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FINANCIAL SERVICES

Quarterly Update

Fourth Quarter 2020

January 6, 2021

Dear Customers and Friends:

Happy New Year! We hope that you and your family are safe and healthy. We know the current state of the economy and markets creates challenges for your financial institution. We will continue to serve you with advice and insight to help you navigate this challenging environment.

In this edition of our quarterly communication, we have provided information about all of the financial reporting and accounting issues that we are currently aware of that will impact your quarterly reporting. These include discussion on critical topics, such as:

- Loan Considerations as of December 31, 2020
- PPP and Credit Related Disclosures
- SEC and PCAOB Update
- Operational Risks, SOC Reporting, and the Impacts of COVID-19
- Coronavirus Response and Relief Supplemental Appropriation Act
- FDIC Approves Interim Final Rule to Provide Temporary Relief from Part 363 Audit and Reporting Requirements
- Interagency Interim Final Rule Provides Regulatory Relief for Institutions Experiencing Temporary Asset Growth in Connection with COVID-19 Related Programs

We have also compiled a list of financial reporting and disclosure items for your consideration for the fourth quarter, as well as 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.

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

Join us on Thursday January 7th, for a 2-hour financial services webcast designed to provide insight on quarterly reporting consideration. Find more information and register for this and our other Financial Services events at: http://www.elliottdavis.com/events

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Frequent Topics of Discussion Across the Industry

Loan Considerations as of December 31, 2020

Mark Scriven, Principal, Mark.Scriven@elliottdavis.com
Marshall Trull, Senior Manager, Marshall.Trull@elliottdavis.com

During 2020, the CARES Act and interagency guidance encouraged institutions to provide loan modifications and payment deferrals for customers and communities affected by COVID-19. In addition, many that have been greatly impacted have received funds from the Paycheck Protection Program (PPP). The recent COVID relief bill has opened another round of PPP for second time draws and for those who did not receive a loan the first time. This recent bill has also extended the troubled debt restructuring (TDR) exemption relief for institutions. The significant relief that has been provided to those most affected by COVID-19 has masked the true financial impact of the situation for borrowers, and actually led many institutions to have their lowest delinquency ratios in recent memory. Based on these factors, as of December 31, 2020, there remains great uncertainty of the true financial condition of borrowers.

It's important to remember that while the relief above does provide exemptions from designating loans as troubled debt restructurings, it does not preclude other typical changes in credit quality, such as classifying loans as impaired and nonaccrual, as well as potential risk grade changes. As institutions close out 2020, they should consider several items related to the identification of problem loans, as the typical credit quality indicators such as past due status are even greater lagging indicators in today's environment.

Updates to Controls and Documentation

The current credit environment, along with the fact that many institutions are still functioning in either a partially or fully remote work environment has resulted in many changes to internal control over financial reporting (ICFR) for 2020. As testing of internal controls for the year concludes, many of these changes warrant either updates to existing control documentation or designation of new key controls. Below are some questions over lending related areas that should warrant consideration:

- Credit Quality Monitoring
  - Based on discussion above related to problem loan identification, does the review of past-due status result in a sufficient indication of credit quality in today's environment? If not, what other controls have been put in place to address this concern?
- Loan Review
  - Whether your independent loan review function is completed by a third-party, internally, or a combination of both, were there changes to the scope and frequency during the year? Did the parameters change to accommodate deeper reviews into higher risk industries?
- Collateral Valuation
  - For those impaired loans evaluated utilizing the fair value of collateral method, did the documentation of appraisal reviews change during the year? An increased scrutiny should be reflected related to the age of appraisals, as well as the review of the relevancy and reasonableness of key appraisal assumptions, such as occupancy rates, capitalization rates, etc.
- TDR Identification
  - With the exemptions granted under the CARES Act and interagency guidance, did the process utilized to determine whether a modification is a TDR change?
- PPP Lending
  - Did control activities change to accommodate the origination, approval, funding, and boarding of theses loans? Has consideration been given to the method utilized to recognize fee income and process forgiveness applications?

Frequent Topics of Discussion Across the Industry, *continued*

Subsequent Events

Events or transactions sometimes occur subsequent to the balance sheet date, but prior to the issuance of the financial statements that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements. These occurrences are referred to as "subsequent events."

Two types of subsequent events require consideration by management. The first type consists of those events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements. All information that becomes available prior to the issuance of the financial statements should be used by management in its evaluation of the conditions on which the estimates were based. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence. An example of a type one event would be a material change in the valuation of a piece of collateral or OREO from a new appraisal.

The second type consists of those events that provide evidence with respect to conditions that did not exist at the date of the balance sheet, but arose subsequent to that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that disclosure of them is required to keep the financial statements from being misleading. An example of a type two event would be an institution's COVID-19 disclosures in their 2019 financial statements since COVID-19 did not materially impact the United States economy at December 31, 2019.

Management should be mindful that any impaired loan that receives an updated appraisal during January or February 2020 (any time prior to the financial statements being finalized) should technically be re-measured using the updated appraisal information. This could be material to your final reserve estimate and should be reflected in your December 31, 2020 financial statements.

Considerations When Finalizing Loan Reserves

As of December 31, 2020, there continues to be uncertainty as to the ultimate impact of COVID-19. However, there is a general consensus within the industry that COVID-19 will adversely affect credit quality in financial institutions at some point in time and ultimately lead to credit losses.

