and the ASU on equity method investments.

ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," provides companies with a measurement 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. The proposed ASU 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.

The proposal also would give direction on how to apply the guidance in Topic 815, "Derivatives and Hedging," for certain forward contracts and purchased options to purchase securities that, upon settlement or exercise, would be accounted for under the equity method of accounting.

Comments were due Aug. 29, 2019.

Clarifications to derivatives and hedging guidance

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

The proposed ASU provides clarifications to guidance on:

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

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

Comments are due Jan. 13, 2020.

Disclosures by business entities about government assistance

On Nov. 12, 2015, the FASB issued an exposure draft, "Government Assistance – Disclosures by Business Entities About Government Assistance," because there is currently no existing GAAP for government assistance received by business entities, and diversity in accounting treatment exists.

The proposed amendments would require annual disclosure of material, existing, and legally enforceable government assistance agreements, including the following:

- Nature of the government assistance
- Accounting policy for government assistance
- Amounts presented in the financial statements by line item
- Significant terms of the agreements including duration, tax and interest rates, or the effects of those rates, commitments, provisions for recapturing the assistance, and other contingencies
- Unless impracticable, the amount of government assistance received but not recognized

Examples of government assistance agreements in scope are provided in the proposal and include grants, loans, and tax incentives.

Comments were due Feb. 10, 2016. Feedback received was mixed. Since that time, the board has continued to re-deliberate its conclusions.

At its Feb. 27, 2019, meeting, the staff was directed to conduct outreach about the expected costs and the expected benefits of the staff draft of a final ASU.

From the federal financial institution regulators

Credit losses

Joint statement on credit losses

On June 17, 2016, the federal financial institution agencies issued a joint statement after the FASB released ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” on June 16. As discussed earlier, this standard introduces the CECL model and replaces the incurred loss model. The most significant impact for financial institutions will be to the allowance for loan and lease losses.

The joint statement provides initial supervisory views on implementation. The standard allows for various expected credit loss estimation methods and is scalable. Financial institutions are encouraged to begin planning implementation. The agencies suggest appropriate institution staff should work closely with senior executives and boards of directors during this transition. Because of the potential impact on capital, institutions are encouraged to plan implementation in advance of the effective date.

More information about this standard on credit losses appears under “From the FASB: Major final standards,” earlier in this document.

Interagency FAQs on the CECL model

On April 3, 2019, the Federal Deposit Insurance Corp. (FDIC), the Board of Governors of the Federal Reserve System (Fed), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA) updated their “Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses.” Originally issued on Dec. 19, 2016, and subsequently updated on Sept. 6, 2017, the FAQs provide guidance for financial institutions as they prepare to implement the FASB’s new standard on credit losses, ASU 2016-13, on the application and supervisory expectations for the CECL model.

The original FAQs (Questions 1-23) cover:

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

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

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

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

- Collateral-dependent loans
- Reasonable and supportable forecasts
- Segmentation factors for credit cards
- Internal control considerations related to data used in CECL calculations
- Practices in existing supervisory guidance on the allowance for loan and lease losses

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

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

Proposed interagency policy statement on CECL

After approval by the FDIC, Fed, NCUA, and OCC, the "Interagency Policy Statement on Allowances for Credit Losses" was posted in the Federal Register on Oct. 17, 2019.

The proposed interagency policy statement (IPS) provides supervisory expectations for:

- Designing, documenting, and validating expected credit loss estimation processes, including the internal controls over these processes
- Maintaining appropriate allowances for credit losses (ACLs)
- The responsibilities of boards of directors and management
- Examiner reviews of ACLs

The proposal would replace the following policy statements:

- December 2006 IPS on the ALLL (Fed, FDIC, NCUA, OCC)
- July 2001 policy statement on ALLL methodologies and documentation for banks and savings institutions (Fed, FDIC, OCC)
- May 2002 Interpretive Ruling and Policy Statement 02-3 on ALLL methodologies and documentation for federally insured credit unions (NCUA)

Comments were due on Dec. 16, 2019.

