elliott davis

FINANCIAL SERVICES

Quarterly Update

Second Quarter 2020

July 6, 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 financial institution. 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:

- Loan Modifications and Working with Customers Affected by the Coronavirus (Read more)
- Goodwill Impairment Analysis (Read more)
- Anticipating, Identifying and Reacting to Potential Credit Issues (Read more)
- Accounting for PPP Loan Fees (Read more)
- Internal Control Considerations Related to PPP Lending (Read more)
- PPP and COVID Impact on Disclosures (Read more)
- Stock Compensation Considerations (Read more)
- Loan Portfolio Stress Testing: Top-down vs. Bottom-up Approach (Read more)
- Federal Tax Impact of 2020 Families First and CARES Acts on Financial Institutions (Read more)

We have also compiled a list of items for your consideration in your financial reporting 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 team members with any questions. We look forward to working with you this quarter 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 have provided some guidance, resources, and things to think about in response to COVID-19.

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

Anticipating, Identifying and Reacting to Potential Credit Issues

The evolving economic conditions related to COVID-19 have led to questions surrounding the capabilities of small businesses to return to a sense of economic normalcy. With loan modification deferral periods set to expire in large quantities, the second half of 2020 will begin to shine a light on true credit issues emerging as a result of COVID-19. The ability of institutions to anticipate, identify and react to perceived credit issues will be imperative to managing through a potential credit crisis.

Find out more in the *Anticipating, Identifying and Reacting to Potential Credit Issues* section.

PPP and COVID Impact on Disclosures

In addition to operational and other challenges related to COVID-19, management is also working through accounting and financial reporting issues related to the impact, and uncertainties related to COVID-19. It is important for institutions to provide disclosures that allow users of the financial statements to assess the current and anticipated impact of COVID-19 through the eyes of management.

Learn more in the *PPP and COVID Impact on Disclosures* 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.

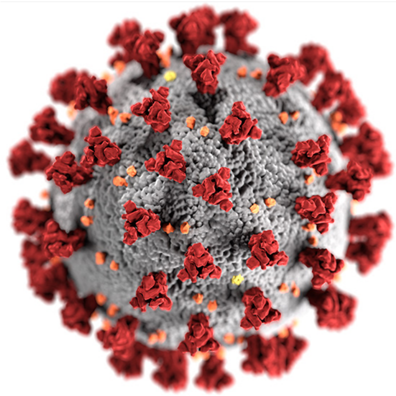
Find out more in the *FASB Update* section.

elliott davis

Join us on Tuesday, July 7th, for a 90 minute financial services webcast designed to provide insight on quarterly reporting considerations for June 30th. 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.



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
- Allowance for loan losses or allowance for credit losses
- Identified credit risks within loan and investment portfolios
- Fair value measurements
- Breach of loan covenants
- Troubled debt restructurings
- Interest rate risk management
- Going concern risks
- Liquidity risk management
- Employment termination benefits
- Share-based compensation performance conditions and modifications
- Tax considerations (in particular, recoverability of deferred tax assets)
- Subsequent events disclosures
- Commitments and contingencies
- Internal controls

Select issues are discussed on the following pages.

If you have any questions, please feel free to contact one of your Elliott Davis engagement team members.

Loan Modifications and Working with Customers Affected by the Coronavirus

The first guidance was issued on March 22, 2020, when the FDIC, the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency, the National Credit Union Administration, the state banking regulators, and the Consumer Financial Protection Bureau (the "Agencies") issued an Interagency Statement to provide additional information regarding loan modifications. Short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not troubled debt restructurings (TDRs). Short-term modifications include payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. The statement defines the period considered to be an insignificant delay as six months. Borrowers considered current are those that are less than 30 days delinquent at the time a modification is implemented.

Coronavirus Disease 2019 Update, *continued*

The CARES Act, signed by the President on March 27, 2020, also included a suspense of GAAP as it relates to TDRs for a limited period of time. Specifically, the Act states - Banks may elect to suspend US GAAP requirements with respect to reporting loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR or requiring impairment. The Act requires banking regulators to defer to the determination of the financial institutions making such suspension. Such election may begin on March 1, 2020 and last no later than 60 days after the end of the national emergency.

The Agencies issued a revised interagency statement on April 7, 2020 to clarify the interaction between the March 22, 2020 interagency statement and section 4013 of the CARES Act. The revised interagency statement clarifies that a financial institution may account for an eligible loan modification under section 4013 of the CARES Act if all of the following requirements are met:

1) The modification is related to COVID-19;
2) The related loan was not more than 30 days past due as of December 31, 2019; and
3) The modification is executed between March 1, 2020, and the earlier of 60 days after the date of termination of the National Emergency, or December 31, 2020.

If a loan modification meets the above requirements, then institutions are not required to apply ASC 310-40 to those loans for the term of the modification, and do not have to report those loans as TDRs within regulatory reports.

If a loan is not eligible under section 4013, then the revised interagency guidance clarifies that the Agencies confirmed with the Financial Accounting Standards Board (FASB) that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs under ASC 310-40. The same standards apply as included within the March 22, 2020 interagency guidance and include all of the following requirements:

1) The modification is in response to the National Emergency;
2) The borrower was current on payments at the time the modification program is implemented; and
3) The modification is short-term.

Under either scenario, the following are also true as detailed by the revised interagency statement:

- Efforts to work with borrowers of one-to-four family residential mortgages where the loans are prudently underwritten, and not 90 days or more past due or carried in nonaccrual status, will not result in the loans being considered restructured or modified for the purposes of their respective risk-based capital rules.
- Financial institutions are not expected to designate loans as past due for deferrals granted due to COVID-19.
- Loans modifications meeting these short-term arrangements should generally not be reported as nonaccrual.

While we anticipate continued guidance from regulators on the underlying loan accounting for these loan modifications, we thought it would be helpful to include some items for consideration from the accounting perspective and regulatory perspective related to payment deferrals.