The way that each institution responds to that uncertainty will first depend on whether the institution is estimating the ALL through the incurred loss model, or whether the institution is an earlier adopter of the current expected credit losses (CECL) model. For those institutions who have already adopted CECL, the forecasting component of the model will likely be the main driver of the final ACL estimate. From the institutions that we've worked with, it appears as though unemployment continues to be one of the main macroeconomic variables used to develop reasonable and supportable forecasts. Every institution should be evaluating the variables used for forecasting and considering whether alternative variables should be incorporated into the calculation or whether stressing the variables is necessary in order to establish a reasonable reserve. Similar to interest rate risk models, each institution should fully understand how sensitive the ACL calculation is to a change in your key assumptions and it may be prudent to run the model under a number of scenarios in order to fully capture the risk inherent in the institution's loan portfolio.

For those institutions who continue to evaluate ALL coverage through incurred loss models, the qualitative factors will likely be the main driver of the reserves for the next few quarters. As such, it will be imperative for each institution to formally capture whether COVID-19 impacts legacy qualitative factors or whether an incremental factor is needed within your ALL process. We have seen both approaches taken during 2020. Consider looking at data points within the industry and your immediate peer group to help you support your final reserve coverage. Despite the relative lack of significant charge-offs during 2020, losses have likely been "incurred" at this point in time and need to be factored into the final ALL coverage.

See *Coronavirus Response and Relief Supplemental Appropriation Act* section below for updates related to the PPP program.

Frequent Topics of Discussion Across the Industry, *continued*

PPP and Credit Related Disclosures

Chris Purvis, Shareholder, Chris.Purvis@elliottdavis.com
Daniel Mauldin, Senior Manager, Daniel.Mauldin@elliottdavis.com

Throughout 2020, our quarterly communications have provided guidance on new disclosures related to PPP loans, loan modifications, payment deferrals, loan portfolios concentrated in high risk industries, and the impact of these items on the allowance for loan/credit losses. These disclosures have continued to evolve as more information becomes available and facts and circumstances change. This section of our communication will revisit the disclosures mentioned in previous communications and provide additional clarity on annual reporting requirements.

PPP Loan Disclosures

The SBA's Paycheck Protection Program has been one of the most labor intensive events to hit the banking industry in recent years, requiring institutions to invest a significant amount of time and resources to receive applications, fund loans, and monitor the constantly changing forgiveness landscape. During the fourth quarter, institutions have started to process a significant amount of forgiveness applications and began to see a high volume of loan forgiveness. The disclosures surrounding each institution's continuing involvement in the program should be updated to reflect the impact of these events.

Disclosures related to PPP lending should continue to include the general background of the program and the institution's PPP loan volume, both in number and in dollars. Disclosures should be updated to discuss the volume of forgiveness, including the amount forgiven and the remaining number and amount of PPP loans remaining in the loan portfolio as of the reporting date.

If management is tracking and evaluating their PPP loan portfolio separately from an operational standpoint, consider breaking out the PPP loan portfolio as a separate loan segment disclosure within the footnotes. Based on the nature of these loans, it is likely that most institutions will be evaluating these loans separately from a credit monitoring standpoint. If that is the case, disclosure as a separate loan segment would be needed under the current disclosure requirements. At a minimum, disclosures should be made about the volume of PPP loans remaining in each reported loan segment.

Disclosures surrounding the accounting for SBA fee income that resulted PPP loans should also be updated as the forgiveness process continues. Institutions should disclose the initial amount of fee income received from PPP loan originations as well as their accounting policy for recognizing those fees into income. The disclosures should also cover the amount recorded in income to date and the deferred amounts remaining as of the reporting date. 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.

Finally, the allowance treatment for PPP loans should also be disclosed. As we've previously discussed, the industry standard has been to limit any allowance on PPP loans given that PPP loans carry a 100% SBA guarantee of the principal and interest. Institutions should disclose their treatment of PPP loans within their allowance disclosures as well consider disclosures of the allowance coverage both with PPP loans considered and the allowance coverage less those loans. However, it is always important to be mindful of guidance related to disclosing non-GAAP measures, if your institution elects to use non-GAAP disclosures.

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. Throughout 2020, institutions modified credits to allow a significant number of loan modifications and payment deferrals to their customers. As we've reached the end of the fourth quarter, a majority of these deferrals reached the end of their initial modification period, creating the need for more clarity around the extent of modifications/deferrals within your loan portfolio.

Frequent Topics of Discussion Across the Industry, *continued*

As part of year end disclosures, we expect continued discussion of the institution's policy of loan modification/deferrals. In addition, how the institution evaluates these modifications for TDR status should be well documented, especially if deferral/modification extensions are granted. The institution's accounting treatment for the deferred interest and/or principal should also be disclosed.

The following items should be considered for disclosure purposes:

- Total loans for which a payment deferral was granted during the year
- Total amount of loans currently in deferral status as a percentage of the total loan portfolio as of December 31, 2020
- Total modified loans that have returned to their contractual payment structure as of December 31, 2020
- Modified loans for which an additional modification or extension of the amended terms has occurred during the year
- Modified loans that have become TDRs or problem loans based on borrower circumstances during the year
- Total loans where CARES Act 4013 suspension of TDR guidance was applied
- Any reserves established against accrued interest given the large build-up in this total due to payment deferrals

If an institution entered into a significant amount of these modifications, they may consider breaking out these disclosures by loan segment. Institutions should also consider disclosing that the delinquency disclosures included in the financial statements are impacted by these modifications if a significant amount of modifications remain at the reporting date.

High Risk Industry Disclosures

Disclosures in year-end financial statements should continue to include discussion of the loan segments and industries within the institution's loan portfolio that were significantly impacted by COVID-19. General exposure to industries such as hotel/motels, restaurants, religious organizations, travel-related business, healthcare facilities, retail, entertainment facilities, rental properties and agricultural, among other 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 continues to be uncertainty as to the ultimate 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 at some point in time. 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 environmental 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 COVID-19 qualitative factors, as those could rise to the level of required disclosures as a change in estimate under GAAP.

