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ASSURANCE SERVICES

Quarterly Update

Second Quarter 2020

July 7, 2020

Dear Customers and Friends:

As we shift to the new "normal", we hope that you are safe and healthy. We continue to be available to you to serve you and your company. Financial reporting continues to be particularly challenging for the second quarter based on continued unprecedented market and economic volatility. In this edition of our Quarterly Update, we address specific topics that may impact your upcoming quarterly reporting.

In the Coronaviruses Disease 2019 section, we have included the following resources and articles for your consideration:

- Borrower Accounting for PPP Loans (Read more)
- Insights on Revenue Recognition (ASC 606) (Read more)
- Goodwill Analysis in Today's Environment (Read more)
- Stock Compensation Considerations (Read more)
- Families First and CARES Act Tax Update (Read more)

We have also compiled a list of items for your consideration in your financial reporting and disclosures for the second quarter and a summary of recently issued accounting pronouncements (see Appendices for summary of recently issued accounting pronouncements and the related effective dates). Our goal is for you to have up-to-date information available to you prior to finalizing your financial reporting deliverables.

This quarterly update is organized as follows:

Appendices

Please review and feel free to contact one of your Elliott Davis engagement team members with any questions. We look forward to working with you during the audit and throughout the financial reporting process.

Selected Highlights

Coronavirus Disease 2019

The Coronavirus Disease 2019 (COVID-19) has significantly disrupted our nation's communities and businesses. This disruption is placing a great deal of strain not only on our healthcare system but also on the day-to-day livelihood of individual citizens. This situation is changing quickly with widespread impact. We've provided some guidance, resources and things to think about in response to COVID-19.

Find out more in the *Coronavirus Disease 2019 Update* section.

Borrower Accounting for PPP Loans

In late March 2020, Congress passed the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES Act), which included $349 billion for the Paycheck Protection Program (PPP) to be administered by the U.S. Small Business Administration (SBA). A second round of $310 billion was later authorized for the PPP. In June 2020, the AICPA provided a response on how nongovernmental entities could account for a forgivable loan received under the program. The response was issued in the form of Technical Questions and Answers (TQAs), and added question 18 to TQA 3200, Long-Term Debt.

Learn more in the *Borrower Accounting for PPP Loans* section.

FASB Offers Limited Effective Date Delays on Revenue Recognition and Leases Standards

In June, the FASB issued an ASU that grants a one-year effective date delay for certain companies and organizations applying the revenue recognition and leases guidance. Early application continues to be permitted. The ASU allows certain companies and organizations who have not yet applied the revenue recognition and leases guidance to delay their implementation by one year.

Find out more in the *FASB Update* section.

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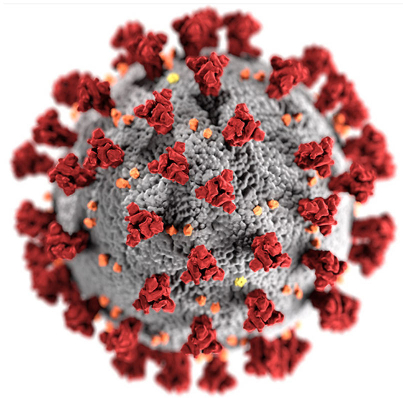
Join us on Wednesday, July 8th, for a one-hour webcast designed to provide insight into recent discussions, actions and pronouncements from the FASB and other accounting regulatory bodies. Find more information and register at: http://www.elliottdavis.com/events

Coronavirus Disease 2019 Update

The Coronavirus Disease 2019 (COVID-19) has significantly disrupted our nation's communities and businesses. This disruption is placing a great deal of strain not only on our healthcare system but also on the day-to-day livelihood of individual citizens. COVID-19 has also had a significant impact on global financial markets, and will likely have operational implications for many entities. Examples of some potential operational impacts include, but are not limited to:



- Reductions in productivity due to extended unavailability of production personnel
- Supply chain disruptions
- Declines in sales and earnings
- Closure of facilities and stores
- Increased volatility in the value of financial instruments
- Reduced tourism from reductions of nonessential travel and leisure activities

Entities should carefully consider their unique circumstances and risk exposures and evaluate the pandemic's impact on their financial reporting as well. Specifically, financial reporting and related financial statement disclosures need to convey all material effects of COVID-19. Some of the accounting and disclosure considerations related to the COVID-19 outbreak include, but are not limited to:

- ***Impairment of goodwill*** – see Goodwill Impairment Analysis discussion below
- ***Impairment of other long-lived assets*** – long-lived assets are required to be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable under ASC Topic 360. The coronavirus outbreak may result in triggering events, such as changes in the planned use of an asset that will necessitate more vigorous evaluations of the recoverability of machinery and equipment.
- ***Valuation of inventories*** – the carrying value of inventory needs to be adjusted if disruptions to supply chains and decreased consumer demand results in decreases to the net realizable value of inventories. Additionally, if production is halted could result in excess fixed overhead costs being capitalized into the cost of inventory. However, ASC Topic 330 requires a portion of fixed overhead to be expensed, rather than capitalized into inventory, when production levels are below normal.
- ***Allowance for expected credit losses*** – if COVID-19 has adversely impacted customers' ability to pay its outstanding balance, the adequacy of the allowance for expected credit losses should be reevaluated.
- ***Fair value measurements*** – apply the guidance in ASC Topic 320, ASC Topic 321, and ASC Topic 323 when performing an impairment assessment resulting from declines in the capital markets as a result of COVID-19.
- ***Breach of loan covenants and debt restructuring*** – as a result of the coronavirus outbreak, entities may need to amend the terms of existing debt agreements as a result of loan covenant violations. ASC 470 requires these amendments to be assessed to determine if the amendments represent a debt modification, debt extinguishment, or a troubled debt restructuring.
- ***Going concern*** – evaluation of whether there's substantial doubt about an entity's ability to continue as a going concern is required under ASC 205-40. This evaluation is based on events that are known and reasonably knowable at the date the financial statements are issued. Analysis should include consideration of any adverse factors such as reduced product demand, facility closures, and the ability to meet debt covenants or other key financial ratios resulting from the effects of the pandemic.
- ***Liquidity risk management*** – while not intended to be an all-inclusive list of liquidity risk management requirements, an organization should know (1) current and projected cash position, (2) current and projected working capital needs, (3) evaluate cash inflow (i.e., customer payment ability, etc.), (4) aggressively manage cash outflow (i.e., cost controls), and (5) understand external liquidity sources (i.e., communicate frequently with lenders).

Coronavirus Disease 2019 Update, *continued*

- ***Employment termination benefits*** – the accounting ramifications for any employment termination benefits should be evaluated under the requirements of ASC 710.
- ***Share-based compensation performance conditions and modifications*** – stock compensation arrangements with performance conditions based on the achievement of future metrics may no longer be assessed as being probable due to the coronavirus outbreak. Accounting for those contracts and any potential modifications is governed by ASC 718.
- ***Tax considerations*** – if COVID-19 has adversely impacted profitability, the recoverability of any deferred tax assets should be evaluated under the requirements of ASC 740.
- ***Subsequent events disclosures*** – see COVID-19 Financial Reporting Considerations discussion below
- ***Commitments and contingencies*** – ASC 440 and ASC 450 outline requirements regarding disclosure of commitments and contingencies. New situations resulting from COVID-19 should be evaluated under this guidance.
- ***Internal controls*** – the impact of COVID-19 on internal control over financial reporting should be evaluated (i.e., controls no longer function or segregation of duties is compromised due to absence caused by workforce sickness, new controls may have been implemented and/or existing controls revised related to IT access changes to enable remote workforces).

Borrower Accounting for PPP Loans

In late March 2020, Congress passed the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES Act), which included $349 billion for the Paycheck Protection Program (PPP) to be administered by the U.S. Small Business Administration (SBA). A second round of $310 billion was later authorized for the PPP. In June 2020, the AICPA provided a response on how nongovernmental entities could account for a forgivable loan received under the program. The response was issued in the form of Technical Questions and Answers (TQAs), and added question 18 to TQA 3200, Long-Term Debt.

The AICPA acknowledged although the legal form of the PPP loan is debt, some believe that the loan is, in substance, a government grant. Regardless of whether a borrower expects to pay back the PPP loan or believes it is a grant that will be forgiven, the borrower may account for the loan as a financial liability under ASC 470, Debt, and accrue interest according to the interest method in Subtopic 835-30, Interest—Imputation of Interest. An entity would not impute additional interest at a market rate (even though the stated interest rate may be below market) because transactions where interest rates are prescribed by governmental agencies (for example, government guaranteed obligations) are excluded from the scope of the FASB ASC 835-30 guidance on imputing interest, according to TQA 3200.18.

For PPP loans accounted for under ASC 470, derecognition of the liability would be accounted for under ASC 405-20-40-1 and the proceeds from the loan would remain as a liability until the loan is forgiven and the debtor has been "legally released," or the debtor pays off the loan. When the borrower's loan is forgiven and obtains legal release, the borrower would then reduce the liability by the amount forgiven and record a gain on extinguishment of debt.

However, the AICPA also believes, if the borrower is a business entity (nongovernmental entity that is not a not-for-profit entity), who expects to meet the PPP eligibility criteria and concludes the PPP loan is, in substance, a grant that is expected to be forgiven, it may analogize to the IASB's International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance for accounting purposes. Under IAS 20, government assistance is not recognized until it is reasonably assured (comparable to FASB's definition of "probable") that any conditions attached to the assistance will be met and the assistance will be received. When there is "reasonable assurance" the conditions will be met, the earnings impact of government grants should be recorded. The borrower would initially record the cash received from the PPP loan as a deferred income liability with subsequent recording to reduce the liability with an offset through earnings as either (1) other income or (2) a reduction of the related expense (i.e. payroll expenses).