From an accounting perspective:
Deferring payments on loans for a customer creates a loan modification that can usually be adjusted in an institution's loan system fairly easily; however, treatment of the deferral interest can be more complicated. From a borrower's perspective, in most cases the interest will continue to accrue during the deferment period. So ultimately, the borrower will eventually have to pay the outstanding interest.

Coronavirus Disease 2019 Update, *continued*

Assuming the institution has determined the loan does not need to go onto nonaccrual status, the options for the institution would be to:

- Postpone the interest income until later in the life of the loan, usually as a balloon payment.
  - Depending on the likelihood of receiving that payment, a reserve on that accrued interest income may be needed. In addition, if a reserve is not recorded, accrued interest income will likely be overstated in the short-term.
  - Some systems might be able to handle this type of situation through the shadow accounting option.
- Capitalize interest and add it to the principal and re-amortize the loan once payments resume.
  - As a note, caution should be used with this method. Generally, capitalization of interest is precluded when the creditworthiness of the borrower is in question.

The best answer on how these deferred payments are treated may depend on how the modification agreement is written. One way to simplify this is modifying the loan to interest only for a period instead of full payment deferral (if that is an option for the borrower), as this will not interfere with interest income and only defer the principal payment. In either case, it is important to disclose the remaining interest properly from a regulatory perspective as the institution does have to disclose a "change in terms" agreement to the borrower.

In situations where the modification agreement is written where interest will not accrue during the payment deferral period, the FASB staff has indicated in their April 8, 2020 Board meeting that two options are available in regards to accounting for interest income during the payment deferral period:

- Recognize interest income during the deferral period by utilizing a new effective interest rate under ASC 310-20 that equates the revised remaining cash flows to the carrying amount of the original debt and is then applied prospectively for the remaining term of the loan.
- Interest income is not recognized during the payment deferral due to the revised contractual terms. Recognition of interest income would then resume after the end of the payment deferral period.

From a regulatory perspective:
It is important to note that under the official interpretation to 12 CFR 1026.20(a), "changes in the terms of an existing obligation, such as the deferral of individual installments, will not constitute a refinancing unless accomplished by the cancellation of that obligation and the substitution of a new obligation.

- A substitution of agreements that meets the refinancing definition will require new disclosures, even if the substitution does not substantially alter the prior credit terms." As a modification or payment deferral does not cancel a previous obligation, completely new sets of disclosures are not necessary. We believe this gives institutions some flexibility in handling borrowers that are affected by COVID-19.
- Institutions should still remember that modifications or changes in terms for loans secured by improved real estate (as of now) are not exempt from the requirements of the Flood Disaster Protection Act (FDPA). Depending upon the specific terms of the modification the loan it could likely trip the "make, increase, extend, or renew" requirements under FDPA. If any of these four events are triggered, then the institution must obtain a new flood hazard determination, if the previous determination is greater than seven years old. In addition, if the improved real estate is determined to be within a special flood hazard area, the institution should mail or deliver a written notice to the borrower and to the servicer in all cases whether or not flood insurance is available under the FDPA for the collateral securing the loan. If the modification increases the loan amount, the institution should be cognizant to ensure the amount of insurance is equal to the lesser of the outstanding principal balance of the designated loan or the maximum limit of coverage available for the particular type of property under FDPA. Finally, premiums and fees for any flood insurance would be required to be escrowed for any designated loan secured by residential improved real estate.

Coronavirus Disease 2019 Update, *continued*

In addition, institutions that are permitting payment deferrals on mortgage loans and allowing the escrow payment to be deferred as well, need to be sure to include language in their agreements to alert borrowers of the consequences of deferring the escrow payment. Consequences can include a shortage in the escrow fund when the annual analysis is completed. Borrower notices/disclosures/agreements should also clearly describe how the deferral/extension process will work, including ensuring borrowers understand all of the following areas:

- Interest accrual on the loans during the deferral period;
- Effect on principal balance reduction;
- Impact on any balloon payments and/or the maturity date of the loan;
- Change in the amount of interest paid over the life of the loan (which may increase if maturity is extended); and
- Procedures for the borrower to notify the institution of their request to defer payments, including the timeframe to avoid any late payment penalties.

Any payment modification programs should be consistent and well documented to ensure compliance with fair lending requirements, to avoid any future scrutiny.

Goodwill Analysis in Today's Environment

As the second quarter closes for institutions, most have experienced continued volatility in their stock price throughout the COVID-19 pandemic. Many institutions 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.

An institution 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.

Process for Testing Goodwill for Impairment:

The steps to perform the impairment test vary based on whether the institution has adopted ASU 2017-04.

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

Coronavirus Disease 2019 Update, *continued*

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 institution 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

An institution's market capitalization and other market data should be considered when assessing the fair value of an institution'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 institution. 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 an institution comprised of a single reporting unit. Determining the factors affecting market capitalization and their impact on fair value requires the application of judgment.

An institution 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

Anticipating, Identifying and Reacting to Potential Credit Issues

When the reality of the COVID-19 crisis began to set in, the end of the second quarter felt miles away. Surely by the end of June there would be some definitive answers to the numerous questions that seemed to arise by the day. Since that time, the markets have remained inconsistent, the PPP loan forgiveness program has provided some relief to customers and efforts have been made to encourage a return to a more typical level of economic activity. Yet, the pandemic has continued to persist and COVID-19 cases have even begun to increase steadily again in many states, while loan deferral programs and PPP have masked the heightened credit risk within loan portfolios.

These evolving conditions have led to further questions surrounding the capabilities of businesses to return to a sense of economic normalcy. With loan modification deferral periods set to expire in large quantities, the second half of 2020 will begin to shine a light

Coronavirus Disease 2019 Update, *continued*

on true credit issues emerging as a result of COVID-19. The ability of institutions to anticipate, identify and react to perceived credit issues will be imperative to managing through a potential credit crisis. Let's consider some key questions to be proactively addressing.