Webinars

To date, the agencies have hosted three webinars:

Ask the Regulators: CECL Teleconference for Bankers: Practical Examples of How Smaller, Less Complex Community Banks Can Implement CECL

On Feb. 27, 2018, the FDIC and the Fed in conjunction with the FASB, the SEC, and the Conference of State Bank Supervisors (CSBS) hosted a webinar that provided regulatory perspectives on CECL approaches for community banks and focused on the following:

- Loss rate methods – including a snapshot/open pool method, a remaining life method, and a vintage method – and a discussion of challenges for loss rate methods
- Data needs and data sources
- Process and control considerations

Additionally, the CSBS has a "CECL Readiness Tool" to help institutions set internal goals for the different implementation steps.

Ask the Regulators: CECL Questions and Answers for Community Bankers
The federal banking agencies, in conjunction with the FASB, the SEC, and the CSBS, hosted an interagency webinar on July 30, 2018. The webinar focused on questions received from community bankers about the new credit losses accounting standard, which introduces the CECL methodology.

Ask the Regulators: CECL Webinar: Weighted-Average Remaining Maturity (WARM) Method
On April 11, 2019, the federal financial institution regulatory agencies, in conjunction with the FASB, the SEC, and the CSBS, hosted an interagency webinar. This webinar focused on the application of the WARM method for estimating allowances for credit losses.

Revisions to capital rules for adoption of CECL

On Dec. 21, 2018, the FDIC, the Fed, and the OCC (banking agencies) approved a final rule, "Regulatory Capital Rule: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rule and Conforming Amendments to Other Regulations." The final rule modifies regulatory capital rules and gives institutions the option to phase in over a three-year period the day one adverse regulatory capital effects of adopting the CECL model under the FASB's ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326)."

The final rule was adopted as proposed, with one change from the proposal that affected terminology only. A new term, "adjusted allowance for credit losses" (AACL), replaces the term "allowance for credit losses," as used in the proposal. AACL is narrower than the allowance for credit losses recorded under GAAP.

- AACL includes, for example, the allowance on non-PCD loans and HTM debt securities.
- AACL is eligible for inclusion in tier two capital, subject to the current limit for including the allowance for loan and lease losses in tier two capital (up to 1.25% of its standardized total risk-weighted assets, excluding its standardized market risk-weighted assets, if applicable).
- AACL does *not* include allowances on PCD assets and AFS debt securities, and those amounts will be treated differently for regulatory capital purposes. Those allowances will not be included in tier two capital, and the carrying value of PCD assets and AFS debt securities would be net of allowances, for risk-weighted assets.

The agencies noted in the final rule that they would continue to monitor the impact of CECL adoption on institutions. The final rule was effective on April 1, 2019, and institutions that early adopt CECL are permitted to early adopt the final rule.

Leases

Basel Committee FAQs on capital treatment of right-of-use asset

The Basel Committee on Banking Supervision issued a press release on April 6, 2017, to respond to three frequently asked questions on how to treat an ROU asset under the new lease accounting standards issued in 2016 separately by the FASB and the IASB. The committee's responses indicate that an ROU asset should be treated as a tangible asset for capital reporting purposes, as long as the underlying asset being leased is a tangible asset.

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

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

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

OCC's Bank Accounting Advisory Series

On Aug. 15, 2019, the OCC released an update to the Bank Accounting Advisory Series (BAAS). The BAAS covers a variety of topics and promotes consistent application of accounting standards among national banks and federal savings associations. This edition of the BAAS reflects accounting standards issued by the FASB on such topics as hedging and credit losses and includes recent answers to frequently asked questions from the industry and examiners. The revisions include:

- New questions on topics such as:
  - Investments equity securities
  - Other real estate owned (OREO)
  - Acquisitions
  - Current expected credit losses, including a new subtopic devoted to off balance sheet credit exposures and additional questions on credit losses on debt securities and the allowance for credit losses
  - Updates to topics including, but not limited to:
    - Loans moved from nonaccrual to accrual status
    - Lessor leases
    - OREO
    - Intangible assets
    - Hedging
    - Troubled debt restructurings

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

Future of LIBOR

The FDIC, on March 20, 2019, issued the winter 2018 edition of "Supervisory Insights," which includes an article on the future of LIBOR as well as alternatives to it. For decades, LIBOR has been a popular reference rate for commercial loans, residential mortgages, and other credit instruments used by larger financial institutions as well as smaller community banks and savings institutions.

Despite the longtime use of LIBOR in financial markets worldwide, initiatives are in progress that could move financial markets away from its use as a reference rate after 2021. The FDIC recognizes that a transition away from LIBOR could result in some adjustments for financial institutions that have it embedded in their contracts. The article provides information to help entities better address the potential impact and planning considerations for a possible transition from LIBOR.

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
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
ROU	right of use
SAB	Staff Accounting Bulletin (issued by the SEC)
SEC	U.S. Securities and Exchange Commission
SIFMA	Securities Industry and Financial Markets Association
SPPI	solely payments of principal and interest
TDR	troubled debt restructuring
TRG	Transition Resource Group (A joint TRG has been formed for revenue recognition by the FASB and IASB, and a TRG has been formed for credit losses by the FASB.)
VA	Veterans Benefits Administration
VIE	variable interest entity

Learn more

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Appendix A: ASUs for financial institutions[4] – effective dates for public business entities (PBEs)

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Codification Updates to SEC Sections (ASU 2019-07) Modifies FASB Codification to reflect previously issued SEC rules for disclosure updates and simplification and investment company reporting modernization. The SEC adopted these rules to improve its regulations on financial reporting and disclosure. Other miscellaneous updates were made to agree to the electronic Code of Federal Regulations.	**Upon issuance, July 26, 2019**	**Not applicable**
Codification Improvements (ASU 2018-09) Contains 30 improvements in all, including income taxes for certain quasi reorganizations; fair value option debt extinguishments; revises an example to align with guidance that prohibits the combination of freestanding financial instruments in the scope of ASC 480-10 with noncontrolling interest, unless the combination is required by Topic 815; clarifies that excess tax benefits should be recognized in the period when the tax deduction for compensation expense is taken on the tax return; removes the three tax allocation methods from ASC 805-740-25-13 since they are not systematic, rational, and consistent as required by Topic 740; clarifies that the intent to set off criteria is not required to offset derivative assets and liabilities when recognized at fair value and executed with the same counterparty under a master netting agreement; clarifies how to consider transfer restrictions for fair value measurement; clarifies balance sheet offsetting for broker-dealers. Specific to financial institutions, issue 23, “Disclosure Requirement Update Related to Basel III,” clarifies that an entity must disclose the required and actual amounts of regulatory capital for each measure of regulatory capital for which the entity must comply.	**Varies by issue (see pages 8 and 9 of the ASU)** **March 31, 2018** **Upon issuance, July 16, 2018** **March 31, 2019**	**Permitted, including in an interim period**

[4] 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.

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Revenue Recognition **(ASU 2014-09)** For all entities, the transaction- and industry-specific recognition methods are eliminated and revenue is recognized by applying a defined principles-based approach. **Clarifying standards:** **ASU 2015-14** – Deferral of Effective Date **ASU 2016-08** – Principal versus Agent Considerations (Gross versus Net Reporting) **ASU 2016-10** – Identifying Performance Obligations and Licensing **ASU 2016-11** – Rescission of SEC Staff Observer Comments (Staff Announcements at March 3, 2016 EITF meeting) **ASU 2016-12** – Narrow Scope Improvements and Practical Expedients **ASU 2016-20** – Technical Corrections and Improvements **ASU 2017-14** – Rescission of SEC Staff Accounting Bulletin (SAB) Topic 13, "Revenue Recognition"	**March 31, 2018**[5]	**Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within**
Derecognition and Partial Sales of Nonfinancial Assets **(ASU 2017-05)** Primarily applies to the real estate industry but can impact other entities. Clarifies the scope of Subtopic 610-20 by defining an "in substance nonfinancial asset," and provides guidance on partial sales, such as when an entity retains an equity interest in the entity that owns the transferred nonfinancial assets.	**March 31, 2018, consistent with ASU 2014-09**	**Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within**
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.	**March 31, 2019**[6]	**Permitted**