Coronavirus Disease 2019 Update, *continued*

The AICPA staff observed in substance grants for a business entity could also be analogized to FASB ASC 958-605 accounting for contributions by not-for-profits or FASB ASC 450-30 gain contingency recognition.

The SEC's Office of the Chief Accountant has indicated that the staff would not object to a public company accounting for a PPP loan under ASC 470 or as a government grant by analogy to IAS 20, provided certain conditions are met.

Entities should adhere to the disclosure requirements of the applicable accounting guidance. For example, if the loan is accounted for under ASC 470, the disclosure requirements of ASC 470-10-50 should be considered.

Insights on Revenue Recognition (ASC 606)

Due to the current economic environment, there could be unexpected impacts to revenue recognition. Entities should continue to monitor estimates of variable consideration which could have significantly changed requiring reassessment of previously recognized revenue as well as assessment of impacts to future revenue recognition. Variable consideration can include refunds, returns, rebates, discounts, price concessions, as well as others. Additionally, the current environment could result in increased contract modifications. The accounting implications will vary depending on the modification made to customer contracts. For entities using a cost-to-cost input model to recognize revenue over time, entities should consider unexpected inefficiencies in the entity's performance when evaluating the amount of revenue to recognize.

Goodwill Analysis in Today's Environment

As the second quarter closes for companies, most have experienced continued volatility in their stock price throughout the COVID-19 pandemic. Many companies in today's environment may be questioning whether to perform an interim analysis of their goodwill. First, an assessment must be completed to determine if a triggering event has occurred. Examples of triggering events include:

- The company's stock price and market capitalization suggest that the fair value of a reporting unit is less than carrying amount.
- Recent news articles or analyst reports suggest a decline in the company's market or industry.
- Competitors have recently recognized an impairment loss.
- Market multiples for competitors in the industry have declined.
- The company or its competitors have been impacted by workforce reductions due to the current economic environment.

A company would evaluate these considerations and any others that are relevant to its business to determine if it believes that it is more likely than not that goodwill of a reporting unit is impaired. If so, it must perform a quantitative impairment test.

Impairment Analysis:

The FASB's revised guidance for measuring goodwill in ASU 2017-04 allows for a simplified quantitative impairment test for goodwill. This guidance is applicable as follows:

- A public business entity that is a SEC-filer should adopt the amendments in this ASU for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019.
- A public business entity that is not an SEC-filer should adopt the amendments in this ASU for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020.
- All other entities, including not-for-profit entities that are adopting the amendments in this ASU should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021.
- Early adoption is permitted.

Coronavirus Disease 2019 Update, *continued*

Process for Testing Goodwill for Impairment:
The steps to perform the impairment test vary based on whether the company has adopted ASU 2017-04.
Steps to review goodwill for impairment: (Prior to adoption of ASU 2017-04)

1. Determine whether the fair value of the intangible asset (or reporting unit) is less than its carrying amount.
2. Determine the amount of the implied fair value of goodwill.
3. Measure impairment loss – which is the amount by which the implied goodwill is less than its carrying amount.

Steps to review goodwill for impairment: (after adoption of ASU 2017-04)

1. Determine whether the fair value of the intangible asset (or reporting unit) is less than its carrying amount.
2. Measure impairment loss – amount by which fair value of the goodwill (or reporting unit) is less than its carrying amount.

Fair Value Determination
As part of the above impairment calculation, the company must determine fair value of the reporting unit. ASC 820 describes three valuation approaches: market approach, cost approach, and the income approach. Generally, valuation best practices support the use of multiple valuation techniques when estimating the fair value of a reporting unit. Changing methodologies or changing the weighting when multiple valuation techniques are used would be appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. This change would be considered a change in accounting estimate.

Market Capitalization
A company's market capitalization and other market data should be considered when assessing the fair value of a company's reporting units. In a depressed economy, declines in market capitalization could represent factors that should be considered in determining fair value, such as an overall re-pricing of the risk associated with the company. However, in inactive markets, market capitalization may not be representative of fair value, and other valuation methods may be required to measure the fair value of a company comprised of a single reporting unit. Determining the factors affecting market capitalization and their impact on fair value requires the application of judgment.

A company may also consider whether a control premium should be considered in determining a reporting unit's fair value, which may be more relevant in times when markets are more volatile and uncertain. Larger control premiums require more analysis and documentation to support the reasonableness.

Impairment Disclosures
For each goodwill impairment loss recognized, the following information should be disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:

- Disclose the facts and circumstances that led to the impairment
- The amount of impairment loss
- The method used to determine the fair value, including specific assumptions used

Stock Compensation Considerations

Due to the current downturn in market conditions due to COVID-19, the intrinsic value of outstanding equity-based awards will have generally declined, and performance multipliers may not be working as intended. Many companies are now facing a situation where outstanding employee stock options are significantly underwater (i.e. the stock options have an exercise price greater than the current market price).

Coronavirus Disease 2019 Update, *continued*

Under ASC 718 "Compensation – Stock Compensation", institutions are required to evaluate the outcome of the performance condition and update the assessment each reporting period. Compensation cost is recognized when it is probable that the performance condition will be achieved. Institutions need to access whether the performance conditions are still probable of being achieved and adjust compensation cost, accordingly.

A performance condition is a condition affecting the vesting, exercisability, exercise price, or other pertinent factors used in determining the fair value of an award that relates to both:

- Rendering services for an explicit or implicit period of time; and
- Achieving a specified performance target that is defined by reference to the grantor's own operations or by reference to the grantee's performance related to the grantor's own operations.

Attaining a specified growth rate in return on assets or earnings per share are examples of performance obligations. Due to recent current events in the market, the probability assessment of performance based awards should be reevaluated to determine if a reversal of compensation expense is required.

A market condition relates to the achievement of a specified price of the issuer's shares, or a specified amount of intrinsic value indexed to the issuer's shares, or a specified price of the issuer's shares in terms of similar equity shares. While changes in the market may result in the market condition not being achieved, this uncertainty is accounted for in the initial valuation performed; as a result, the related compensation cost is still recognized if the service conditions are met by the grantee.

Families First and CARES Act Update

Since the Families First Coronavirus Response Act (FFCRA) and Coronavirus, Aid, Relief and Economic Security Act (CARES Act) were signed into law in March, 2020, the IRS continues to publish many Frequently Asked Questions (FAQs), notices, and revenue procedures to assist taxpayers with implementing the new legislation. A few of the recent FAQ updates of significance are provided below:

- **Expenses paid with forgiven PPP loans**: On April 30th, the IRS issued Notice 2020-32, which indicates that taxpayers are not eligible to deduct otherwise deductible expenses if the amounts used to fund those expenses are paid with amounts forgiven under the PPP loan forgiveness program. This unexpected result essentially negates the tax-free nature of the PPP forgiveness as described in the CARES Act. Many professionals and congressmen have voiced strong opposition to this Notice; however, until such time as additional legislation is passed expressly allowing the deduction of PPP-funded expenses, Taxpayers should plan for an incremental tax effect as a result of receiving PPP forgiveness. A link to the Notice can be found at: *https://www.irs.gov/pub/irs-drop/n-20-32.pdf*

- **Deferral of employment tax deposits and payments through December 31, 2020:** The CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security taxes to defer payment of certain self-employment taxes. The FAQs address specific issues related to the deferral of deposit and payment of these employment taxes. In addition, additional guidance has recently been released indicating that Companies who receive PPP forgiveness are still eligible to defer payroll taxes. The updated FAQs are available at *https://www.irs.gov/newsroom/deferral-of-employment-tax-deposits-and-payments-through-december-31-2020*

- **COVID-19-Related Tax Credits for Required Paid Leave Provided by Small and Midsize Businesses FAQs:** The FFCRA provides employers of fewer than 500 employees with refundable tax credits that reimburse them, dollar-for-dollar, for the cost of providing paid sick and family leave wages to their employees for leave related to COVID-19. The updated FAQs are available at *https://www.irs.gov/newsroom/covid-19-related-tax-credits-for-required-paid-leave-provided-by-small-and-midsize-businesses-faqs*

Coronavirus Disease 2019 Update, *continued*

- **Employee Retention Credit:** The Employee Retention Credit is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. The IRS has updated its list of FAQs on the new employee retention credit to allow health plan expenses for furloughed employees to be treated as qualified wages as noted below:
  - **FAQ 64** - An eligible employer that averaged 100 or fewer full-time employees in 2019 may treat its health plan expenses paid or incurred after 3/12/20 and before 1/1/21 as qualified wages (subject to the maximum of $10,000 per employee for all calendar quarters for all qualified wages), even if the employees are not working and not being paid wages.
  - **FAQ 65** - Allows eligible employers that averaged more than 100 full-time employees in 2019 to treat the portion of health plan expenses paid or incurred after 3/12/20 and before 1/1/21 allocable to the time that the employees are not providing services as qualified wages.

  The updated FAQs on Employee Retention Credits are available at *www.irs.gov/newsroom/covid-19-related-employee-retention-credits-amount-of-allocable-qualified-health-plan-expenses-faqs*

- **NOL Carryback Claims and AMT Considerations:** The CARES Act provides for a 5 year carryback of Net Operating Losses (NOLs) generated in tax years beginning after December 31, 2017, and before January 1, 2021 (e.g., 2018, 2019 or 2020 for calendar year taxpayers). In addition, the CARES Act modified the Alternative Minimum Tax (AMT) provisions of the Tax Cuts and Jobs Act (TCJA), which repealed the corporate AMT beginning in 2018 and allowed corporations to fully offset their regular tax liability with their remaining minimum tax credits (MTCs) during tax years 2018 through 2021. The CARES Act accelerated the MTC refunds by permitting corporate taxpayers to claim remaining MTCs in full in 2018 and/or 2019. The IRS has issued FAQs for C corporation taxpayers that are carrying back NOLs to years in which the AMT applies.