1. ***What is our institution doing upon the conclusion of a payment deferral?*** As borrowers reach the end of a payment deferral period, make sure there are clear procedures in place for loan officers to contact each customer. Gaining an initial understanding of how a borrower continues to be affected by the pandemic will help develop a clear path to managing each unique circumstance.
2. ***When will we begin to realistically identify a problem?*** Assuming a customer has not asked for another extension or indicated an inability to pay, determining an approach to the identification of a credit issue will be important. While loan delinquencies are a lagging indicator, traditional delinquency monitoring is likely the place to start. But perhaps there will be need to more emphasis on delinquencies that are less than 30 days past due than in pre-COVID-19 times.
3. ***What kind of useful information can be obtained from borrowers?*** The impact of the pandemic has limited the reliance that can be placed on past information. Even if a customer's 2019 tax return is available, can any relevant conclusions be made related to current performance? Consider each borrower's situation. Ask borrower's how they are monitoring the performance of their business or their personal financial situation. What is an indicator of success as it relates to their ability to pay the loan? Work with your team to understand how a problem may be identified before it shows up on a delinquency report and how this information can be used to gather the needed information from borrowers.
4. ***Should I stress test my loan portfolio?*** Enhancing your understanding of your loan portfolio through a stress test can provide value in many ways. The ability to identify potential risks and problems in advance will inevitably lead to more meaningful conversations with borrowers on the front-end. The benefits gained from understanding true portfolio concentrations and the potential "worst case scenario" from can provide meaningful insights as your team navigates the credit ramifications of the pandemic. We have included more details on stress testing loan portfolios on page 15.

While the true long-term economic impact from the COVID-19 crisis remains unknown, the longer these conditions persist, the more likely it becomes that a major credit event is on the horizon. Undoubtedly, the Great Recession was brought about by a vastly different set of circumstances than the current economic recession. However, it will remain true that the financial institutions that proactively anticipate, identify and react quickly to arising credit issues will experience success in navigating these uncertain waters.

Accounting for PPP Loan Fees

Many institutions have originated significant loan volume under the Payroll Protection Program (PPP) which has led to a large amount of loan origination fees that will be paid by the SBA. It is important for institutions to understand how to properly account for the PPP fees.

On June 30, 2020, the AICPA released a Technical Questions and Answers to help institutions account for the fees received from the origination of PPP loans. In this guidance, the AICPA states "upon funding of the loan, the fee should be accounted for as a nonrefundable loan origination fee under FASB ASC 310-20", which is consistent with previously issued guidance put out by Elliott Davis. In effect, the SBA is paying a loan origination fee that would have ordinarily been paid by the borrower. According to ASC 310-20 (formerly FAS 91), loan origination fees should be capitalized, effectively reducing the loan balance. The loan origination fees should be offset by direct loan origination costs. After initial recognition, the net deferred loan fee should be amortized over the life of the loan as an adjustment of yield (interest income).

ASC 310-20 does allow lenders to elect the prepayment method in accounting for deferred loan fees. If the entity holds a large number of similar loans for which prepayments are probable and the timing and amount of prepayments can be reasonably estimated, the entity may consider estimates of future principal prepayments in the calculation of the constant effective yield necessary to apply the

Coronavirus Disease 2019 Update, *continued*

interest method. Since PPP loans are similar in nature and prepayments (through SBA forgiveness) are possible, the prepayment method in accounting for deferred loan fees may be a good option if this can be reasonably estimated. However, in conversations with clients, many expect a much higher volume of these loans to be on their books for the entire loan term than initially expected. Once a lender has selected the appropriate method of accounting for a loan or a group of loans, a lender must continue to use the method throughout the life of the loan or group of loans.

If loan-by-loan accounting is used (opposed to the prepayment method), net deferred fees and costs are amortized over the contract life and adjusted based on actual prepayments as they occur. Principal amounts forgiven by the SBA would be considered a loan prepayment; therefore, recognition of the net deferred loan fees will occur for the percentage of the loan forgiven.

Most institutions have the capability to utilize their core system to record the entries related to net deferred loan fees and costs for PPP loans. Other institutions may not be able to utilize their core system and will need a manual process to track and record the net deferred loan fees and costs.

Many institutions have historically determined that recording capitalized loan fees and costs in accordance with ASC 310-20 is not material and therefore, they have not recorded the associated asset or liability and recognized the loan origination fees and costs through the income statement upon funding loans. It is important to evaluate the impact of the PPP loan origination fees to determine if loan fees and costs remain immaterial. The institution should consider the following items in this evaluation: users of its financial statements, the effect on capital, overall shareholder value and whether compensation plans may be impacted.

Internal Control Considerations Related to PPP Lending

Institutions should not discount the impact of the SBA PPP program in regards to internal control over financial reporting (ICFR). The below table provides a listing of potential relevant control objectives with associated control considerations for each objective identified. This table is followed by several frequently asked questions in regards to SBA PPP loans and ICFR. While this information will be most relevant for those institutions subject to some element of ICFR oversight through either internal certification requirements, or external audit opinions, the concepts and control considerations are relevant to <u>all entities</u> that participated in the SBA PPP program.

Potential Relevant Control Objectives	Control Considerations and Comments
SBA PPP loans are originated, approved, and funded in accordance with the institution's policies and procedures.	Given the tight timeline of processing for PPP loans, there is a potential that the origination/approval/funding process did not follow standard processes. If standard policies and procedures were relaxed or modified for processing of these loans, then an additional control is likely required based on the updated/modified practices. If the process followed the standard origination/approval/funding process, this control objective could be addressed by existing key control(s) and an additional control would not be required. However, we believe that in most cases, where an institution processed a significant volume of these loans, it is likely there were differences in this process compared to the institution's typical origination/approval/funding process that would be brought to light during walkthrough procedures. Regardless of whether an additional control is necessary, the SBA's approval of the loan prior to funding should be considered within the control design.