SEC and PCAOB Update

Chris Purvis, Shareholder, Chris.Purvis@elliottdavis.com
Daniel Mauldin, Senior Manager, Daniel.Mauldin@elliottdavis.com

During 2020, the SEC and PCAOB have issued new guidance and pronouncements that will impact upcoming disclosures in SEC filings and financial statements as well as auditor reports on financial statements. This section of the communication will cover some of the most important of these items that have come to light in the past year.

SEC Guidance on COVID-19 Disclosures

The SEC's Division of Corporation Finance (Corp Fin) provided guidance on their views regarding disclosure and other securities law obligations that companies should consider with respect to COVID-19 and related business and market disruptions. Corp Fin's initial disclosure guidance was issued in March 2020 in *Topic No. 9 – COVID 19* and supplemented by the issuance of *Topic No. 9A – COVID-19 Disclosure Considerations Regarding Options, Liquidity, and Capital Resources* in June 2020. The guidance in both of these releases

Frequent Topics of Discussion Across the Industry, *continued*

provided questions on a wide range of topics that registrants can use to develop their disclosures surrounding the effects of COVID-19. The SEC has been clear that they expect companies to provide disclosures that could be material to investing and voting decisions. Disclosures should enable investors to understand the effects COVID-19 has had on a company, how management is responding to evolving events, and what management is doing to plan for future impacts of COVID-19.

The SEC and Corp Fin have continued to express that companies should be proactive in their disclosures and employ a principles-based approach. Disclosures should be tailored to the company and provide industry-specific effects of the pandemic on their business and operations. As more information has become available throughout the year and facts and circumstances have changed, the SEC expects that disclosures made in filings will be adjusted to reflect these changes and provide information to investors to assess how management is evaluating the rapidly changing environment in which they operate.

The SEC has acknowledged that the COVID-19 disclosures they have reviewed in 2020 filings have been reasonable, stating in a December 4, 2020 release, “During the pandemic, many public companies have discharged their disclosure obligations in a commendable manner, working proactively to keep investors informed of the current and anticipated material impacts of COVID-19 on their operations and financial condition.” To date, SEC comments on accounting and disclosures related to COVID-19 have mainly been focused on risk factors and discussion in the MD&A. On December 4, 2020, the SEC announced their first public charging of a public company for misleading investors about the financial effects of the pandemic. The SEC’s order found that The Cheesecake Factory violated reporting provisions of the federal securities laws by failing to disclose information shared with certain investors related to their liquidity position and future plans in their March and April filings. While the Cheesecake Factory is not a financial institution, this provides evidence that the SEC expects that all known information used by management in making decisions and responding to the effects of the pandemic should be disclosed in filings if it could be useful in making investing and voting decisions.

Changes in Definitions of Accelerated and Large Accelerated Filers

On March 12, 2020, the SEC adopted amendments to the accelerated filer and large accelerated filer definitions. The final amendments apply to annual report filings due on or after the effective date of April 27, 2020. The final amendments are intended to reduce the number of issuers that qualify as accelerated filers and promote capital formation for smaller reporting companies by reducing compliance costs while maintaining investor protections.

The amendments exclude from the accelerated and large accelerated filer definitions an issuer that is eligible to be a smaller reporting company (SRC) and that had annual revenues of less than $100 million in the most recent fiscal year for which audited financial statements are available. In addition, the amendments increase the transition thresholds for accelerated and large accelerated filers becoming non-accelerated filers from $50 million to $60 million, and for exiting large accelerated filer status from $500 million to $560 million. Further, the amendments add a revenue test to the transition thresholds. Finally, the amendments add a check box to the cover pages of Forms 10-K, 20-F, and 40-F to indicate whether an internal control over financial reporting auditor attestation is included in the filing.

The main provision of the amendment is that it will eliminate the requirement for entities falling out of the accelerated filer status to obtain an auditor attestation report on internal controls over financial reporting under Section 404(b) of the Sarbanes-Oxley Act of 2002 (SOX). However, the amendments will not change other key protections of SOX, such as independent audit committee requirements, CEO and CFO certifications, or requirements to establish, maintain and assess effectiveness of internal controls over financial reporting. In addition, these changes have no impact on the requirements for attestation on internal controls over financial reporting under FDICIA. Institutions with greater than $1 billion in total assets as of the beginning of their fiscal year continue to be required to have an internal controls over financial reporting attestation report. However, special exemptions have been made for 2021 by the FDIC in response to the COVID-19 pandemic and related lending programs. For more information related to these special exemptions, see our *Regulatory Update* section.

Frequent Topics of Discussion Across the Industry, *continued*

Guide 3 Modernization

On September 11, 2020, the SEC issued a final rule to update and expand the statistical disclosures that bank and savings and loan registrants provide to investors. Guide 3 was originally issued in 1976 and has not been substantially revised since 1986. The goal of the new rules is to make disclosures more relevant to today's environment while also eliminating certain disclosures that are duplicative of other SEC rules or are required to be disclosed in financial statements by US GAAP.

Per the SEC Final Rule, Guide 3 will be rescinded effective January 1, 2023, and replaced by a new set of rules which will be codified in a new subpart 1400 of Regulation S-K. While rescission will not take place until 2023, registrants will be required to apply the new rules beginning with fiscal years ending on or after December 15, 2021, unless they voluntarily choose to early adopt the new rules. Until then, registrants are required to continue to apply the existing Guide 3 requirements.