  Of particular concern, is FAQ 1, whereby corporations filing a carryback claim on or after June 1, 2020 and subject to AMT, must treat their alternative tax NOL as $0 for each carryback year. This may trigger additional AMT in those carryback years, which can possibly be refundable within the same carryback claim. However, there are certain circumstances, such as taxpayers with Sec. 383 limitations, where this could reduce the expected refund and have other negative implications. Some practitioners disagree with IRS FAQ 1 as being contrary to the Code, so there may be future FAQs addressing this issue over the coming months.

  The FAQs on NOL carrybacks where AMT applies are available at *https://www.irs.gov/newsroom/questions-and-answers-about-nol-carrybacks-of-c-corporations-to-taxable-years-in-which-the-alternative-minimum-tax-applies*

- **Procedural Guidance for Implementation of Qualified Improvement Property "fix":** The IRS has issued Rev. Proc 2020-25, providing implementation guidance to allow taxpayers to claim retroactive 100% bonus depreciation on qualified improvement property, which was a technical correction issued under the CARES Act. Under this Procedure, Taxpayers can implement the bonus deprecation deduction by filing an amended return, filing a Form 3115, Application for a Change in Accounting Method, or by filing an Administrative Adjustment Request (AAR). A link to the Revenue Procedure can be found here: *https://www.irs.gov/pub/irs-drop/rp-20-25.pdf*

Please contact your Elliott Davis Tax Engagement Team with any questions. For a detailed analysis of these Tax Acts and other COVID-19 Resources, please go to *https://www.elliottdavis.com/covid19/*

FASB Update

The following selected Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) during the second quarter. A complete list of all ASUs issued or effective in 2020 is included in Appendix A.

FASB Offers Limited Effective Date Delays on Revenue Recognition and Leases Standards

On June 3 the FASB issued an ASU that grants a one-year effective date delay for certain companies and organizations applying the revenue recognition and leases guidance. Early application continues to be permitted. The FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, to allow certain companies and organizations who have not yet applied the revenue recognition and leases guidance to delay their implementation by one year.

Based on feedback from stakeholders, the FASB amended the original proposal that would have limited the revenue recognition delay to private company franchisors. Consequently, the ASU provides the revenue recognition deferral to certain other private companies and organizations that have not yet issued (or made available) financial statements that reflect adoption of the guidance.

For leases, the ASU provides an effective date deferral to private companies, private not-for-profit organizations, and public not-for-profit organizations that have not yet issued (or made available) their financial statements reflecting the adoption of the guidance. It is intended to provide near-term relief for certain entities for whom the leases adoption is imminent.

Effective Dates

Revenue Recognition: The ASU permits private companies and not-for-profit organizations that have not yet applied the revenue recognition standard to do so for annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020.

Leases: Under the ASU, private companies and private not-for-profit organizations may apply the new leases standard for fiscal years beginning after December 15, 2021, and to interim periods within fiscal years beginning after December 15, 2022. Public not-for-profit organizations that have not yet issued (or made available to issue) financial statements reflecting the adoption of the leases guidance may apply the standard for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

Regulatory Update

Proposed Sensitivity Analysis for Critical Accounting Estimate Disclosures Opposed

Public companies in comment letters provided their views to the SEC in response to a late January proposal intended to streamline selected financial data and MD&A in Release No. 33-10750, *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*. Companies stated that they support the SEC's plans to explicitly include critical accounting estimates (CAEs) within management's discussion and analysis (MD&A) disclosures. But some asked the commission not to require a sensitivity analysis of each accounting estimate. In particular, healthcare companies such as Pfizer Inc. and UnitedHealth Group Inc., as well as business groups, said the proposed requirement is burdensome and is unclear about how much detail management should disclose.

The proposal largely responds to companies' complaints that disclosure obligations have become too burdensome without providing much benefit to investors. While the proposal mostly focuses on elimination of reporting requirements, it also revises Item 303 of Regulation S-K on MD&A to codify the requirement to disclose critical accounting estimates. In a 2003 MD&A interpretive release, the SEC only said that companies should consider whether accounting estimates could affect reported financial information. Regulation S-K under the Securities Act of 1933 lays out the reporting requirements in SEC regulatory filings.

The proposal defines a CAE as an estimate made according to GAAP that involves a significant level of estimation uncertainty and has had or is reasonably likely to have a material impact on the company's financial condition. For each estimate, the SEC would require companies to disclose why the estimate is uncertain, how much each estimate has changed during the reporting period, the sensitivity of the reported amounts to the material methods, and assumptions. But companies stated that the additional disclosures will be costly and time-consuming without providing meaningful information to investors.

The Securities Industry and Financial Markets Association (SIFMA) said the quantitative sensitivity analysis will not only be burdensome but would also expose companies to greater liability risk. Requiring any additional forward-looking disclosure exposes registrants to potential Section 11 liability if the required disclosure is omitted, without regard to whether the omission makes other disclosures misleading, according to SIFMA. Under Section 11 of the Securities Act, investors can sue companies for damages caused by false statements or omissions of material information.

However, the CFA Institute and Council of Institutional Investors (CII), said they support the proposed quantitative sensitivity analysis requirement because it gives investors a better sense of how results are affected by management's estimates.

SEC Staff Guide Explains Streamlined Offering Process for Smaller Business Development Companies

The SEC on June 1, 2020, issued staff interpretive guidance to help small business development companies (BDCs) apply new rules that streamline the offering process. The SEC in April 2020 adopted rules that allow BDCs and other closed-end funds to use securities offering methods that have long been available to operating companies. The final rules are in Release No. 33-10771, *Securities Offering Reform for Closed-End Investment Companies*. The rulemaking was in response to the *Small Business Credit Availability Act* and the *Economic Growth, Regulatory Relief, and Consumer Protection Act* passed into law in May 2018.

BDCs are a type of close-end fund that primarily invests in small and developing companies. The SEC said the final rules are intended to streamline the registration, offering, and investor communications processes for BDCs and registered closed-end funds. The rule changes mean that eligible funds will be able to use a streamlined registration process to sell securities "off the shelf" more easily by using a new short-form registration statement if they meet certain filing and reporting history requirements and have a public float of $75 million or more. Funds will be able to qualify as Well-Known Seasoned Issuers (WKSIs).

Regulatory Update, *continued*

These amendments are designed to reduce regulatory impediments to capital formation, particularly for funds that invest in small and mid-sized businesses, while modernizing disclosures to streamline the way in which affected funds provide valuable information to investors, according to the guide. The staff guide states that the rule amendments permit funds to make certain changes to their registration that are immediately effective or are automatically effective for a set period of time after filing.

Interval funds and certain exchange-traded products (ETPs) will also be able to use a new method to pay registration fees. Closed-end funds that operate as interval funds will be able to register an indefinite number of shares and pay registration fees on net issuance of shares. Currently, they register a specific amount of shares and pay fees at the time of filing. This is similar to what mutual funds and exchange-traded funds (ETFs) do already.

The guide states that the rules have several new disclosure requirements, including management's discussion of fund performance (MDFP) in annual reports, financial highlights in registration statements and annual reports, and structured data reporting, among other requirements. Most requirements will become effective on August 1, 2020. The registration fee payments by interval funds and ETPs will become effective a year later.

House Bill Would Codify SEC's JOBS Act Reforms

A House Republican on June 1, 2020, reintroduced legislation that would write into law two reforms by the SEC that expanded the benefits of the JOBS Act to all companies seeking to go public. An earlier version of the bill, the *Encouraging Public Offerings Act*, passed the House unanimously in late 2017. The bill codifies two changes in recent years in which the SEC broadened some significant benefits in Title I of the JOBS Act to all issuers.

Before the SEC action, the benefits were previously only available to so-called Emerging Growth Companies (EGCs) under the 2012 law. EGCs are defined as companies with under a billion dollars in revenue that are still within five years of their initial public offering, among other conditions. The SEC in September 2019 issued final rules in Release No. 33-10699*, Solicitations of Interest Prior to a Registered Public Offering*, to open up the so-called "test the waters" benefits to all companies preparing for an initial public offering. Large shareholders, including pension funds, mutual funds, and hedge funds, play an outsized role in IPOs. The JOBS Act allows EGCs to meet with institutional investors, including what the SEC classifies as qualified institutional buyers (QIBs), to better understand investors' interest prior to the offering, a process often referred to as testing the waters.

Separately, in June 2017, the SEC moved to allow all companies to have their registration statements for initial public offerings (IPO) reviewed confidentially by the SEC before the offering documents are made public. Originally, under the JOBS Act, confidential filing was available only to EGCs.

The recently introduced bill would amend the Securities Act of 1933 to codify the SEC's expansion of both JOBS Act provisions. A bipartisan group of senators introduced the *Encouraging Public Offerings Act* in February 2019 as S. 536.

Statement on the Continued Importance of High-Quality Financial Reporting in Light of COVID-19

On June 23, 2020 the SEC Chief Accountant issued another public statement to underscore the importance of high-quality financial reporting for investors in light of COVID-19 challenges. The statement highlighted the importance of disclosure controls and procedures (DCP) and internal control over financial reporting (ICFR) and reminded management about its obligations to assess the company's ability to continue as a going concern or stay afloat. In an April 8, 2020 statement Office of the Chief Accountant (OCA) reminded public companies to provide as much information as is practicable regarding their current financial and operating status, as well as their future operational and financial planning.