Coronavirus Disease 2019 Update, *continued*

Potential Relevant Control Objectives	Control Considerations and Comments
All required information (e.g. borrower name, address, loan balance, payment terms, interest rate, maturity date) concerning funded SBA PPP loans is entered into the loan accounting system accurately.	Given the tight timeline of processing for PPP loans, there is a potential that the boarding process for PPP loans did not follow the standard processes. If standard policies and procedures were relaxed or modified for boarding of these loans, then an additional control is likely required based on the updated/modified practices. If the boarding process for PPP loans followed the standard boarding process, this control objective could be addressed by existing key control(s). We believe that in some cases, where an institution processed a significant volume of these loans, it is likely there were differences in this process compared to the institution's typical boarding process that would be brought to light during walkthrough procedures.
Processing fees for SBA PPP loans are recognized in accordance with generally accepted accounting principles.	According to ASC 310-20, the loan fees should be capitalized at origination and then accreted into interest income utilizing the effective interest method. If the institution utilizes their core to record these entries, then it is possible the control objective would be addressed by existing key control(s), and no additional key control would be necessary. If a manual process was implemented to record the processing fees, then a new key control would be considered necessary, and the following should be considered: i) identification of the fee; ii) borrowers subsequently deemed ineligible. If SBA processing fees receivable are recorded prior to SBA approval, there should be consideration regarding how adjustments are made when fee income received is not equal to the amount recorded. This could be addressed through a reconciliation of ACH payments received to recorded fees. Alternatively, institutions could elect to record SBA fees upon receipt, similar to a cash basis. Regardless of the method chosen, the control design should include consideration of the existence, completeness, and accuracy of the processing fees recorded.
SBA PPP loan forgiveness applications are appropriately reviewed in accordance with SBA guidelines.	Lenders are expected to perform a good-faith review, in a reasonable time, of the borrower's calculations and supporting documents concerning amounts eligible for loan forgiveness. The level and depth of this review will likely vary based on each borrower's circumstances and the support provided; however, the review should be well-designed and documented based on defined policies and procedures. Due to this being a new process, there is heightened financial risk to the institution related to potential SBA claw-backs, therefore a new key control will likely be required.
After all or a portion of a loan is forgiven, the reclassification of the portion of loans receivable to receivable from SBA on the	A receivable from the SBA would be recorded upon the SBA's approval of the forgiveness application. This will likely be done via new general ledger accounts and a new process given these types of transactions are new, as well as the volume of forgiveness approvals will be high and difficult to manage and reconcile given this will likely be done on an individual loan level. In

Coronavirus Disease 2019 Update, *continued*

Potential Relevant Control Objectives	Control Considerations and Comments
balance sheet is complete and accurate.	addition, the institution has not likely had a process in place for removing loans (or a portion of a loan) from its loan system without a loan payoff, which will occur in the forgiveness process.
The accretion of net deferred processing fees are appropriately accelerated based on loan forgiveness.	If the recognition of loan forgiveness (i.e. prepayments) constitutes a manual process outside of the core system, then a key control is likely necessary. If this is accomplished via an automated process within the core system, then it is possible the control objective would be addressed by existing key control(s), and no additional key control would be necessary.

Frequently Asked Questions in regards to SBA PPP Control Considerations:

- What controls should be considered surrounding our SBA Form 1502 submission?
  - The SBA Form 1502 submission is required to initiate the process of paying the PPP processing fee, which the PPP lender is eligible to receive. After review of the form by the SBA, the lender fee will be paid via ACH to the lender. The amount of the fee received should be considered within the design of the control above related to recognition of processing fees.
- Can we rely on the borrower's certification related to the forgiveness calculation as our control to cover the forgiveness objective?
  - As noted above, it is common that we would expect there to be an additional key control around the forgiveness calculation. Institutions should not "blindly" take the borrowers certification as their only validation of calculation accuracy or validity. Depending on the notoriety of the payroll processing company being used, the institution may have a range of re-performance or review procedures in place to determine whether forgiveness calculations are valid.
- What controls should be considered related to SBA PPP loan policies and procedures?
  - Any updates to policies and procedures would likely be covered by entity wide controls related to policy review and approval; however, consideration should be given to SBA policies and procedures which did not undergo standard review and approval processes due to the quick timeline required.
- Should SBA PPP loans be broken out into a different segment for financial reporting?
  - According to ASC 310-10-20, a group of financing receivables should be determined on the basis of both of the following: i) risk characteristics of the financing receivable; and ii) an entity's method for monitoring and assessing risk. If the institution separately monitors and assesses risks related to SBA PPP loans within their allowance for loan losses calculation, then consideration should be given to reporting SBA PPP loans as a separate segment for financial reporting.

PPP and COVID Impact on Disclosures

In addition to operational and other challenges related to COVID-19, management is also working through accounting and financial reporting issues related to the impact and uncertainties resulting from the pandemic. In June 2020, the SEC's Division of Corporate Finance issued guidance which "encourages companies to provide disclosures that allow investors to evaluate the current and expected impact of COVID-19 through the eyes of management and to proactively revise and update disclosures as facts and circumstances change. These disclosures should enable an investor to understand how management and the Board of Directors are analyzing the current and expected impact of COVID-19 on the company's operations and financial condition, including liquidity and capital resources."

Coronavirus Disease 2019 Update, *continued*

PPP Loan Disclosures

During the last quarter, institutions invested a significant amount of time and resources into the PPP in order to serve their customers. Disclosures should include the general background on the PPP and the volume, both in number and in dollars, of PPP loans originated by the institution. If management is tracking and evaluating their PPP loan portfolio separately from an operational standpoint, then consider breaking out the PPP loan portfolio as separate loan segment disclosure within the footnotes. This will allow users of the financial statements to understand how management is analyzing the institution's loan portfolio. Based on the nature of these loans, we believe it is highly likely that most institutions will be evaluating these loans separately, both in terms of potential for reserves (or lack thereof), as well as from a credit monitoring standpoint. If that is the case, disclosure as a separate loan segment would be needed under the current disclosure requirements.