Critical Audit Matters

In June 2017, the PCAOB adopted a new auditing standard (AS 3101) to enhance the relevance and usefulness of the auditor's report by requiring auditors to include in the auditor's report a discussion of critical audit matters (CAMs). The new standard became effective for audits of large accelerated filers in 2019, and will become effective for other SEC filers for fiscal years ending on or after December 15, 2020. CAMs are not required for emerging growth companies, brokers and dealers, registered investment companies, or employee stock purchase savings plans. A CAM is any matter from the financial statement audit that was communicated or required to be communicated to the audit committee that is related to accounts or disclosures that are material to the financial statements and involve especially challenging, subjective or complex auditor judgement.

For matters identified to be CAMs, auditors will have to identify the critical audit matter, describe the principal considerations that led the auditor to determine that the matter is a CAM, describe how the CAM was addressed in the audit, and refer to the relevant financial statement accounts or disclosures that relate to the CAM.

For banks and savings institutions, the most disclosed CAM in 2019 filings related to the allowance for loan losses. The second most disclosed CAM was on business combinations. Examples of other potential CAMs include goodwill impairment, mortgage servicing rights, and investment related disclosures. At the AICPA Banking Conference this past year, panelists said that CAMs were included in 641 large accelerated filer's audit reports in 2019, with average report containing between one and two CAMs.

Audit committees and management should be aware that their audit report may change this year and expect communication of such changes in planning meetings and discussions. For more information on CAMs, see the *PCAOB's Staff Guidance* related to implementation of CAM.

PCAOB Auditing Updates

New requirements for auditing accounting estimates will take effect for audits of public company financial statements for fiscal years ending on or after December 15, 2020. These requirements will apply to estimates in significant accounts and disclosures, and will replace three current PCAOB standards with a single, uniform risk-based approach to auditing estimates, including fair value estimates. The new requirements are reflected in revised and retitled AS 2501 Auditing Accounting Estimates, Including Fair Value Measurements. The new pronouncement provides more specific direction on auditing fair values of financial instruments that are based on information from third party pricing sources.

New guidance has also been issued for using the work of specialists as audit evidence, which will also take effect for audits of public company financial statements for fiscal years ending on or after December 15, 2020. Under PCAOB standards, a specialist is a person or firm possessing special skill or knowledge in a particular field other than accounting or auditing. The definition excludes a person or firm with specialized skill in information technology or income taxes, as these are considered specialized areas of accounting and auditing. The new standards strengthens the auditor's requirement for evaluating the work specialists in an audit. The standards

Frequent Topics of Discussion Across the Industry, *continued*

specifically relate to an auditor's evaluation of the work of a company's specialist, whether that specialist is employed or engagement by the company, and employs a supervisory approach to both auditor-employed and auditor-engaged specialists. The new requirements amend the existing standards included in AS 1105, Audit Evidence and AS 1201, Supervision of the Audit Engagement, and replaces and retitles existing guidance with AS 1210, Using the Work of an Auditor-Engaged Specialist.

Management and audit committee members should expect expanded inquiries in the current year as auditors attempt to obtain appropriate information to meet the requirements of the new standards. In particular, auditors will be required to test the company's process used to develop accounting estimates. This will include performing procedures to test and evaluate the methods, data, and significant assumptions used by the company in developing estimates. If estimates are developed by a company engaged specialist, the auditor will be required to assess the methods and assumptions used by those specialists in greater detail than in prior years.

Operational Risks, SOC Reporting, and the Impacts of COVID-19

Jay Brietz, Principal, Jay.Brietz@elliottdavis.com

For risk managers, the most difficult challenge to address is uncertainty, and 2020 was full of uncertainty. In March 2020, leaders of organizations, no matter the size, the structure, or the industry, began to make some very tough decisions on how to address the uncertainty and operate in a COVID-19 world. Organizations figured out how to transition to a fully remote workplace, what new opportunities and/or products they should explore, and how to keep employees and customers safe – just to name a few. These tough decisions led to significant changes to operational risks at every organization.

On an annual basis, management conducts various risk assessments to understand and address significant risks the organization faces. Guidance on effective risk management says that risk assessments should be conducted annually or when risks change significantly. In March 2020, operational risks in particular pivoted in a matter of days and significant changes continued throughout 2020.

The scope of this topic is quite broad, and there is no way to sufficiently address all the changes to operational risks that have resulted from COVID-19. There is no one-size fits all solution, no "easy button" to press, no single checklist to complete that will apply universally. As changes such as those described above are implemented, management should consider the impacts of these changes on an individual basis. The best place to start is to evaluate the impact of the organization's changes on people, processes, and technology.

People

For many organizations, people are essential to help ensure that the culture of the organization is maintained, that processes and controls are performed, that customer needs are fulfilled, and that the organization's objectives are met. As a result of COVID-19, some employees were asked/required to work remotely, while others were asked/required to work on-site. The circumstances for each organization are different, but commonalities still exist. For example, most all organizations have more people working remotely now than they did pre-COVID-19. As a result, organizations have had to implement stronger technology controls, which is discussed in the "Systems" section below. For the employees returning to the office, new protocols have been put in place to help reduce the operational risk of COVID-19 spreading in the office space, which could impact the organization's ability to operate if employees are sick.

From a risk perspective, the key is understanding the changes that have been made as well as the changes that continue to be made. This understanding will help management evaluate how those changes impact the underlying internal controls and the related operational risks. For example, if an organization reduced headcount as a result of COVID-19, one consideration might be the impact that reduction had on segregation of duties and the associated risks.

Frequent Topics of Discussion Across the Industry, *continued*

Processes

An organization's process and the related internal controls are usually built over many years. In 2020, many organizations introduced or changed a significant number of processes and controls. Whether it was a new product offering, setting up a remote workforce, or modifying the workplace to keep employees and/or customers safe, organizations' processes and related internal controls were significantly impacted by changes resulting from COVID-19. Management of each organization should identify and understand the changes that were made, including whether internal controls were implemented and/or modified as a result of the changes made.