Regulatory Update, *continued*

In this June statement, the OCA continued to emphasize the importance of robust financial controls and explained that companies must maintain and evaluate their DCP and ICFR. Companies have been tweaking their financial reporting processes as they adapt to the challenging and uncertain environment. These changes include consideration about how controls operate or can be tested, and if there is any change in risk controls as employees work from home. Changes to the business and additional uncertainties may result in additional risks of material misstatement to the financial statements in which new or modified controls may need to be implemented to mitigate such risks. If there are any material changes in an entity's ICFR, such change must be disclosed in quarterly filings for the quarter in which the changes occurred.

The statement also reminded companies that in each reporting period, including interim periods, management should assess if there is substantial doubt about an entity's ability to continue as a going concern. Auditors also have responsibility to evaluate an entity's ability to continue as a going concern based on their knowledge of relevant conditions that exist at or occurred prior to the date of the auditor's report. Although an auditor's review of interim financial information is not designed to identify issues that raise substantial doubt about a company's survival, they might become aware of such conditions. In such instances, auditors should ask management and determine whether the adequacy of the disclosures under GAAP.

U.S. Chamber Wants Public Companies Shielded from Securities Suits During Pandemic

A coalition made up of the U.S. Chamber of Commerce and state-level business groups is asking Congress to shield public companies from securities lawsuits during the pandemic, among other temporary liability relief. Democrats and activist groups have opposed such relief, arguing it would give businesses a free pass for misconduct during the COVID-19 crisis.

In a May 20, 2020, letter, the coalition asked lawmakers to pass timely, temporary and targeted liability relief legislation to provide businesses a safe harbor from unwarranted lawsuits that, left unchecked, will endanger the fight against the pandemic and undermine the safe and orderly return to work for millions of Americans.

Those temporary protections should cover securities lawsuits, the coalition argued, including those driven largely on stock price drops resulting from the global pandemic under the spurious assertion that management failed to warn investors.

In an April 16 memo, the law firm Cadwalader, Wickersham & Taft LLP predicted that given the extreme market volatility associated with the ongoing COVID-19 pandemic, a significant rise in stock-drop securities litigation seems likely. The law firm predicted plaintiff's attorneys would draw from the same anti-fraud statutes and SEC rules they did in the prior crisis. Among other provisions, Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5, allow a plaintiff to seek damages for material misrepresentations or omission made in connection with a securities transaction, and Section 20(a) of the Exchange Act allows a plaintiff to bring suit against an entity or individual that controls the primary securities violator.

As countries across the world prepare to gradually reopen their economies, there remains, for businesses, the looming threat of liability related to the health and safety or employees and customers, and also from investors who have seen vast, unpredictable swings in share prices.

However, on May 15, the Main Street Alliance – a network of small businesses across 11 states – looked to counter that push for business immunity in a letter to lawmakers, warning that small businesses should not be forced into unfair competition with irresponsible businesses seeking immunity for their decisions to ignore health and safety standards for workers and consumers. By rewarding noncompliance, corporate immunity would shift the costs of responsible behavior onto responsible Main Street businesses while putting people at grave risk, the group wrote.

Other Developments

AICPA Issues Latest Edition of Implementation Guide for Credit Losses

The AICPA's Financial Reporting Executive Committee (FinREC) on May 26, 2020, published an updated implementation guide regarding the FASB's new accounting for credit losses. This updates Audit and Accounting Guide: *Credit Losses* ("AAG-CECL"). The FASB in June 2016 issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to address a problem that emerged during the leadup to the 2008 financial crisis. It requires banks and other lenders to more quickly recognize losses under the new current expected credit loss (CECL) model. Banks must analyze current conditions and use reasonable estimates for future projections to measure expected impairments. Previously, companies used an incurred loss model.

The standard went into effect this year for large publicly-traded companies registered with the SEC. Others have until 2023 to apply CECL.

In response to the FASB's publication of ASU 2016-13, the AICPA organized the Expected Credit Losses Task Force to identify and address accounting implementation issues related to this standard. FinREC will regularly update AAG-CECL as the task force finalizes each implementation issue. The guidance was developed and reviewed by experts across the accounting and auditing profession. FinREC or one of its subcommittees reviewed the guide. The latest update is on the guide's Chapter 4: Model Selection and Integrity.

This current installment of content addresses only accounting implementation issues finalized to date, in the respective topical areas of scoping, adjustments for reasonable and supportable forecasts, zero expected credit losses, considerations for insurance entity specific balances, and inclusion of future advances of taxes and insurance payments in estimates. For example, the latest installment of AAG-CECL has a long discussion about whether lenders' expectations of future losses on payments of tax and insurance premiums be included in the estimate of expected lifetime credit losses before the lender advances the funds or incurs the costs.

The guide states that lenders often require borrowers in a mortgage to deposit funds for property taxes and insurance into escrow accounts concurrent with monthly loan payments. If borrowers fail to fund escrow accounts sufficiently or fail to pay these amounts directly, lenders may pay taxes and insurance on the properties using their own funds to protect their interests in the mortgaged properties. In many cases, payments made by the lender for property taxes, insurance, or other costs are recoverable from the borrower and are either capitalized in the loan receivable balances pursuant to loan agreements or recorded as other receivables from the borrower. Capitalized tax and insurance payments increase the financial asset receivable from the borrower as they are capitalized to principal. Once such amounts are paid by the lender, if they are capitalized into principal, they increase the amortized cost basis of the financial asset receivable. The AICPA guide states that the objective of CECL is to present the net amount expected to be collected on the financial asset.

GASB Postpones Effective Dates of Upcoming Pronouncements

In May, the Governmental Accounting Standards Board (GASB) issued Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Statement is intended to provide relief to governments and other stakeholders in light of the COVID-19 pandemic. The guidance postpones by one year the effective dates of certain provisions in the following pronouncements:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

Other Developments, *continued*

- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*.

The Statement postpones the effective dates of the following pronouncements by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*.

The provisions of Statement 95 are effective immediately. Statement 95 does not postpone the effective date of Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, because the pandemic was factored into Statement 94's effective date.

GASB Issues Guidance on Cloud Computing and Similar Subscription-Based IT Arrangements

In May, the GASB issued new accounting and financial reporting guidance for subscription-based information technology arrangements (SBITAs), which have become increasingly common among state and local governments in recent years. Statement 96, *Subscription-Based Information Technology Arrangements*, is based on the standards established in Statement 87, *Leases*. The GASB in Statement 96:

- Defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.
- Requires governments with SBITAs to recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability (with an exception for short-term SBITAs—those with a maximum possible term of 12 months).
- Provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA.

Although existing GASB literature addresses computer software that is internally developed or commercially purchased through perpetual licensing agreements, stakeholders have raised questions regarding cloud computing and other subscription-based forms of software applications and data storage. The new guidance should remedy existing inconsistencies in accounting and financial reporting for SBITAs.

The Statement is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Early application is encouraged. In order to give state and local governments and other stakeholders additional time to deal with circumstances arising from the COVID-19 pandemic, this date is one year later than what the Board proposed in the Exposure Draft.

GASB Amends to Fiduciary Component Units Criteria and Section 457 Plan Rules

In June, the GASB issued GASB Statement (GASBS) No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which amends the criteria for reporting governmental fiduciary component units. The intent of this GASBS is to create consistency and comparability in accounting and financial reporting for fiduciary component units and IRS Section 457 plans.

Other Developments, *continued*

Under the main provisions, a primary government is financially accountable for its fiduciary component unit if there is no governing board over the unit and therefore the government takes up the role of a board. This does not apply to a component unit that is a defined contribution pension plan, a defined contribution and other postemployment benefit (OPEB) plan, or another employee benefit plan such as a Section 457 plan to which only employees contribute.

A Section 457 plan will have to be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan. GASBS No. 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

GASBS No. 97 supersedes the remaining provisions of GASBS No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances.

GASBS No. 97 is effective for reporting periods after June 15, 2021. Earlier application is allowed.

On the Horizon

The following selected FASB exposure drafts and projects are outstanding as of June 30, 2020.

FASB Proposal Issued to Address Business Combination Accounting for an Assumed Liability in a Revenue Contract

When accounting for a business combination, in applying the acquisition method, the acquirer recognizes identifiable assets acquired and liabilities assumed in the business combination and measures those assets and liabilities at fair value. For business combinations that occur before the adoption of the new revenue recognition standard, entities often use a legal obligation definition for recognition of a liability under Topic 805 for deferred revenue. However, Topic 606 has introduced the performance obligation definition for revenue contracts with customers which has created diversity of opinion regarding which definition should be used for recognition for business combinations after Topic 606 has been adopted.

On February 14, 2019, the FASB issued proposed ASU, *Business Combinations (Topic 805): Revenue from Contracts with Customers—Recognizing an Assumed Liability (a consensus of the FASB Emerging Issues Task Force)*. The EITF reaffirms that the performance obligation definition in Topic 606, *Revenue from Contracts with Customers*, would be used to determine whether a liability assumed for a contract liability from a revenue contract with a customer is recognized by the acquirer in a business combination.

Convertible Instruments and Contracts in an Entity's Own Equity

In July 2019, the FASB issued Proposed ASU No. 2019-730, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)*, to make targeted improvements intended to reduce cost and complexity in the financial reporting for convertible instruments and contracts in an entity's own equity. For convertible instruments, the proposed ASU would reduce the number of accounting models for convertible debt instruments and convertible preferred stock. For derivatives, the proposed ASU would amend guidance for derivatives scope exceptions to:

- allow an entity to qualitatively screen out any contingent events that are considered to have a remote likelihood of occurring and disregard these events in the assessment of the derivatives scope exception
- remove three conditions required to qualify for the settlement guidance related to settlement in unregistered shares, collateral requirements and shareholder rights

The proposed ASU would also amend the related disclosure and EPS guidance.