[5] As codified in ASU 2017-13, in an SEC staff announcement at the July 20, 2017, EITF meeting, 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"), the SEC stated that it will allow certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition and lease accounting standards only. For certain PBEs, the revenue recognition guidance is effective for Dec. 31, 2019, annual financial statements for calendar year-end entities.

[6] As codified in ASU 2017-13, in an SEC staff announcement at the July 20, 2017, EITF meeting, 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"), the SEC stated that it will allow certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition and lease accounting standards only. For certain PBEs, the lease accounting standard is effective for Dec. 31, 2021 (as amended by ASU 2019-10), annual financial statement for calendar year-end entities.

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
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 sixteen improvements and clarifications to the guidance in Topic 842. **ASU 2018-11** – Provides an optional transition method for adopting Topic 842 that will eliminate comparative period reporting under the new guidance in the adoption year. Provides a practical expedient for lessors to not separate nonlease components from the associated lease component in specified circumstances. **ASU 2018-20** – Improvements specific to lessors for evaluating sales taxes, recording reimbursed costs, and allocating variable payments to lease and nonlease components. **ASU 2019-01** – Provides improvements in determining fair value of underlying asset by lessors that are not manufacturers or dealers, presentation of the statement of cash flows for sales-type and direct financing leases, and transition disclosures.	**For ASU 2019-01, March 31, 2020, except for transition disclosure amendments which are consistent with ASU 2016-02**	
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.	**March 31, 2019**	**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.	**March 31, 2019**	**Permitted, including in an interim period**
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.	**March 31, 2020**	

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Financial Instruments With Down Round Features (Part I) and Scope Exception for Certain Mandatorily Redeemable Financial Instruments (Part II) **(ASU 2017-11)** Part I – Simplifies the accounting for certain financial instruments with down round features by eliminating the requirement to consider the down round feature in the liability or equity classification determination. For entities that present EPS, requires the effect of the down round feature in a warrant or other freestanding equity-classified instrument to be presented as a dividend and an adjustment to EPS when it is triggered. Regardless of whether the entity presents EPS, requires the effect of the down round feature in a convertible instrument such as debt or preferred stock to follow existing guidance for contingent beneficial conversion features and be presented as a discount to the convertible instrument with an offsetting credit to paid-in-capital when it is triggered. Part II – Changes the indefinite deferral available to private companies with mandatorily redeemable financial instruments and certain noncontrolling interests to a scope exception, which does not have an accounting effect.	**March 31, 2019**	**Permitted, including in an interim period**
Additional Benchmark Interest Rate for Hedging (ASU 2018-16) Expands the number of benchmark interest rates that can be used in hedge accounting designations to include the Overnight Index Swap (OIS) rate based on the Secured Overnight Financing Rate (SOFR) and stems from concerns about the sustainability of the London Interbank Offered Rate (LIBOR).	**March 31, 2019, consistent with ASU 2017-12**	**Permitted, including in an interim period, if ASU 2017-12 was early adopted**
Tax Reform – Reclassification of Stranded Tax Effects in AOCI **(ASU 2018-02)** An entity may elect to reclassify stranded tax effects in AOCI specifically affected by the tax reform law from AOCI to retained earnings, instead of recognizing those effects in earnings.	**March 31, 2019**	**Permitted, including in an interim period**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
Nonemployee Stock Compensation Simplifications (ASU 2018-07) Aligns the accounting guidance for nonemployee stock payments with the guidance for employee stock compensation in ASC Topic 718.	**March 31, 2019**	**Permitted, including in an interim period, but no earlier than the adoption of Topic 606**
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 receivable, 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	**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, and ASU 2019-11, 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
provisions, and conforming cross-references to Subtopic 805-20.		
Fair Value Measurement Disclosure (ASU 2018-13) Removes, modifies, or adds certain fair value measurement disclosures related to financial instrument transfers and Level 3 instruments, among others.	**March 31, 2020**	**Permitted**
Implementation Costs for Cloud Computing Arrangements (CCAs) (ASU 2018-15) Aligns accounting for implementation costs of CCAs with or without a license (that is, regardless of whether the CCA is a service contract) by capitalizing implementation costs during the application development stage, and amortizing the costs over the term of the arrangement.	**March 31, 2020**	**Permitted, including in an interim period**
Variable Interest Entity (VIE) Model – Targeted Improvements for Related Parties (ASU 2018-17) 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).	**March 31, 2020**	**Permitted, including in an interim period**
Improvements to Recognition and Measurement of Financial Instruments (ASU 2019-04) Contains various improvements to ASU 2016-01, including scope, fair value measurement alternative, held-to-maturity debt securities fair value disclosures, and remeasurement of equity securities at historical exchange rates. (Also contains clarification and improvements to ASU 2016-13 and ASU 2017-12, which are included as clarifying standards.)	**March 31, 2020**	**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, 2020**	**Permitted**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end PBEs	Early adoption
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.	**For SEC filers, excluding smaller reporting companies, March 31, 2022** **For all other PBEs, including smaller reporting companies, Dec. 31, 2024**	**Permitted**