Changes don't always have to result in new or additional controls, but management should evaluate the risks associated with those changes to determine whether existing controls will mitigate the additional risks or new controls need to be implemented. For example, many financial institutions began offering PPP loans during 2020. Existing processes and controls at those financial institutions likely covered many of the risks associated with those loans. However, some financial institutions had to tweak certain existing controls to mitigate risks.

Systems

Finally, changes made to systems during 2020 certainly impacted operational risks. There are a number of different ways to think about systems and the operational risks associated with systems. For example, during 2020, organizations made changes to systems that allowed employees to work remotely. This likely included changes to the controls around how people connect remotely. In the "People" section above, we noted that systems may have been changed as a result of workforce reductions. Even though some of these reductions may have been done remotely, it is important that controls around terminations (e.g., removal of system access, collection of equipment and physical access cards/fobs, etc.) were followed. Another change to systems that impacted risks relates to change management. As systems were changed (e.g., adding a new product, modifying an application, etc.) it is important that a defined change management process was followed and documented.

Along those lines, many organizations are now outsourcing their core applications and key processes to third parties. There are additional considerations when systems and processes are outsourced, as the risks have not been outsourced. For example, what controls does the third-party provider have in place related to change management, system access (both physical and logical), and system backup and recovery? All of these core application providers should have a system and organization controls (SOC) report in place, but what has the organization done to ensure new risks have been addressed? Management should evaluate the complementary user entity controls (CUECs) to ensure that relevant CUECs are in place at the organization. Management should determine how control exceptions and carve-outs identified in the SOC report impact the organization's ability to rely on the SOC report to reduce risk. Finally, management should read the SOC report's description of controls to determine and assess the impact of any COVID-19 related issues identified.

Conclusion

Organizations have adapted over the past nine months to the uncertainty and changes resulting from COVID-19. While changes at one organization can look very different from another organization, management needs to assess the operational risks associated with these changes to determine an appropriate response. In theory, these risk evaluations should have taken place as significant changes were being made, but in practice, many organizations find that difficult to do in the heat of the battle. As the calendar rolls forward to 2021, now is a great time to go back and consider the most significant changes to the organization's people, processes, and systems and assess the impacts to operational risk.

Impairment Considerations on Debt and Equity Securities

Matthew McFarlin, Senior Manager, Matthew.McFarlin@elliottdavis.com

The issuance of ASU 2016-01 in January 2016, which became effective for public business entities ("PBEs") in 2018 and all other entities in 2019, made a clear distinction between the classification and subsequent measurement of equity and debt securities.

Frequent Topics of Discussion Across the Industry, *continued*

Under this guidance, equity securities are no longer classified as available-for-sale ("AFS") or trading, and are distinguished between securities with and without readily determinable fair values for purposes of measurement. Equity securities with readily determinable fair values are measured as such, with unrealized holding gains and losses included in earnings, while securities without readily determinable fair values may be measured at cost, with subsequent qualitative assessments performed to determine whether an impairment has occurred. While not verbatim, factors evaluated in these qualitative assessments are materially consistent with impairment considerations for debt securities (discussed below).

The issuance of ASU 2016-01 did not change the classification and basis of accounting for debt securities. Held-to-maturity ("HTM") and AFS debt securities continue to be evaluated for impairment under ASC 320, which requires entities to periodically assess whether a decline in fair value below the amortized cost basis is other than temporary, following a two-step process.

1) Determine whether an investment is impaired. Impairment is present when an investment's fair value is less than its cost. It is important to note that this assessment is made at the individual security level rather than by security type; however, securities purchased in separate trade lots with the same CUSIP may be aggregated for purposes of this analysis.

2) Evaluate whether an impairment is other than temporary ("OTTI"). While there are many elements to consider in this process, the premise is primarily grounded on whether an entity intends to sell the debt security or whether it is more likely than not that it will be required to sell the security before the recovery of its amortized cost basis (e.g. to meet working capital, contractual, regulatory requirements, etc.). Regardless of these considerations, an entity is ultimately required to assess whether a credit loss exists (i.e. the entire amortized cost basis of the security will not be recovered).

Evaluating whether a credit loss has occurred requires judgement and multiple factors should be considered, including, but not limited to:

- The length of time and extent of impairment;
- Adverse conditions related to the security, an industry, or geographic area (for example, changes in the financial condition of the issuer of the security, or in the case of an asset-backed debt security, changes in the financial condition of the underlying loan obligors);
- Historical and implied volatility of the fair value of the security;
- The payment structure of the security
- Past and present default experience
- Value of underlying collateral
- Credit rating changes of the security
- Fair value changes after the balance sheet date

If an entity intends to sell the debt security or will more likely than not be required to sell the security before recovery of impairment, a loss is recorded in earnings for the entire impairment amount (i.e. amortized cost less fair value).

Conversely, if there is no intention or requirement to sell, the impairment is bifurcated between two components and recorded as follows:

- Credit losses – recognized in earnings
- All other factors (e.g. interest rate fluctuations) – recognized in other comprehensive income ("OCI").

It is important to note that OTTI recognized in earnings reduces the cost basis of the security, and subsequent recoveries should not be applied to re-establish the cost basis.

Frequent Topics of Discussion Across the Industry, *continued*

For entities that have adopted the Financial Instruments – Credit Losses standard (ASC 326), there is a distinction in accounting treatment between loss treatment for AFS and HTM securities. With the adoption of ASC 326, AFS securities continue to be evaluated for impairment under ASC 320, with the following changes:

- Impairment losses are recognized as a valuation allowance instead of adjusting the basis of the security (*unless there is an intent or requirement to sell*)
- Reversals of credit losses to a valuation allowance are permitted
- Length of time of impairment is not a relevant factor to consider in determining whether a credit loss has occurred
- When estimating whether a credit loss exists, an entity is no longer required to consider recoveries or additional declines in the fair value after the balance sheet date.