The comment period on the proposed ASU closed on October 14, 2019. At its December meeting, the Board directed the staff to continue developing a remote likelihood threshold for purposes of determining the classification of a contract in an entity's own equity when applying the derivatives scope exception. The Board approved issuance of a final ASU in June 2020.

Balance Sheet Classification of Debt

The purpose of this project is to reduce cost and complexity by replacing the fact-pattern specific guidance in U.S. GAAP with a principle to classify debt as current or noncurrent based on the contractual terms of a debt arrangement and an entity's current compliance with debt covenants.

On January 10, 2017, the FASB issued a proposed ASU on determining whether debt should be classified as current or noncurrent in a classified balance sheet. In place of the current, fact-specific guidance in ASC 470-10, the proposed ASU would introduce a classification principle under which a debt arrangement would be classified as noncurrent if either (1) the "liability is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet date" or (2) the "entity has a contractual right to defer settlement of the liability for at least one year (or operating cycle, if longer) after the balance sheet date." Under an exception to the classification principle, an entity would not classify debt as current solely because of the occurrence of a debt covenant violation that

On the Horizon, *continued*

gives the lender the right to demand repayment of the debt, as long as the lender waives its right before the financial statements are issued (or are available to be issued).

Many businesses, professional groups, and some auditors criticized the proposal in their comment letters. But others, including a majority of the FASB's Private Company Council, stated the FASB's proposal made sense and would simplify U.S. GAAP's myriad, fact-specific rules about debt classification. Proponents of the changes also said that by the time the updated guidance became effective, the public would have a better idea about the principles behind the changes. Regulators also potentially could adapt their rules so companies that reported higher short-term debt solely because of the accounting change would not be disqualified from projects.

On September 13, 2017, the FASB approved the update 6-1 and through the March 2019 meeting, the FASB redeliberated its proposed ASU and made the following decisions:

- Classification Principle—Unused Long-Term Financing Arrangements—the Board reversed its previous decision that if a long-term financing arrangement is in place as of the balance sheet date (for example, an unused line of credit), the amount of current maturities for any other debt arrangements would be reduced by the unused amount of the long-term financing arrangement up to the amount of the current maturities and classified as a noncurrent liability. Therefore, an unused long-term financing arrangement in place at the balance sheet date should be disregarded in determining the classification of debt unless it is explicitly available to refinance an existing debt. The Board directed the staff to conduct additional outreach, focusing on scenarios in which an entity has a redeemable instrument that is subject to a remarketing agreement and is also secured by a long-term letter of credit.
- Grace Periods—the Board clarified how to apply the debt classification principle when a debt covenant violation exists and the creditor provides a grace period. Specifically, the Board decided that when a borrower violates a provision of a long-term debt agreement and the creditor provides a specified grace period for the borrower to cure the violation, which makes the debt no longer callable at the balance sheet date, the borrower should classify the debt as a noncurrent liability. The Board decided to require an entity to disclose information when a borrower violates a provision of a long-term debt agreement and the creditor provides a specified grace period. That disclosure would be required when (1) the violation has not been cured before the financial statements are issued (or are available to be issued) and (2) the violation would make the long-term obligation callable.
- Effective Date—the Board decided that the effective date should be as follows:
    - For public business entities, for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years
    - For all other entities, for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022

In September 2019, the FASB issued Proposed ASU (REVISED) No. 2019-780, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)*, to solicit feedback on the revised proposed ASU. The comment period closed on October 28, 2019 and the FASB's next steps are to consider comment letter feedback on the revised proposed ASU.

Expanded Inventory Disclosures Proposed

On January 10, 2017, the FASB issued a proposed ASU, *Disclosure Framework—Changes to the Disclosure Requirements for Inventory*, which calls on businesses to provide more detailed disclosures about their raw materials and finished goods.

The proposed ASU would require businesses to disclose their inventory by component, such as by raw materials, finished goods, supplies, and works-in-process. Businesses also would have to break down how their inventory is measured. Businesses use a variety

On the Horizon, *continued*

of measurement techniques for inventory, including last-in, first-out (LIFO), first-in, first-out (FIFO), LIFO retail inventory method, or weighted average. Significant shrinkage, spoilage, damage or other unusual transactions or circumstances affecting inventory balances also would have to be disclosed. Additionally, businesses would have to describe the types of costs capitalized into inventory, the effect of LIFO liquidations on income, and the replacement cost of LIFO inventory.

The FASB is has directed the staff to conduct additional outreach and research on the proposed disclosure requirements for changes to the inventory balance. The Board also asked the staff to consider the application of those proposed disclosures to companies within manufacturing and wholesale businesses and the needs of financial statement users in those industries.

Disclosure Framework

The disclosure framework project consists of two phases: (1) the FASB's decision process and (2) the entity's decision process. The overall objective of the project is to improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity's financial statements. Although reducing the volume of the notes to financial statements is not the primary focus, the FASB hopes that a sharper focus on important information will result in reduced volume in most cases.

Consolidation Reorganization

On November 2, 2016, the Board added this project to its technical agenda. Further, it tentatively decided to (1) clarify the consolidation guidance in ASC 810, *Consolidation*, by dividing it into separate Codification subtopics for voting interest entities and variable interest entities (VIEs); (2) develop a new Codification topic that would include those reorganized subtopics and would completely supersede ASC 810; (3) rescind the subsections on consolidation of entities controlled by contract in ASC 810-10-15 and in ASC 810-30 on research and development arrangements; (4) further clarify that power over a VIE is obtained through a variable interest; and (5) provide further clarification of the application of the concept of "expected," which is used throughout the VIE consolidation guidance.

At its March 8, 2017, meeting, the FASB discussed the feedback received at its December 16, 2016, public roundtable and voted to move forward with a proposed ASU that reorganizes the consolidation guidance. On September 20, 2017, the FASB issued Proposed ASU, *Consolidation (Topic 812): Reorganization*, and the comment period has closed. The proposed ASU is now in the redeliberation phase related to comment responses received.

On June 27, 2018, the FASB decided to continue its existing project to reorganize ASC 810 and instructed the staff to develop nonauthoritative educational material to address the more difficult parts of consolidation guidance with the goal of supporting and supplementing the reorganized authoritative consolidation guidance.

GASB Issues Proposed Implementation Guidance Update

On December 4, 2019, the GASB issued Exposure Draft No. 24-16e, *Implementation Guidance Update—2020*, to provide implementation guidance that clarifies, explains, or elaborates on issues entities raised when applying various accounting standards. Specifically, the Exposure Draft proposes new questions and answers that address application of GASBS No. 14, *The Financial Reporting Entity*; GASBS No. 84, *Fiduciary Activities*; GASBS No. 87, *Leases*; GASBS No. 83, *Certain Asset Retirement Obligations*; and GASBS No. 91, *Conduit Debt Obligations*.

The GASB developed the guidance based on application issues, questions it received throughout the year, and concerns identified by members of the Governmental Accounting Standards Advisory Council among others with the intent of assisting state and local governments in applying GAAP to specific facts and circumstances that they encounter. The leases standard had the most questions

On the Horizon, *continued*

addressed in the guide. The proposal also includes answers to questions posed related to earlier implementation guides on issues surrounding post-employment benefits other than pensions, pensions, plan and employer accounting and reporting, external investment pools and other investments.

GASB Plans to Revise Accrued Vacation and Sick Leave Rules

According to a February 4, 2020, report, the GASB is planning to revise the accounting rules for accumulated vacation and sick leave of government employees. The GASB has indicated that the topic is being addressed because current accounting rules are either incomplete, inconsistently applied, or outdated.

Standard-setting work will be focused on revising GASB Statement (GASBS) No. 16, *Accounting for Compensated Absences*, related to:

- accrued leave benefits that are not covered, such as paid time off (where for example, vacation and sick leave are not distinguished)
- the existing options for measuring sick leave liabilities
- the usefulness of required notes to financial statements for decision-making and assessing accountability

Board discussions will examine the definition of compensated absences for accounting and financial reporting purposes and consider whether a revised definition should be adopted that could incorporate the accounting for certain types of leave other than vacation leave and sick leave.

An exposure document on the topic, however, is not expected any earlier than the first quarter of 2021.

EITF Agenda Items

The Emerging Issues Task Force did not meet during the second quarter because both meetings were canceled. The next meetings are scheduled to occur during the third quarter.

PCC Activities

The Private Company Council (PCC) met on April 17, 2020. Below is a brief summary of issues addressed by the PCC at the meeting:

- <u>PCC Issue No. 2018-01, "Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards":</u> PCC and Board members discussed the progress on a potential practical expedient that would allow a nonpublic entity to determine the current price input of equity-classified share-option awards using a valuation method performed in accordance with the presumption of reasonableness requirements of Section 409A of the U.S. Internal Revenue Code. In February 2020, the Board endorsed the PCC's decision to issue a proposed Accounting Standards Update on that practical expedient. Because many private company stakeholders currently are experiencing resource constraints and may be unable to provide feedback at this time, the PCC unanimously agreed to delay issuance of the Exposure Draft until later in the second quarter of 2020.
- <u>Revenue Recognition (Topic 606):</u> FASB staff updated the PCC on current implementation progress with the revenue recognition standard and highlighted several FASB educational and implementation resources. FASB staff also updated the PCC on the recent Board decision to add a project to its technical agenda to amend the effective date of Topic 606 for franchisors that are not public business entities to annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. An Exposure Draft will be issued soon for public comment. Additionally, the staff provided background on the new research project to evaluate how to reduce implementation costs related to applying Topic 606 to initial franchise fees received by franchisors, and PCC members discussed their experience with franchise arrangements.