Appendix B: ASUs for financial institutions[7] – effective dates for nonpublic business entities (non-PBEs)

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Codification Improvements (ASU 2018-09) Contains 30 improvements in all, including income taxes for certain quasi reorganizations; fair value option debt extinguishments; revises an example to align with guidance that prohibits the combination of freestanding financial instruments in the scope of ASC 480-10 with noncontrolling interest, unless the combination is required by Topic 815; clarifies that excess tax benefits should be recognized in the period when the tax deduction for compensation expense is taken on the tax return; removes the three tax allocation methods from ASC 805-740-25-13 since they are not systematic, rational, and consistent as required by Topic 740; clarifies that the intent to set off criteria is not required to offset derivative assets and liabilities when recognized at fair value and executed with the same counterparty under a master netting agreement; clarifies how to consider transfer restrictions for fair value measurement; clarifies balance sheet offsetting for broker-dealers. Specific to financial institutions, issue 23, "Disclosure Requirement Update Related to Basel III," clarifies that an entity must disclose the required and actual amounts of regulatory capital for each measure of regulatory capital for which the entity must comply.	**Varies by issue (see pages 8 and 9 of the ASU)** **Upon issuance, July 16, 2018** **Dec. 31, 2019** **Dec. 31, 2020**	**Permitted, including in an interim period**
Tax Reform – Reclassification of Stranded Tax Effects in AOCI (ASU 2018-02) An entity may elect to reclassify stranded tax effects in AOCI specifically affected by the tax reform law from AOCI to retained earnings, instead of recognizing those effects in earnings.	**March 31, 2019**	**Permitted, including in an interim period**
Revenue Recognition (ASU 2014-09) For all entities, the transaction- and industry-specific recognition methods are eliminated and revenue is recognized by applying a defined principles-based approach.	**Dec. 31, 2019**	**Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within**

[7] 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.