HTM debt securities, however, will follow the Current Expected Credit Losses ("CECL") model for estimating credit losses. This requires an entity to estimate and reserve for expected credit losses over the HTM debt security's life, taking into consideration current and historical information, as well as reasonable and supportable forecasts. A distinguishing element in estimating credit losses under CECL is that debt securities are permitted to be pooled in the assessment based on similar risk characteristics (e.g. credit/risk ratings, asset type, collateral type, term, vintage, etc.).

As previously noted, despite several distinctions between these evaluations under ASC 320, 321, and 326, each of the respective standards requires that entities assess, at each reporting period, whether any adverse conditions exist related to the security, an industry, or geographic area. In light of the pervasive effects caused by COVID-19 on the economy (at the local, state, national, and global level), indications of credit deterioration appear prevalent in certain financial assets (including debt and equity securities) that should be evaluated in determining whether impairment exists. Furthermore, entities need to assess whether they have an intent or will more likely than not be required to sell the security before recovery of impairment.

While all securities in an unrealized loss position should be evaluated for credit deterioration, greater consideration should be placed on holdings in state and municipal debt securities, corporate bonds, and non-agency asset-backed securities, which inherently carry greater risk than agency-backed securities. In this evaluation, entities should specifically assess the impact of industry deterioration (e.g. retail, office, etc.), geographic location of the investee entity/asset, and credit rating changes. Being mindful of lags in credit rating changes, available market data (e.g. credit spreads) should be considered in this assessment. As a reminder, entities that have not adopted ASC 326 are also required to consider changes in fair value of the underlying securities after the balance sheet date in determining whether a credit loss exists.

Furthermore, while mortgage-backed securities ("MBS") guaranteed and/or funded by the U.S. government and other financial securities may carry limited credit loss exposure, entities need to support their assessment that there is no intent or "requirement" to sell the evaluated security prior to the recovery of its impairment. Such determination should be consistent with asset-liability (or balance sheet) management and capital and liquidity requirements imposed by regulatory agencies and lenders.

Lastly, in accordance with the disclosure requirements of ASC 320, 321, and 326, entities should consider whether the effects of COVID-19 are relevant for disclosure in reaching their conclusion of impairment recognition.

Coronavirus Response and Relief Supplemental Appropriation Act

Kristi Griffin, Senior Manager, Kristi.Griffin@elliottdavis.com

After months of intense negotiations, Congress passed the Coronavirus Response and Relief Supplemental Appropriation Act of 2021 (the Act) on December 21, 2020. President Trump signed the $900 billion Covid relief package on December 27, 2020. This legislation

Frequent Topics of Discussion Across the Industry, *continued*

expands on many of the key provisions from the CARES Act. Included below is a summary of the provisions within the Act that are likely to have the most significant impact to the banking industry:

- Additional $284 billion in new funding for first and second time PPP borrowers.
  - A borrower that previously received a PPP loan can obtain a second loan of up to $2 million if they have 300 or fewer employees and can demonstrate a 25% reduction in gross receipts in any 2020 calendar quarter, compared to the same quarter in 2019.
  - The maximum loan amount for a second draw will be the same as the first round (2.5 times monthly average payroll), except for businesses in the accommodations and food service sector (NAICS codes starting with '72'), which will be eligible for 3.5 times monthly average payroll.
  - Eligibility for first time borrowers is largely unchanged from previous guidance, except the Bill also expands eligibility to certain 501(c)(6) organization, local chambers of commerce housing cooperatives, and certain news stations.
    - Entities that received a Shuttered Venue Operator Grant are prohibited from receiving PPP funds.
- Clarification of various CARES Act provisions.
  - Eligible expenses for PPP forgiveness– inclusion of operational costs to continue serving customers like personal protective equipment, and administrative costs like cloud computing, software, and consulting to assist with PPP compliance as eligible expenses for forgiveness.
    - Borrowers must still spend at least 60% of the PPP loan on eligible payroll expenses in order to qualify for full forgiveness.
  - Tax deductibility - supplies tax relief for borrowers on forgiven PPP loans by overriding Treasury/IRS guidance that disallowed the deductibility of qualified expenses related to the forgiveness.
  - Hold harmless - includes a hold harmless safe harbor that protects lenders from enforcement and penalties if the lender relies on certifications from the borrower or applicants in good faith. The lender must have satisfied all existing relevant federal, state, and local statutory and regulatory requirements.
- A one-page simplified forgiveness process for PPP loans under $150,000. The form is to be no longer than one page and would require a borrower to certify use of the funds without providing any documentation to the bank at the time of the application.
  - The Bill also reverses previous legislation which required a borrower's PPP forgiveness be reduced by any Economic Injury Disaster Loan (EIDL) advance received.
- Further extension of the TDR relief provided in the CARES Act section 4013 through January 1, 2022 or 60 days after the end of the national emergency.
- One-year extension of the option CECL relief in the CARES Action section 4014 through January 1, 2022.
- Termination of the Main Street Lending Program (MSLP) – MSLP loans that were submitted by December 14, 2020, and which the Federal Reserve purchases by January 8, 2021, remain permitted.
- Termination of the Federal Reserve 13(3) Emergency Lending Authority established by the Cares Act.
- Provides $3.5 billion to resume the principal and interest (P&I) payments of new and existing small business loans guaranteed by the SBA under the 7(a), 504, and Microloan programs. SBA is granted authority to continue to make P&I payments on existing SBA products (not PPP) through March 31, 2021.
- Clarifies the lender reimbursement language in the CARES Act so that lenders are required to pay agent fees only where there is a direct contract in place with the agent. If a borrower knowingly retains an agent, the borrower pays the agent out of funds that are not from the PPP loan. This change is retroactive to the beginning of CARES.
- Enhances existing SBA 7(a) Loan Programs.
  - Increase the loan guarantee to 90% through October 1, 2021 after which the guarantee drops to 85% for loans with a balance under $150,000 and 75% for loans with a balance above $150,000.
  - Waives lender and borrower fees.