On the Horizon, *continued*

elliott davis

Elliott Davis Observation: *At the time the FASB provided its update on Revenue Recognition to the PCC, its deliberations related to Revenue Recognition were focused on a proposed deferral of the effective date of for franchisors. After publishing the proposed deferral, the FASB received feedback that many private companies and NFP entities were also experiencing challenges because of the unique challenges resulting from the COVID-19 pandemic. As a result, the FASB expanded the deferral included in the final standard (which was issued in June) to certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of Topic 606, rather than limiting the deferral to franchisors.*

- <u>Conceptual Framework: Elements, Measurement, and Presentation:</u> FASB staff provided the PCC with an overview of the Conceptual Framework projects. In the second half of 2020, the FASB expects to release an Exposure Draft related to Elements and an Invitation to Comment related to Measurement. PCC and Board members discussed the purpose and use of the Conceptual Framework and the proposed revised definitions of various elements.
- <u>Current Issues in Financial Reporting:</u> PCC and Board members discussed practice issues as a result of the current business environment under the COVID-19 pandemic. FASB staff provided an update on several emerging issues affecting private companies including:
  - <u>Leases:</u> The Board decided to amend the effective date of Topic 842 for private companies and private not-for-profit entities to annual reporting periods beginning after December 15, 2021, and to interim periods within the fiscal years beginning after December 15, 2022. An Exposure Draft will be issued soon for public comment.
  - <u>Fair Value Measurement:</u> An agenda request was received to suspend mark-to-market accounting. FASB staff provided a reminder of the orderly transaction guidance in Topic 820, *Fair Value Measurement*, specifically paragraphs 820-10-35-54C through 35-54J. FASB staff encouraged PCC members to reach out if they have questions or encounter interpretation issues with the existing guidance.
  - <u>Interest Income Recognition:</u> The Board recently discussed a technical inquiry received by the FASB staff regarding the recognition of interest income. For illustrative purposes that inquiry included a fact pattern whereby an institution was providing assistance to borrowers impacted by COVID-19. FASB staff acknowledged two appropriate views for accounting for interest income.
  - <u>Small Business Administration Loans:</u> FASB staff noted that questions are arising related to lender accounting for fees received and borrower accounting for loan forgiveness. FASB staff noted that entities scoped out of Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, are not precluded from applying the guidance by analogy when appropriate. Additionally, FASB staff has had ongoing dialogue with both the AICPA and practitioner groups preparing to publish papers discussing those issues. Furthermore, the Board emphasized that it continues to monitor conditions and stands ready to support private companies encountering technical accounting issues. Board members encouraged PCC members and other stakeholders to continue providing feedback.
- <u>Private Company Research Findings:</u> The PCC member from academia presented some of his private company research findings. PCC and FASB members discussed the trends of audited GAAP-based financial statements for private companies and the rationale for why private companies have their financial statements audited, as well as some benefits they appear to receive from doing so.

Appendix A

Important Implementation Dates

The following table contains significant implementation dates and deadlines for standards issued by the FASB and others.

Selected Implementation Dates (FASB/EITF/PCC)

Pronouncement	Affects	Effective Date and Transition
ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities	Entities other than public business entities	The amendments in this ASU delay the effective dates of ASU 2014-09 and ASU 2016-02.
ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	All entities	Effective for all entities as of March 12, 2020 through December 31, 2022.
ASU 2020-03, Codification Improvements to Financial Instruments	All entities	The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in this ASU do not require transition guidance and will be effective upon issuance. However, many of the amendments do have transition guidance with effective dates for fiscal years beginning after December 15, 2019, for public business entities.
ASU 2020-02, Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) (SEC Update)	All entities that are SEC filers	Effective upon issuance.
ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the FASB Emerging Issues Task Force)	All entities	For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period, (1) for public business entities for periods for which financial statements have not yet been issued and (2) for all other entities for periods for which financial statements have not yet been made available for issuance.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	Entities within the scope of ASC 740	For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and for interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted.
ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses	All entities	For entities that have not yet adopted the amendments in ASU 2016-13 as of the issuance date of this ASU, the effective dates and transition requirements for the amendments are the same as the effective dates and transition requirements in ASU 2016-13. For entities that have adopted the amendments in ASU 2016-13, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of this ASU as long as an entity has adopted the amendments in ASU 2016-13.
ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates	All entities	The amendments in this ASU delay the effective dates of ASU 2016-13, ASU 2017-12, and ASU 2016-02, and ASU 2017-04.
ASU 2019-09, Financial Services—Insurance (Topic 944): Effective Date	Insurance entities	The amendments in this ASU defer the effective date of the amendments in ASU 2018-12 for all entities.
ASU 2019-08, Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer	All entities that issue share-based payments to customers	For entities that have not yet adopted the amendments in ASU 2018-07, the amendments in this ASU are effective for (1) public business entities in fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and (2) other than public business entities in fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. For entities that have adopted the amendments in ASU 2018-07, the amendments in this ASU are effective in fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2019-05, Targeted Transition Relief	All entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income.	For entities that have not yet adopted ASU 2016-13, the effective date and transition methodology for the amendments in this ASU are the same as in ASU 2016-13. For entities that have adopted ASU 2016-13, the amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period after the issuance of this ASU as long as an entity has adopted ASU 2016-13.
ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments	Entities that hold financial instruments	The effective date of each of the amendments depends on the effective date and adoption of ASU 2016-01, ASU 2016-13, and ASU 2017-12.
ASU 2019-03, Updating the Definition of Collections	Entities that hold collections	The amendments are effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments is permitted. The amendments should be applied on a prospective basis.
ASU 2019-02, Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350) : Improvements to Accounting for Costs of Films and License Agreements for Program Materials	Broadcasters and entities that produce and distribute films and episodic television series	For public business entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted.
ASU 2019-01, Leases (Topic 842): Codification Improvements	All lessee and lessor entities	For public business entities, NFPs that have issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an OTC market, or an employee benefit plan that files financial statements with the SEC, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2018-20, Narrow-Scope Improvements for Lessors	Lessor entities	For entities that have not adopted ASC 842 before the issuance of this ASU, the effective date and transition requirements for the amendments in this ASU are the same as the effective date and transition requirements in ASU 2016-02. For entities that have adopted ASC 842, the effective date and transition of the amendments related to the amendments in this ASU are as follows: 1. The amendments should be applied at the original effective date of Topic 842 for the entity or in either the first reporting period ending after the issuance of this ASU (for example, December 31, 2018) or in the first reporting period beginning after the issuance of this ASU (for example, January 1, 2019). 2. The amendments may be applied either retrospectively or prospectively. All entities, including early adopters, must apply the amendments in this ASU to all new and existing leases.
ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses	All entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income	The effective date and transition requirements are the same as the effective dates and transition requirements in ASU 2016-13, as amended by this ASU.
ASU 2018-18, Clarifying the Interaction between Topic 808 and Topic 606	All entities	Effective for public companies for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other organizations, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted.
ASU 2018-17, Targeted Improvements to Related Party Guidance for Variable Interest Entities	All entities	Effective for organizations other than private companies for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this ASU are effective for a private company for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2018-16, Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes	All entities	For entities that have not already adopted ASU 2017-12, the amendments in this ASU are required to be adopted concurrently with the amendments in ASU 2017-12. For public business entities that already have adopted the amendments in ASU 2017-12, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities that already have adopted the amendments in ASU 2017-12, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted in any interim period upon issuance of this Update if an entity already has adopted ASU 2017-12.
ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)	All entities	Effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period, for all entities.
ASU 2018-14, Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans	All employers that sponsor defined benefit pension or other postretirement plans	Effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. Early adoption is permitted for all entities.
ASU 2018-13, Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement	All entities	Effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted.
ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts	Insurance entities	For public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early application of the amendments is permitted.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2018-11, Leases (Topic 842)—Targeted Improvements	All entities	The amendments related to separating components of a contract affect the amendments in ASU 2016-02, which are not yet effective but can be early-adopted. For entities that have not adopted ASC 842 before the issuance of this ASU, the effective date and transition requirements for the amendments in this ASU related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02. For entities that have adopted ASC 842, the effective date and transition of the amendments related to separating components of a contract are as follows: • The practical expedient may be elected either in the first reporting period following the issuance of this ASU or at the original effective date of ASC 842 for that entity. • The practical expedient may be applied either retrospectively or prospectively. All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected.
ASU 2018-10, Codification Improvements to Topic 842, Leases	All entities	For entities that early-adopted ASC 842, the amendments are effective upon issuance, and the transition requirements are the same as those in ASC 842. For entities that have not adopted ASC 842, the effective date and transition requirements will be the same as the effective date and transition requirements in ASC 842.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made	All entities, including business entities, that receive or make contributions of cash and other assets, including promises to give within the scope of Subtopic 958-605 and contributions made within the scope of Subtopic 720-25, *Other Expenses—Contributions Made*.	***Contributions Received:*** For an entity that is either a public business entity or an NFP 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 and serves as a resource recipient, the entity should apply the amendments to annual periods beginning after June 15, 2018, including interim periods within those annual periods. All other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. ***Contributions Made:*** For an entity that is either a public business entity or an NFP 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 and serves as a resource provider, the entity should apply the amendments to annual periods beginning after December 15, 2018, including interim periods within those annual periods. All other entities should apply the amendments to annual periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early adoption of the amendments is permitted.
ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting	All entities that enter into share-based payment transactions for acquiring goods and services from nonemployees.	For public business entities, the amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606.
ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842	All entities	The effective date and transition requirements for ASU 2018-01 are the same as the effective date and transition requirements in ASU 2016-02. An entity that early adopted ASC 842 should apply the amendments in this ASU upon issuance.
ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities	Entities that elect to apply hedge accounting	Effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods therein. Effective for all other entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. All entities are permitted to early adopt the new guidance in any interim or annual period after issuance of the ASU.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2017-11, (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	Entities that issue financial instruments that include down round features	Effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Effective for all other entities for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted.
ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities	Entities that hold investments in callable debt securities held at a premium	Effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period.
ASU 2017-04, Simplifying the Test for Goodwill Impairment	All entities.	Effective for public business entities that are SEC filers for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. For public business entities that are not SEC filers, the amendments are effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2020. For all other entities, including not-for-profit entities, the amendments are effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	All entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income.	For public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC, the new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other organizations, the new standard is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2016-02, Leases	All lessee and lessor entities.	For public business entities, NFPs that have issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an OTC market, or an employee benefit plan that files financial statements with the SEC, the amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, see ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities* Early application of the amendments is permitted for all entities.