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Clarifying standards: **ASU 2015-14** – Deferral of Effective Date **ASU 2016-08** – Principal Versus Agent Considerations (Gross Versus Net Reporting) **ASU 2016-10** – Identifying Performance Obligations and Licensing **ASU 2016-11** – Rescission of SEC Staff Observer Comments (Staff Announcements at March 3, 2016, EITF Meeting) **ASU 2016-12** – Narrow-Scope Improvements and Practical Expedients **ASU 2016-20** – Technical Corrections and Improvements **ASU 2017-14** – Rescission of SEC Staff Accounting Bulletin (SAB) Topic 13, "Revenue Recognition"		
Derecognition and Partial Sales of Nonfinancial Assets (ASU 2017-05) Primarily applies to the real estate industry but can affect other entities. Clarifies the scope of Subtopic 610-20 by defining an "in substance nonfinancial asset," and provides guidance on partial sales, such as when an entity retains an equity interest in the entity that owns the transferred nonfinancial assets.	**Dec. 31, 2019, consistent with ASU 2014-09**	**Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within**
Recognition and Measurement (ASU 2016-01) Applies to the classification and measurement of financial instruments. Removes available-for-sale (AFS) category for equities. Equities (excluding equity method and consolidated investments) will be carried at fair value; however, the changes will run through the income statement rather than OCI.	**Dec. 31, 2019**	**Permitted in fiscal years beginning after Dec. 15, 2017, including interim periods**
Clarifying standards: **ASU 2018-03** – Clarifications for equity securities without a readily determinable fair value and fair value option liabilities **ASU 2018-04** – (SEC SAB 117) Rescission of SEC guidance on AFS equities **ASU 2019-04** – Contains various improvements, including scope, fair value measurement alternative, held-to-maturity debt securities fair value disclosures, and remeasurement of equity securities at historical exchange rates.	**For ASU 2019-04, Dec. 31, 2020**	**For ASU 2018-03 and ASU 2019-04, permitted, including in an interim period, if ASU 2016-01 has been adopted**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Breakage for Prepaid Cards (ASU 2016-04) Applies to prepaid stored-value products that are redeemable for monetary values of goods or services but also may be redeemable for cash, such as certain prepaid gift cards, prepaid telecommunication cards, and traveler's checks.	**Dec. 31, 2019**	**Permitted, including in an interim period**
Statement of Cash Flows: Certain Clarifications (ASU 2016-15) Provides guidance on how eight specific cash flows should be classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments, insurance settlement proceeds, bank-owned or company-owned life insurance (BOLI or COLI) policy settlements and premiums, equity method investee distributions, beneficial interests in securitization transactions, and predominance principle for receipts and payments.	**Dec. 31, 2019**	**Permitted, including in an interim period**
Income Taxes for Intra-Entity Asset Transfers (ASU 2016-16) Applies to asset transfers between legal entities, including related parties (such as, subsidiaries); transferor recognizes the current and deferred tax effects when the transfers occur.	**Dec. 31, 2019**	**Permitted as of the beginning of an annual period for which F/S have not been issued or made available for issuance**
Statement of Cash Flows: Restricted Cash (ASU 2016-18) Requires that restricted cash and cash equivalents be presented in total cash and cash equivalents in the statement of cash flows, and the nature of restrictions on restricted cash and cash equivalents be disclosed.	**Dec. 31, 2019**	**Permitted, including in an interim period**
Definition of a Business (ASU 2017-01) Applies to the determination of whether an asset or business is acquired (which determines whether goodwill is recognized), as well as asset de-recognition and business deconsolidation transactions.	**Dec. 31, 2019**	**Permitted for certain transactions**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Presentation of Net Periodic Pension and Postretirement Benefit Costs (ASU 2017-07) Rather than reporting pension expense as a net amount, the service cost component will be presented consistent with similar compensation for the same employees, and the other components will be separately presented in the income statement.	**Dec. 31, 2019**	**Permitted as of the beginning of an annual period, in the first interim period if interim financial statements are issued**
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 sixteen 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 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.	**Dec. 31, 2021**	**Permitted**