Institutions should also consider disclosure within the policy footnote for the accounting for SBA fee income as part of the PPP. It is likely the institution's net interest margin has been affected by PPP loan originations and loan fees. Depending on its significance, disclosure of the impact on net interest margin is considered relevant information to investors and should be considered for disclosure purposes.

Loan Modifications and Payment Deferrals

The CARES Act and interagency guidance encourages institutions to provide loan modifications and payment deferrals for customers and communities affected by COVID-19. Towards the end of the first quarter and into the second quarter 2020, institutions have modified credits to allow a significant number of loan modifications and payment deferrals to their customers. A general discussion of the institution's policy of loan modification/deferrals and origins of loan modification/deferrals should be included within the financial statements. In addition, how the institution evaluates for modifications for TDR status should be well documented. The institution's accounting treatment for the deferred interest and/or principal should also be disclosed.

The following items should be evaluated for disclosure purposes as of June 30, 2020:

- Total loans for which a payment deferral was granted and the total amount of payment deferrals as a percentage of the total loan portfolio
- Total modified loans for which payments have recommenced
- Loans modified from P&I to interest-only for which payments have recommenced
- Modified loans that have become TDRs or problem loans based on borrower circumstances
- Any reserves established against accrued interest given the large build-up in this total due to payment deferrals

High Risk Industry Disclosures

There is little doubt that COVID-19 has impacted all industries in some way, but there are some industries that have been more heavily impacted than others. A discussion of the loan segments and industries within the institution's loan portfolio that were significantly impacted by COVID-19 should be included with the financial statements. Industries such as hotel/motels, restaurants, religious organizations, travel-related business, healthcare facilities, retail, entertainment facilities and agricultural dairy are some examples where expanded disclosure may be necessary. Consider adding a chart that outlines these industries within the loan portfolio including the total exposure and the total modifications in each industry segment.

Allowance for Loan/Credit Losses Considerations

There is still a vast amount of uncertainty in the impact of COVID-19. However, there is a general consensus among regulators, institutions, and auditors that COVID-19 will adversely affect credit quality in financial institutions. Financial statement disclosures should include insight of management's evaluation of the allowance for loan/credit losses in light of COVID-19. A description of the general approach to the qualitative and environment factors should be disclosed. Disclosures should include a description of changes to the model, including changes in the lookback period for historical losses or an addition of a COVID-19 qualitative factor, as those could rise to the level of required disclosures as a change in estimate under GAAP.

Coronavirus Disease 2019 Update, *continued*

As it relates to PPP loans, an institution would generally not recognize an allowance for loan/credit losses for properly underwritten PPP loans because the SBA guarantees 100% of the principal and interest.

Non-GAAP Measures

The SEC has requested that institutions acknowledge investor concern in how the COVID-19 pandemic has impacted operations and financial condition, and particular focus will be on how COVID-related effects have been reflected in non-GAAP financial measures publicly and privately disclosed to investors, lenders and other parties. To the extent an institution presents a non-GAAP measure, it is important to highlight why management finds the measure useful and how it helps investors assess the impact of COVID-19 on the institutions financial position and results of operations.

An institution may choose to present a non-GAAP measure that adjusts for unusual, direct, and incremental costs due to COVID-19 as well as any related economic uncertainty, such as asset or goodwill impairments. However, it is important to note that a non-GAAP measure that adjusts for estimated lost revenues or profits is likely to be inappropriate because the SEC may view it to be a tailored accounting principle. For any non-GAAP measures used, a quantitative reconciliation to the most directly comparable GAAP measure should be presented and all adjustments should be transparently described. Based on discussions with investors as well as numerous institutions, we expect many to disclose non-GAAP measures related to the impact of PPP loans on the allowance for loan/credit losses and net interest margin, among others.

PPP Loans, PPPLF, and Your Capital Ratios

Based on section 1102 of the CARES Act, PPP loans carry a 0% risk weighting for capital purposes. However, unless the loan is pledged as collateral under the Paycheck Protection Program Liquidity Facility (PPPLF), the loan will be included in a bank's average total consolidated assets for purposes of calculating the leverage ratio requirement. This leverage ratio requirement includes the Community Bank Leverage Ratio (CBLR).

The PPPLF was established by the Federal Reserve to provide lenders with non-resource loans from the Federal Reserve to fund PPP lending. On April 7, 2020, the FDIC, the Federal Reserve and the OCC issued an interim final rule to neutralize the impact of PPPLF participation by allowing the exclusion of loans pledged as collateral to the PPPLF from the bank's leverage exposure, average total consolidated assets, advanced approaches total risk-weighted assets, and standardized total risk-weighted assets. This exclusion also applies to banks that have opted to use the CBLR.

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 institutions 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).

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.

Coronavirus Disease 2019 Update, *continued*

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.

Loan Portfolio Stress Testing: Top-down vs. Bottom-up Approach

In a recent conversation with a client about loan review plans for 2020, this institution expressed curiosity as to what, in this COVID-19 environment, we are seeing clients do differently this year versus last year. The biggest difference is institutions coupling loan review services with a loan portfolio stress test. These combined loan review and stress test reports by a third party vendors can be hundreds of pages and most of management teams don't really know how to utilize this information. These reports can include lots of different quantitative analytics much of which has little value or usefulness. In this current economic environment and with the increase in loan portfolio stress test services, it is important that institutions understand some of the big differences between a top-down and bottom-up loan portfolio stress test. The pros and cons of both are provided below.