Appendix A

Important Implementation Dates, *continued*

Selected Implementation Dates (GASB)

Pronouncement	Affects	Effective Date and Transition
Statement 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans	Governmental entities	Effective for reporting periods after June 15, 2021. Earlier application is allowed.
Statement 96, Subscription-Based Information Technology Arrangements	Governmental entities	Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
Statement 95, Postponement of the Effective Dates of Certain Authoritative Guidance	Governmental entities	Effective immediately.
Statement 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements	Governmental entities	Effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
Statement 93, Replacement of Interbank Offered Rates	Governmental entities	The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2021. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2022. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
Statement 92, Omnibus 2020	Governmental entities	The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021. The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021. The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021
Statement 91, Conduit Debt Obligations	Governmental entities	Effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.
Statement 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61)	Governmental entities	Effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.
Statement 89, Accounting for Interest Cost Incurred before the End of a Construction Period	Governmental entities	Effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.
Statement 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	Governmental entities	Effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged.
Statement 87, Leases	Governmental entities	Effective for reporting periods beginning after June 15, 2021.
Statement 86, Certain Debt Extinguishment Issues	Governmental entities	Effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.
Statement 85, Omnibus 2017	Governmental entities	Effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.
Statement 84, Fiduciary Activities	Governmental entities	Effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
Statement 83, Certain Asset Retirement Obligations	Governmental entities	Effective for reporting periods beginning after June 15, 2019. Earlier application is encouraged.
Statement 82, Pension Issues	Governmental entities	Effective for reporting periods beginning after June 15, 2016, except for the requirements for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.
Statement 81, Irrevocable Split-Interest Agreements	Governmental entities	Effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.
Statement 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14	Governmental entities	Effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.
Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	Governmental entities	Effective for fiscal years beginning after June 15, 2017. Early adoption is encouraged.
Statement 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	Governmental entities	Effective for financial statements for periods beginning after June 15, 2016. Early adoption is encouraged.
Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	Governmental entities	Effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016. Early adoption is encouraged.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements

For the Quarter Ended June 30, 2020

The illustrative disclosures below are presented in plain English. Please review each disclosure for its applicability to your organization and the need for disclosure in your organization's financial statements.

{Please give careful consideration to appropriateness of highlighted text.}

ASU 2016-02 — Applicable to lessee and lessor entities:
In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for *[fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.-public business entities] [fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.-all other entities]*. Early adoption is permitted.

We expect to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. We have started an initial evaluation of our leasing contracts and activities. We have also started developing our methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments (the December 31, 2019 future minimum lease payments were $____ million). We do not expect a material change to the timing of expense recognition, but we are early in the implementation process and will continue to evaluate the impact. We are evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU.

ASU 2016-13 — Applicable to entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income:
In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The guidance requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. The amendments will be effective for the Company for *[fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC] [fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.-all other entities]* Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

ASU 2017-04 — Applicable to all:
In January 2017, the FASB amended the Goodwill and Other Topic of the Accounting Standards Codification to simplify the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for the Company for *[reporting periods beginning after December 15, 2019.-public business entities that are SEC filers] [reporting periods beginning after December 15, 2020.-public business entities that are not SEC filers] [reporting periods beginning after December 15, 2021.-all other entities]* Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect these amendments to have a material effect on its financial statements.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2020

ASU 2017-08 — Applicable to entities that hold investments in callable debt securities held at a premium:

In March 2017, the FASB amended the requirements in the Receivables—Nonrefundable Fees and Other Costs Topic of the Accounting Standards Codification related to the amortization period for certain purchased callable debt securities held at a premium. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Company for *[interim and annual periods beginning after December 15, 2018.-public business entities] [annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020.-all other entities]* Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2017-11 — Applicable to entities that issue financial instruments that include down round features:

In July 2017, the FASB amended the requirements in the Earnings per Share, Distinguishing Liabilities from Equity, and Derivatives and Hedging Topics of the Accounting Standards Codification to address the complexity of accounting for certain financial instruments with down round features. The amendments will be effective for the Company for *[interim and annual periods beginning after December 15, 2018.-public business entities] [annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020.-all other entities]* Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2017-12 — Applicable to entities that elect to apply hedge accounting:

In August 2017, the FASB amended the requirements of the Derivatives and Hedging Topic of the Accounting Standards Codification to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments will be effective for the Company for *[interim and annual periods beginning after December 15, 2018.-public business entities] [fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021.-entities other than public business entities]* Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-01 — Applicable to entities with land easements:

In January 2018, the FASB amended the requirements of the Leases Topic of the Accounting Standards Codification. The amendments permit an entity to elect an optional transition practical expedient to not evaluate under the new lease accounting guidance land easements that exist or expired before the entity's adoption of the new lease accounting guidance and that were not previously accounted for as leases under previous lease accounting guidance. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASU 2016-02. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-07 — Applicable to all entities that enter into share-based payment transactions for acquiring goods and services from nonemployees:

In June 2018, the FASB amended the Compensation—Stock Compensation Topic of the Accounting Standards Codification. The amendments expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments are effective for *[fiscal years beginning after December 15, 2018, including interim periods within that fiscal year-public business entities] [fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020-all other entities]*. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606. The Company does not expect these amendments to have a material effect on its financial statements.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2020

ASU 2018-08 — Applicable to Not-for-Profit entities and all other entities, including business entities, that receive or make contributions of cash and other assets, including promises to give within the scope of Subtopic 958-605 and contributions made within the scope of Subtopic 720-25, Other Expenses—Contributions Made:

In June 2018, the FASB updated the Not-for-Profit Entities Topic of the Accounting Standards Codification. The amendments clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. For contributions received, the amendments are effective for *[annual periods beginning after June 15, 2018, including interim periods within those annual periods-public business entities or an NFP 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 and serves as a resource recipient]* *[annual periods beginning after December 15, 2018, and interim periods within those annual periods beginning after December 15, 2019-all other entities]*. For contributions made, the amendments are effective for *[annual periods beginning after December 15, 2018, including interim periods within those annual periods-public business entities or an NFP 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 and serves as a resource provider]* *[annual periods beginning after December 15, 2019, and interim periods within those annual periods beginning after December 15, 2020-all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-10 — Applicable to lessee and lessor entities:

In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to make narrow amendments to clarify how to apply certain aspects of the new leases standard. The amendments are effective for *[reporting periods beginning after December 15, 2018.-public business entities]* *[annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020-all other entities]*. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-11 — Applicable to lessee and lessor entities:

In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to give entities another option for transition and to provide lessors with a practical expedient. The amendments will be effective for the Company for *[reporting periods beginning after December 15, 2018.-public business entities]* *[annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020-all other entities]*. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-12 — Applicable to insurance entities that issue long-duration contracts:

In August 2018, the FASB amended the Financial Services—Insurance Topic of the Accounting Standards Codification to make targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The amendments will be effective for the Company for *[fiscal years beginning after December 15, 2021, and interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SED]* *[for fiscal years beginning after December 15, 2023, and interim periods within fiscal year beginning after December 15, 2024.-all other entities]* The Company does not expect these amendments to have a material effect on its financial statements.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2020

ASU 2018-13 — Applicable to all entities that are required to make disclosures about recurring or nonrecurring fair value measurements:

In August 2018, the FASB amended the Fair Value Measurement Topic of the Accounting Standards Codification. The amendments remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-14 — Applicable to all employers that sponsor defined benefit pension or other postretirement plans:

In August 2018, the FASB amended the Compensation—Retirement Benefits—Defined Benefit Plans Topic of the Accounting Standards Codification. The amendments remove, modify, and add certain disclosure requirements for employers that sponsor defined benefit pension plans or other postretirement plans. The amendments are effective *[fiscal years ending after December 15, 2020.-public business entities] [fiscal years ending after December 15, 2021-all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-15 — Applicable to all:

In August 2018, the FASB amended the Intangibles—Goodwill and Other Topic of the Accounting Standards Codification to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments will be effective for the Company for *[fiscal years beginning after December 15, 2019.-public business entities] [fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021-all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-16 — Applicable to all:

In October 2018, the FASB amended the Derivatives and Hedging Topic of the Accounting Standards Codification to expand the list of U.S. benchmark interest rates permitted in the application of hedge accounting. The amendments will be effective for the Company for *[fiscal years beginning after December 15, 2018.-public business entities] [fiscal years beginning after December 15, 2019-all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-17 — Applicable to all:

In October 2018, the FASB amended the Consolidation topic of the Accounting Standards Codification for determining whether a decision-making fee is a variable interest. The amendments require organizations to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety. *[The amendments will be effective for the Company for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.-public business entities] [The amendments also provide a nonpublic entity with the option to exempt itself from applying the variable interest entity consolidation model to qualifying common control arrangements. The amendments will be effective for the Company for annual periods beginning after December 15, 2020, and interim periods within annual reporting periods beginning after December 15, 2021.-all other entities]* Early adoption is permitted. The Company will apply a full retrospective approach in which

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Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2020

financial statements for each individual prior period presented and the opening balances of the earliest period presented are adjusted to reflect the period-specific effects of applying the amendments. *[The Company does not expect these amendments to have a material effect on its financial statements.] [The Company is currently evaluating the effect that implementation of the new standard will have on its financial statements.]*

ASU 2018-18 — Applicable to all:

In November 2018, the FASB amended the Collaborative Arrangements Topic of the Accounting Standards Codification to clarify the interaction between the guidance for certain collaborative arrangements and the new revenue recognition financial accounting and reporting standard. The amendments will be effective for the Company for *[fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.-public business entities] [fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.-all other entities]* Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-19 — Applicable to entities that hold financial assets and net investment in leases that are not accounted for at fair value through net income:

In November 2018, the FASB issued guidance to amend the Financial Instruments—Credit Losses topic of the Accounting Standards Codification. The guidance aligns the implementation date of the topic for annual financial statements of nonpublic companies with the implementation date for their interim financial statements. The guidance also clarifies that receivables arising from operating leases are not within the scope of the topic, but rather, should be accounted for in accordance with the leases topic. The amendments will be effective for the Company for *[reporting periods beginning after December 15, 2019, including interim periods within those fiscal years.-SEC filers] [reporting periods beginning after December 15, 2020, including interim periods within those fiscal years.-public business entities that are not SEC filers] [fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.-all other entities]* Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

ASU 2018-20 — Applicable to all:

In December 2018, the FASB issued guidance that providing narrow-scope improvements for lessors, that provides relief in the accounting for sales, use and similar taxes, the accounting for other costs paid by a lessee that may benefit a lessor, and variable payments when contracts have lease and non-lease components. The amendments will be effective for the Company for *[reporting periods beginning after December 15, 2018, including interim periods within those fiscal years.-public business entities] [annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020-all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-01 — Applicable to all:

In March 2019, the FASB issued guidance to address concerns companies had raised about an accounting exception they would lose when assessing the fair value of underlying assets under the leases standard and clarify that lessees and lessors are exempt from a certain interim disclosure requirement associated with adopting the new standard. The amendments will be effective for the Company for *[reporting periods beginning after December 15, 2019.-public business entities] [annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020-all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2020

ASU 2019-02 — Applicable to broadcasters and entities that produce and distribute films and episodic television series:

In March 2019, the FASB issued guidance that helps align the accounting for production costs for films and episodic content produced for television and streaming services. The amendments will be effective for the Company for [reporting periods beginning after December 15, 2019, including interim periods within those fiscal years.-public business entities] [reporting periods beginning after December 15, 2020, including interim periods within those fiscal years.-all other entities]. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-03 — Applicable to entities that hold collections:

In March 2019, the FASB issued guidance to clarify the definition of collection in the Master Glossary in order to eliminate the diversity in practice between the application of the Master Glossary's definition compared with the definition that many entities use for accreditation purposes. The amendments will be effective for the Organization for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020 and should be applied on a prospective basis. Early adoption is permitted. The Organization does not expect these amendments to have a material effect on its financial statements.

ASU 2019-04 — Applicable to entities that hold financial instruments:

In April 2019, the FASB issued guidance that clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement of financial instruments. The amendments related to credit losses will be effective for the Company for *[reporting periods beginning after December 15, 2019.-SEC filers] [reporting periods beginning after December 15, 2020.-public business entities that are not SEC filers] [fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.-all other entities]*. The amendments related to hedging will be effective for the Company for *[interim and annual periods beginning after December 15, 2018.-public business entities] [annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020.-all other entities]*. The amendments related to recognition and measurement of financial instruments will be effective for the Company for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-05 — Applicable to entities that hold financial instruments:

In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments will be effective for the Company for *[fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.-entities that have adopted ASU 2016-13] {For entities that have not yet adopted ASU 2016-13: [reporting periods beginning after December 15, 2019.-SEC filers] [reporting periods beginning after December 15, 2020.-public business entities that are not SEC filers] [fiscal years beginning after December 15, 2021, including interim periods within those fiscal years.-all other entities]}*. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-07 — Applicable to SEC filers:

In July 2019, the FASB updated various Topics of the Accounting Standards Codification to align the guidance in various SEC sections of the Codification with the requirements of certain SEC final rules. The amendments were effective upon issuance and did not have a material effect on the financial statements.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2020

ASU 2019-08 — Applicable to entities that make share-based payments to customers:

In November 2019, the FASB issued guidance to simplify and increase comparability of accounting for nonemployee share-based payments, specifically those made to customers. As a result, the amount recorded as a reduction in revenue will be measured based on the grant-date fair value of the share-based payment. The amendments are effective for *[fiscal years beginning after December 15, 2019, and interim periods within those fiscal years-public business entities that have not yet adopted ASU 2018-07]* *[fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020-entities other than public business entities that have not yet adopted ASU 2018-07]* *[fiscal years beginning after December 15, 2019, and interim periods within those fiscal years-all entities that have adopted ASU 2018-07]*. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-09 — Applicable to insurance entities that issue long-duration contracts:

In November 2019, the FASB issued guidance to defer the effective date of ASU 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. The new effective date will be [*for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC]* *[for fiscal years beginning after December 15, 2023, and interim periods within fiscal year beginning after December 15, 2024.-all other entities]* The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-10 — Applicable to all entities:

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on current expected credit losses (CECL), leases, hedging. The new effective dates will be *CECL: [fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC]* *[fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.-all other entities]*; *Hedging: [fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021.-entities other than public business entities]*; *Leases: [fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.-all entities other than public business entities; not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market; and employee benefit plans that file or furnish financial statements with or to the SEC]* The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-11 — Applicable to all entities:

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments affect a variety of Topics in the Accounting Standards Codification. *[For entities that have adopted the amendments in ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years]* *[For entities that have not yet adopted the amendments in ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years-public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC]* *[fiscal years beginning after December 15, 2022 including interim periods within those fiscal years-all other entities]*. Early adoption is permitted in any interim period as long as an entity has adopted the amendments in ASU 2016-13. The Company does not expect these amendments to have a material effect on its financial statements.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2020

ASU 2019-12 — Applicable to entities within the scope of Topic 740, Income Taxes:

In December 2019, the FASB issued guidance to simplify accounting for income taxes by removing specific technical exceptions that often produce information investors have a hard time understanding. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments are effective for *[fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.-public business entities] [fiscal years beginning after December 15, 2021, and interim periods within annual reporting periods beginning after December 15, 2022-all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-01 — All entities:

In January 2020, the FASB issued guidance to address accounting for the transition into and out of the equity method and measuring certain purchased options and forward contracts to acquire investments. The amendments are effective for *[fiscal years beginning after December 15, 2020, and interim periods within those fiscal years.-public business entities] [for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years-all other entities]*. Early adoption is permitted, including early adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-02 — Applicable to SEC filers:

In February 2020, the FASB issued guidance to add and amend SEC paragraphs in the Accounting Standards Codification to reflect the issuance of SEC Staff Accounting Bulletin No. 119 related to the new credit losses standard and comments by the SEC staff related to the revised effective date of the new leases standard. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-03 — Applicable to all entities:

In March 2020, the FASB issued guidance that makes narrow-scope improvements to various aspects of the financial instrument guidance, including the current expected credit losses (CECL) guidance issued in 2016. *The amendments related to conforming amendments: For public business entities, the amendments are effective upon issuance of this final ASU. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2020. Early application is permitted. The effective date of the amendments to ASU 2016-01 is for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For the amendments related to ASU 2016-13, public business entities that meet the definition of an SEC filer, excluding eligible smaller reporting companies (SRCs) as defined by the SEC, should adopt the amendments in ASU 2016-13 during 2020. All other entities should adopt the amendments in ASU 2016-13 during 2023. Early adoption will continue to be permitted. For entities that have not yet adopted the guidance in ASU 2016-13, the effective dates and the transition requirements for these amendments are the same as the effective date and transition requirements in ASU 2016-13. For entities that have adopted the guidance in ASU 2016-13, the amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For those entities, the amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to opening retained earnings in the statement of financial position as of the date that an entity adopted the amendments in ASU 2016-13.*The Company does not expect these amendments to have a material effect on its financial statements.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended June 30, 2020

ASU 2020-04 — Applicable to all entities:

In March 2020, the FASB issued guidance to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The amendments are effective as of March 12, 2020 through December 31, 2022. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-05 — Applicable to all entities:

In June 2020, the FASB issued guidance to defer the effective dates for certain companies and organizations which have not yet applied the revenue recognition and leases guidance by one year. The new effective dates will be: *Revenue Recognition: annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020; Leases: fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.* The Company does not expect these amendments to have a material effect on its financial statements.

Applicable to all:

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

Appendix C

Recently Issued Accounting Pronouncements

***NOTE*: The disclosures in the previous appendix are not intended to be all inclusive. All pronouncements issued during the period should be evaluated to determine whether they are applicable to your Company. Through June 30, 2020, the FASB had issued the following Accounting Standard Updates during the year.**

- **ASU 2020-05,** *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*
- **ASU 2020-04,** *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*
- **ASU 2020-03,** *Codification Improvements to Financial Instruments*
- **ASU 2020-02,** *Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) (SEC Update)*
- **ASU 2020-01,** *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the FASB Emerging Issues Task Force)*