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.	**Dec. 31, 2020**	**Permitted, including in an interim period**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Financial Instruments With Down Round Features (Part I) and Scope Exception for Certain Mandatorily Redeemable Financial Instruments (Part II) (ASU 2017-11) Part I – Simplifies the accounting for certain financial instruments with down round features by eliminating the requirement to consider the down round feature in the liability or equity classification determination. For entities that present EPS, requires the effect of the down round feature in a warrant or other freestanding equity-classified instrument to be presented as a dividend and an adjustment to EPS when it is triggered. Regardless of whether the entity presents EPS, requires the effect of the down round feature in a convertible instrument such as debt or preferred stock to follow existing guidance for contingent beneficial conversion features and be presented as a discount to the convertible instrument with an offsetting credit to paid-in-capital when it is triggered. Part II – Changes the indefinite deferral available to private companies with mandatorily redeemable financial instruments and certain noncontrolling interests to a scope exception, which does not have an accounting effect.	**Dec. 31, 2020**	**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**
Additional Benchmark Interest Rate for Hedging (ASU 2018-16) Expands the number of benchmark interest rates that can be used in hedge accounting designations to include the Overnight Index Swap (OIS) rate based on the Secured Overnight Financing Rate (SOFR) and stems from concerns about the sustainability of the London Interbank Offered Rate (LIBOR).	**Dec. 31, 2020, consistent with ASU 2017-12** **March 31, 2020, if ASU 2017-12 was early adopted**	**Permitted, including in an interim period, if ASU 2017-12 was early adopted**
Nonemployee Stock Compensation Simplifications (ASU 2018-07)	**Dec. 31, 2020**	**Permitted, including in an**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Aligns the accounting guidance for nonemployee stock payments with the guidance for employee stock compensation in ASC Topic 718.		**interim period, but no earlier than the adoption of Topic 606**
Fair Value Measurement Disclosure (ASU 2018-13) Removes, modifies, or adds certain fair value measurement disclosures related to financial instrument transfers and Level 3 instruments, among others.	**Dec. 31, 2020**	**Permitted**
Defined Benefit Plan Disclosure for Sponsors (ASU 2018-14) Removes and clarifies certain disclosures for sponsors of defined benefit plans. Adds disclosure for weighted-average interest credit rates for certain plans, and the reasons for significant gains and losses in the benefit obligation.	**Dec. 31, 2021**	**Permitted**
Implementation Costs for Cloud Computing Arrangements (CCAs) (ASU 2018-15) Aligns accounting for implementation costs of CCAs with or without a license (that is, regardless of whether the CCA is a service contract) by capitalizing implementation costs during the application development stage, and amortizing the costs over the term of the arrangement.	**Dec. 31, 2021**	**Permitted, including in an interim period**
Variable Interest Entity (VIE) Model – Targeted Improvements for Related Parties (ASU 2018-17) Provides a private company accounting alternative not to apply VIE consolidation guidance to any arrangement with legal entities that are under common control if neither the parent nor the legal entity is a PBE (thus expanding the alternative for common control leasing arrangements to all common control arrangements). Also, revises the analysis for determining whether a decision-making fee paid by a VIE is a variable interest such that indirect interests in a VIE held through related parties in common control arrangements would be considered on a proportional basis (instead of as the equivalent to a direct interest).	**Dec. 31, 2021**	**Permitted, including in an interim period**

Accounting Standards Update (ASU)	Effective dates for Dec. 31 year-end non-PBEs	Early adoption
Collaborative Arrangements (Topic 808) (ASU 2018-18) Requires that Topic 606 be applied to collaborative arrangements when the arrangement participant is a customer and aligns the unit-of-account guidance in Topic 808 with Topic 606. Revenue in the scope of Topic 606 should be presented separate from revenue outside its scope.	**Dec. 31, 2021**	**Permitted, including in an interim period**
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 receivable, 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	**March 31, 2023** **For ASU 2019-04, ASU 2019-05 and ASU 2019-11, 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
maintenance provisions, and conforming cross-references to Subtopic 805-20.		
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.	**Dec. 31, 2024**	**Permitted**