Top-down Approach

The top-down approach varies in complexity. Institutions can perform probability of default and loss given default analytics and/or utilize loss rates that might be expected during an economic recession. This will allow the institution to assess the extent to which capital may be at risk given the institution's balance sheet structure and loan mix. For community banks, the more common approach is to stress current historical loss rates. Benefits of the top-down approach include:

1. Provides good Board and C-suite level information about the loan portfolio and potential impact to the institution's capital, income, and allowance for loan loss if the institution experiences any of the stressed scenarios.
2. Is not as time intensive as the bottom-up approach.
3. Is not as expensive as a bottom-up approach, if outsourced to a third party.

As for shortcomings, the top-down approach:

1. Lacks borrower detail.
2. Makes it difficult to create proactive actionable steps at the borrower level to mitigate credit risk after the stress test is performed.

Bottom-up Approach

This method helps identify current and emerging risks and vulnerabilities within the loan portfolio by assessing the impact of changing economic conditions on borrower performance, identifying credit concentrations, measuring the resulting change in overall portfolio credit quality, and ultimately determining the potential financial impact on earnings and capital. Among its advantages, the bottom-up approach:

1. Like the top-down approach, provides Board and C-suite level information about the loan portfolio and potential impact to the financial institution's capital, income, and allowance for loan loss.
2. Provides practical information for loan portfolio managers about specific borrowers that may experience financial difficulties if the stated stress scenarios are experienced.
3. Enables management to create proactive, actionable steps to address stress test results and possibly reduce credit risk.

On the other hand, the bottom-down approach:

1. Can be a more time intensive project.
2. Can be more expensive than a top-down stress test, if outsourced to a third party.

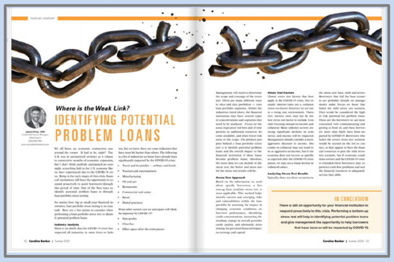
Coronavirus Disease 2019 Update, *continued*

As more and more institutions weigh the cost/benefit of loan portfolio stress testing, it is important that institutions understand the difference between the two loan portfolio stress test approaches and ensure the loan portfolio stress test aligns with its intended use by management.

elliott davis

Elliott Davis Observation: Utilizing stress testing to help your institution identify potential problem loans can be a proactive step to help get in front of potential asset quality issues created by the COVID-19 pandemic. For additional insights, see the recent article published in the Carolina Banker magazine written by one of the experts on our Elliott Davis Financial Services Team at the link below:

Carolina Banker: Stress Testing / Identifying Potential Problem Loans


Where is the Weak Link?
IDENTIFYING POTENTIAL PROBLEM LOANS

Federal Tax Impact of 2020 Families First and CARES Acts on Financial Institutions

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

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.

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

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. Eligible employers are those businesses with operations that have been partially or fully suspended by governmental orders due to COVID-19, or businesses that have a significant decline (50% or more decline) in gross receipts compared to the same calendar quarter in 2019. In addition, an eligible employer's ability to claim the Employee Retention Credit is impacted by other credit and relief provisions. 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.

Coronavirus Disease 2019 Update, *continued*

- 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 Employee Retention Credit may not apply for many banks even with lobby closures since (1) they were considered an essential business and have not been forced to close by a governmental body or (2) their gross receipts have not been reduced below 50% of the prior year quarter's results. However, each company will need to evaluate its own facts and circumstances to determine if they would be eligible for this credit.

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

*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 **www.elliottdavis.com/covid19***

Additional Regulatory COVID-19 Releases

The following information related to the Coronavirus is included within the *Regulatory Update* section (select links below):

- *Statement on the Continued Importance of High-Quality Financial Reporting in Light of COVID-19*
- *Proposed Rulemaking to Mitigate the Deposit Insurance Assessment Effects of PPP, the PPP Lending Facility, and the Money Market Mutual Fund Liquidity Facility*
- *Facilitating Real Estate-Related Transactions Affected by COVID-19*
- *Modifications to the Community Bank Leverage Ratio Framework*
- *Interagency Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic*
- *OCC Highlights Key Risks for Federal Banking System*

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.

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.

Regulatory Update, *continued*

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.

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

Regulatory Update, *continued*

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.

Security in a Cloud Computing Environment

The Federal Financial Institutions Examination Council (FFIEC) on behalf of its members issued a statement to address the use of cloud computing services and security risk management principles in the financial services sector. Security breaches involving cloud computing services highlight the importance of sound security controls and management's understanding of the shared responsibilities between cloud service providers and their financial institution clients. The statement does not contain new regulatory expectations, though it highlights that management should not assume that effective security and resilience controls exist simply because the technology systems are operating in a cloud computing environment.

The statement highlights examples of risk management practices for a financial institution's safe and sound use of cloud computing services and safeguards to protect customers' sensitive information from risks that pose potential consumer harm. The statement also provides a list of government and industry resources and references to assist financial institutions using cloud computing services.

Revisions to the Consolidated Reports of Condition and Income (Call Report)

The Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board (Board), and the Office of the Comptroller of the Currency (collectively, the agencies), have requested and received emergency approval from the U.S. Office of Management and Budget for certain revisions to the three versions of the Call Report (FFIEC 031, FFIEC 041, and FFIEC 051) effective as of the June 30, 2020 report date. These revisions resulted from several interim final rules (IFRs) and a notice of proposed rulemaking (NPR) issued by one or all of the agencies in response to the impact on the financial markets and the strains on the U.S. economy as a result of the COVID-19. These revisions also resulted from certain provisions of the CARES Act.

The revisions include:

1. Updates to the instructions for the calculation of certain amounts reported on Schedule RC-R, Regulatory Capital, that apply to the three versions of the Call Report and for the calculation of certain amounts reported on Schedule A, Advanced Approaches Regulatory Capital, on the FFIEC 101.