Frequent Topics of Discussion Across the Industry, *continued*

    - Extends the $1 million loan limit for SBA Express Loans until October 1, 2021 after which it drops to $500,000. For loans under $350,000 the guarantee is increased to 75% until October 1, 2021 after which the guarantee reverts to 50%.
- Provides additional support for Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) targeted emergency investments to help low-income and minority communities.
    - The Treasury will use funds to create an Emergency Capital Investment Program to make direct and indirect capital investments in low- and moderate-income financial institutions.
    - Additional $3 billion to the CDFI Fund to support, prepare for, and respond to the economic impact of COVID-19.
- New round of Economic Impact Payments (EIPs) - $600 direct payment for every individual who made up to $75,000 last year, a $1,200 payment for couples who made up to $150,000 as well as an additional $600 per dependent child. Income thresholds are based on 2019 tax returns.
    - The IRS will begin consolidating payment files as soon as the legislation is signed. It is possible that banks will be receiving ACH files over the Christmas weekend. There could be more than 130 million payments to be made via ACH in the first week prior to year-end.

In addition to the provisions mentioned above, the Act includes other significant provisions on many other topics, including an extension of enhanced unemployment insurance and funding for vaccine distribution, school reopening, and the airline industry.

4th Quarter 2020 Tax Developments

Bev Seier, Principal, Bev.Seier@elliottdavis.com

After months of intense negotiations, Congress passed the Coronavirus Response and Relief Supplemental Appropriation Act (the Act) on December 21, 2020 and President Trump signed the bill into law on December 27, 2020. There are four acts contained within the massive legislation: the COVID-19-Related Tax Relief Act, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, the No Surprises Act, and the Taxpayer Certainty and Disaster Tax Relief Act of 2020.

Below is an overview of some of the tax-related provisions that may impact your company:

Deferred Payroll Taxes

- Employers that previously opted to defer withholding and remitting their employee's share of Social Security tax (6.2%) from the period beginning September 1, 2020 through December 31, 2020, now have until December 31, 2021 to ratably withhold and pay such taxes (instead of April 30, 2021). Penalties and interest will begin to accrue on the deferred taxes on January 1, 2022 if not repaid by the end of 2021.

Tax Credits

- The employee retention credit (ERC) was extended and expanded for eligible employers that continue to pay employee wages during COVID-19 closures or after experiencing reduced revenue.
    - The CARES Act provided 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 were those businesses with operations that:
        - have been partially or fully suspended by governmental orders due to COVID-19, or
        - have a significant decline (50% or more decline) in gross receipts compared to the same calendar quarter in 2019.
    - Under the Act, beginning on January 1, 2021 through June 30, 2021,
        - the credit rate is increased from 50% to 70% of qualified wages,

Frequent Topics of Discussion Across the Industry, *continued*

- qualified wages (including qualified health expenses) are increased from $10,000 for the year in 2020 (with maximum credit of $5,000 per employee) to $10,000 per quarter (with maximum credit of $14,000 per employee) in 2021,
- the decline in gross receipts is reduced from 50% to 20%, and
- the threshold for being considered a large employer increases from 100 employees to 500 employees. (which allows for the tracking of qualified wages to be less complicated for those companies under 500 employees).

Opportunity: More companies may be able to take advantage of the Employee Retention Credit in 2021 under the expanded provisions above, with an increased maximum credit of $14,000 per employee. Employers should continue to review their own facts and circumstances to determine if they qualify for the credit, especially with the reduced gross receipts test of 20% for 2021.

- Tax credits for paid sick and family leave were extended through March 31, 2021;
- Mandatory paid sick and family leave for qualifying COVID-19-related reasons were extended through March 31, 2021;
- The Low Income Housing Tax Credit was enhanced; and,
- The Work Opportunity Tax Credit, New Markets Tax Credit and Empowerment Zone tax incentives were extended through 2025.

Business Meals Deduction

- 100% of business meals (including beverages) are now fully deductible for 2021 and 2022 on food purchased from restaurants.

Links to recent Elliott Davis articles on the Coronavirus Response and Relief Supplemental Appropriation Act are as follows:
https://www.elliottdavis.com/ppp-2-0-and-the-consolidated-appropriations-act-of-2021/
https://www.elliottdavis.com/key-provisions-on-the-latest-covid-19-aid-package/

FASB Update

Other than one Accounting Standards Update (ASU) that made some minor changes to the Accounting Standards Codification (ASC), the Financial Accounting Standards Board (FASB) did not issue any significant guidance during the fourth quarter. A complete list of all ASUs issued or effective in 2020 is included in Appendix A.

Regulatory Update

SEC Guide Explains Recent Disclosure Rule Changes for Small Companies

On November 6, 2020, the Security and Exchange Commission's (SEC's) Division of Corporation Finance (CorpFin), issued staff interpretive guidance to help small public companies comply with recent disclosure rule changes under Regulation S-K. In August, the SEC published the revised rules in Release No. 33-10825, *Modernization of Regulation S-K Items 101, 103, and 105*. The release, which revised Items 101, 103, and 105 of Reg S-K, became effective on November 9. Regulation S-K lays out the reporting requirements for periodic reports. Item 101 is about the description of business; Item 103 is about legal proceedings; and Item 105 is about risk factors. The commission largely simplified or modernized the disclosure requirements to reduce compliance costs but added human capital management disclosure to Item 101.