2. New items on Call Report Schedule RC-C, Part I, Loans and Leases, and Schedule RC-M, Memoranda, to collect data on:
    a. Eligible loan modifications under Section 4013, Temporary Relief from Troubled Debt Restructurings, of the CARES Act, with these items collected on a confidential basis;
    b. U.S. Small Business Administration PPP loans and borrowings under the Federal Reserve's PPPLF; and
    c. Holdings of assets purchased under the Money Market Mutual Fund Liquidity Facility (MMLF). The agencies expect the collection of these new items to be time-limited.

Regulatory Update, *continued*

3. Revisions to the definitions of certain deposits reported on Call Report Schedule RC-E, Deposit Liabilities, in response to an IFR amending the Board's Regulation D (12 CFR 204).

4. Changes to the reporting on extensions of credit to insiders on Call Report Schedule RC-M, Memoranda, in response to a Board IFR that excepts certain loans guaranteed under the Small Business Administration's PPP from the requirements of section 22(h) of the Federal Reserve Act and the corresponding provisions of the Board's Regulation O (12 CFR 215).

Proposed Rulemaking to Mitigate the Deposit Insurance Assessment Effects of PPP, the PPPLF, and the Money Market Mutual Fund Liquidity Facility

On June 22, 2020, the FDIC Board of Directors authorized publication of a final rule that mitigates the deposit insurance assessment effects of participating in the PPP established by the U.S. Small Business Administration and the PPPLF and MMLF. Absent a change to the assessment rules, an insured depository institution that participates in the PPP, PPPLF, or MMLF programs would be subject to increased deposit insurance assessments.

The final rule: 1) removes the effect of participation in the PPP and PPPLF on various risk measures used to calculate an IDI's assessment rate, 2) removes the effect of participation in the PPPLF and MMLF programs on certain adjustments to an IDI's assessment rate, 3) provides an offset to an IDI's assessment for the increase to its assessment base attributable to participation in the MMLF and PPPLF, and 4) removes the effect of participation in the PPPLF and MMLF programs when classifying IDIs as small, large, or highly complex for assessment purposes.

The final rule is effective immediately so changes are applied to assessments starting in the second quarter of 2020.

Interagency Guidance on Credit Risk Review Systems

The FDIC, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the National Credit Union Administration have jointly issued the final Interagency Guidance on Credit Risk Review Systems. The interagency guidance replaces the guidance in Attachment 1 – Loan Review Systems, which is part of the December 2006 Interagency Policy Statement on the Allowance for Loan and Lease Losses.

This interagency guidance:

- Articulates principles for sound credit risk management that include a system of independent, ongoing credit risk review and appropriate communication to management and the board of directors regarding the performance of the institution's loan portfolio.
- Describes a broad set of practices and principles to be considered when developing and maintaining a credit risk review system, including: qualifications and independence of credit risk review personnel; the frequency, scope, and depth of reviews; and the review, follow-up, communication, and distribution of results.
- Reflects current industry credit review practices, as well as terminology that is consistent with Accounting Standards Update No. 2016–13, which introduces the current expected credit losses (CECL) methodology and replaces the existing incurred loss methodology in U.S. GAAP. A new Interagency Policy Statement on Allowances for Credit Losses that describes the CECL methodology is being issued separately.

Interagency Policy Statement on Allowances for Credit Losses

Banking regulators approved a joint Policy Statement about allowance for credit losses to promote consistency when banks and other financial institutions apply the FASB's CECL accounting standard. FASB ASC Topic 326 replaces the incurred loss methodology for financial assets measured at amortized cost and off-balance-sheet credit exposures with the CECL methodology. FASB ASC Topic 326 also modifies the accounting for impairment of available-for-sale debt securities. Because of the change in accounting standards, the federal financial regulatory agencies revised the existing policies for the allowance for loan and lease losses.

Regulatory Update, *continued*

This interagency guidance describes the:

- Design, documentation, and validation of CECL methodologies
- Maintenance of appropriate allowances for credit losses under the new accounting standard
- Responsibilities of boards of directors and management
- Responsibilities of examiners when reviewing the allowances for credit losses

Facilitating Real Estate-Related Transactions Affected by COVID-19

The Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System (collectively, the agencies) issued an interim final rule that allows institutions supervised by the agencies to defer obtaining an appraisal or evaluation for up to 120 days after the closing of certain residential and commercial real estate loans. The agencies, with the National Credit Union Administration and the Consumer Financial Protection Bureau, in consultation with the state financial regulators, also issued an Interagency Statement on Appraisals and Evaluations for Real Estate Related Financial Transactions Affected by the Coronavirus. The Statement outlines existing flexibilities provided by industry appraisal standards and the agencies' appraisal regulations and highlights temporary changes to Fannie Mae and Freddie Mac appraisal standards to facilitate real estate transactions.

The interim final rule:

- Authorizes deferrals of appraisals and evaluations for up to 120 days from closing for all residential and commercial real estate transactions, except for transactions involving the acquisition, development, and construction of real estate.
- Indicates institutions should make best efforts to obtain a credible valuation of real property collateral before the loan closing.
- States that this temporary change to the appraisal rules expires on December 31, 2020.

The interagency statement outlines other flexibilities in industry appraisal standards and in the agencies' appraisal regulations and describes temporary changes to Fannie Mae and Freddie Mac appraisal standards that can assist lenders during this challenging time.

Modifications to the Community Bank Leverage Ratio Framework

The Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, and Office of the Comptroller of the Currency issued two interim final rules that make changes to the CBLR framework and implement Section 4012 of the Coronavirus Aid, Relief, and Economic Security Act.

One interim rule implemented section 4012 of the Coronavirus Aid, Relief, and Economic Security Act. The statutory interim final rule provides that, as of the second quarter 2020, a banking organization with a leverage ratio of 8 percent or greater (and that meets the other existing qualifying criteria) may elect to use the CBLR framework. The statutory interim final rule also establishes a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls below the 8 percent CBLR requirement, so long as the banking organization maintains a leverage ratio of 7 percent or greater.

The second interim final rule provides a transition from the temporary 8 percent CBLR requirement, under the statutory interim final rule, to a 9 percent CBLR requirement. When the requirements in the transition interim final rule become applicable, the CBLR ratio requirement will be greater than 8 percent for the second through fourth quarters of calendar year 2020, greater than 8.5 percent for calendar year 2021, and greater than 9 percent thereafter. The transition interim final rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 100 basis points below the applicable community bank leverage ratio requirement.

Regulatory Update, *continued*

Interagency Guidance for Assessing Safety and Soundness Considering the Effect of the COVID-19 Pandemic

The FDIC, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the National Credit Union Administration in conjunction with the state bank and credit union regulators are jointly issuing examiner guidance to outline the supervisory principles for assessing the safety and soundness of institutions given the ongoing impact of the COVID-19 pandemic. The interagency examiner guidance instructs agency examiners to consider the unique, evolving, and potentially long-term nature of the issues confronting institutions and to exercise appropriate flexibility in their supervisory response acknowledging that stresses caused by COVID-19 can adversely impact an institution's financial condition and operational capabilities, even when institution management has appropriate governance and risk management systems in place to identify, monitor, and control risk.

Examiners will continue to assess institutions in accordance with existing policies and procedures and may provide supervisory feedback, or downgrade an institution's composite or component ratings, when conditions have deteriorated. Examiners will consider whether institution management has managed risk appropriately, including taking appropriate actions in response to stresses caused by COVID-19 impacts. In assessing an institution under the principles in the interagency examiner guidance, examiners will consider the institution's asset size, complexity, and risk profile, as well as the industry and business focus of its customers.

OCC Highlights Key Risks for Federal Banking System

On June 29, 2020, the OCC described the key issues facing the federal banking system and the effects of the COVID-19 pandemic on federal banking industry in its *Semiannual Risk Perspective for Spring 2020.* Banks entered the national health emergency related to COVID-19 in strong condition but now face weak economic conditions resulting from the economic shutdown in response to COVID-19 that will stress financial performance in 2020. The rapid decline in economic conditions will affect bank profitability, credit quality, operations, and capital.

Highlights from the report include:

- Financial performance will be affected by higher credit losses, overhead expenses, and lower net interest income.
- The onset of the national health emergency created an uncertain credit environment that will test the resiliency of commercial and retail loan portfolios. Credit risk management practices will need to be flexible and proactive to meet the challenges of the current environment.
- Operational risk is elevated as banks changed business processes and engaged third parties to support widespread remote work capabilities, increased technological capacity, and solutions to maintain operations under elevated operational volumes.
- Compliance risk is heightened because of a combination of change in operations, employees working remotely, and several new federal and state programs designed to support consumers such as the CARES Act, PPP, and a variety of forbearance and deferred payment programs. Among other challenges, these conditions complicate the compliance responsibilities associated with managing high volumes and various programs of consumer and business lending in a weakened economy.

The report presents information in four main areas: the operating environment, bank performance, special topics in emerging risk, and trends in key risks. It focuses on issues that pose threats to those financial institutions regulated by the OCC and is intended as a resource to the industry, examiners, and the public.

Other Items

AICPA Says Borrowers May Account for PPP Loans Under Debt Standard

The AICPA on June 10, 2020, updated a technical accounting guide that answers how a borrower should account for a forgivable loan received under the Small Business Administration Paycheck Protection Program (PPP). The guide is in the form of Technical Questions and Answers (TQAs), and it adds question 18 to TQA 3200, *Long-Term Debt*.

In order to cushion the devastating blow to the economy, Congress in late March passed the $2.2 trillion CARES Act, which included the PPP program for small businesses. TQA 3200.18 specifically deals with how a nongovernment entity should account for the PPP loan.

According to TQA 3200.18, although the legal form of the PPP loan is debt, some believe that the loan is, in substance, a government grant. Whether a borrower expects to pay back the PPP loan or believes it is a grant that will be forgiven, the AICPA said 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 derecognition of the liability, the AICPA said that ASC 470-50-14-4 refers to Subtopic 405-20, *Liabilities—Extinguishments of Liabilities*. ASC 405-20-40-1 says that 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 gets legal release, the AICPA said the borrower would then reduce the liability by the amount forgiven and record a gain on extinguishment.

If the borrower is a business, and it expects to meet the PPP eligibility criteria and concludes that PPP is a forgivable loan, TQA 3200.18 states that it may analogize to the IASB's International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Under IAS 20, the AICPA said government assistance is not recognized until it is probable that any conditions attached to the assistance will be met and the assistance will be received. When there is "reasonable assurance" ("probable" under FASB standards) that the conditions will be met, the earnings impact of government grants should be recorded on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. This means that, a company would record the cash from the PPP loan as a deferred income liability. After the initial recognition, the company would reduce the liability with the offset through earnings as it recognizes the related cost to which the loan relates, for example, compensation expense.

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.

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.

Other Items, *continued*

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.

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 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).

On the Horizon, *continued*

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:

- <u>Classification Principle—Unused Long-Term Financing Arrangements</u>—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.
- <u>Grace Periods</u>—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.
- <u>Effective Date</u>—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.

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.

On the Horizon, *continued*

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.

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:

- PCC Issue No. 2018-01, "Practical Expedient to Measure Grant-Date Fair Value of Equity-Classified Share-Based Awards": 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.
- Revenue Recognition (Topic 606): 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 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.*

- Conceptual Framework: Elements, Measurement, and Presentation: 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.
- Current Issues in Financial Reporting: 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:
    - Leases: 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.
    - Fair Value Measurement: 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.
    - Interest Income Recognition: 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.
    - Small Business Administration Loans: 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.
- Private Company Research Findings: 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

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 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

Appendix B

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)*