The small company compliance guide states that the rules apply to both domestic companies and foreign private issuers (FPIs) that file registration statements, periodic reports, proxy statements, and other documents that require disclosure under Items 101, 103, and 105. However, the guide notes that smaller reporting companies (SRCs) are not required to provide risk factor disclosure under Item 105 in registration statements on Form 10 and annual reports on Form 10-K.

SEC Streamlines Requirements on MD&A and Financial Statement Disclosures

On November 19, 2020, the SEC issued final rules to streamline requirements in management's discussion and analysis (MD&A) of financial condition and results of operation, along with some other changes easing requirements in Regulation S-K. The SEC issued the rules in Release No. 33-10890, *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*. The changes become effective 30 days after publication in the Federal Register. The rules make a long list of changes to Item 303 of Regulation S-K, which pertains to the MD&A. The amendments also eliminate outright Item 301, removing the need for companies to provide five years of selected financial data.

Release No. 33-10890 adds new Item 303(a), *Objective*, to clarify the principal objectives of MD&A that will apply throughout Item 303. Among other amendments, Release No. 33-10890 also replaces Item 303(a)(4), *Off-balance sheet arrangements*, with a new instruction that will prompt registrants to consider and integrate disclosure of off-balance sheet arrangements within the context of their MD&A.

And with the elimination of Item 303(a)(5), registrants will no longer need to provide a contractual obligations table. Instead, the SEC said that a discussion of material contractual obligations will remain required through an enhanced principles-based liquidity and capital resources requirement focused on material short- and long-term cash requirements from known contractual and other obligations.

SEC Proposes to Update Equity Compensation Exemption

On November 24, 2020, the SEC proposed to update the exemption allowing private companies to offer equity compensation to their workers in Rule 701 under the Securities Act of 1933. The SEC issued the proposal in Release No. 33-10891, *Modernization of Rules and Forms for Compensatory Securities Offerings and Sales*. Comments are due 60 days following publication in the Federal Register.

Rule 701 subjects companies that issue more than $10 million in securities under the rule in a year to enhanced disclosure requirements. The proposal in Release No. 33-10892 would revise those additional disclosure requirements, including how the disclosure threshold applies, the type of financial disclosure required, and the frequency with which it must be updated. The proposal also would raise some of the caps on the amount of securities a private company can sell in a 12-month period; revise the timing for disclosures for certain derivative securities; and allow a company's subsidiaries to use the exemption for offer and sale of securities under compensatory benefit plans, whether that subsidiary is majority-owned or not, among other changes.

The SEC, at the same time, separately proposed rules that would allow companies to award equity compensation to certain gig workers, subject to several limitations. The changes would be temporary, running for five years. The SEC issued that proposal in

Regulatory Update, *continued*

Release No. 33-10892, *Temporary Rules to Include Certain "Platform Workers" in Compensatory Offerings under Rule 701 and Form S-8*. Comments are also due 60 days following publication in the Federal Register. The proposal describes platform workers as "workers who provide services available through the issuer's internet-based marketplace platform or through another widespread, technology-based marketplace platform or system." Release No. 33-10892 would enable certain platform workers to receive equity compensation under Rule 701, subject to a set of conditions that include limiting the securities to 15 percent of a worker's compensation during a 12-month period and up to $75,000 during a 36-month period. That proposal would apply to both the exemption in Rule 701 and Form S-8.

Technical Revisions to the OCC's Supplemental Lending Limits Program

On October 1, 2020, technical revisions to the OCC's Supplemental Lending Limits Program (the "Program") became effective. As a reminder, this program allows national banks and savings associations to make loans to a single borrower that would exceed combined normal lending limits. The purpose of the Program is to allow qualifying banks to make larger loans to creditworthy borrowers with needs for additional loan funding, while also providing these banks an additional avenue to deploy excess liquidity.

To qualify for the Program, banks need to meet certain eligibility requirements. First, the bank must be "well-capitalized" as well as have a composite CAMELS rating of "1" or "2" from their most recent regulatory exam while also achieving at least a rating of "2" in the specific areas of Asset Quality and Management. Eligible banks electing to participate in the program must submit an application to its supervisory office for approval.

Once approved, there are only three classifications of loans that qualify for eligibility under the Program guidelines: residential real estate, loans to small businesses, and loans to small farms. However, there are limitations at the individual loan level as well as aggregate of all excess funds disbursed that fall under the parameters of the Program. In addition to the standard 15% lending limit, eligible banks are allowed to make loans and extensions of credit to individual borrowers in the lesser of either 10% of capital and surplus or the percent of capital and surplus, in excess of the standard 15%, that a state-chartered bank is permitted to lend under the state lending limit allowable for that specific loan classification. Additionally, combining loans and extensions of credit under the standard limit, in combination with additional loans under the special limits allowable through the Program may not exceed 25% of capital and surplus to any individual borrowers. In the aggregate, loans and extensions of credit under the standard limit and special limit cannot exceed 100% of capital and surplus.

FDIC Approves Interim Final Rule to Provide Temporary Relief from Part 363 Audit and Reporting Requirements

Due to recent economic conditions and government assistance programs, many institutions have experienced large cash inflows resulting from Paycheck Protection Program (PPP), the Paycheck Protection Program Liquidity Facility (PPPLF), and the Money Market Mutual Liquidity Fund (MMLF). On October 20, 2020, the FDIC Board of Directors voted to issue an interim final rule to provide temporary relief from the Part 363 Audit and Reporting requirements for insured depository institutions that have experienced temporary growth due to participation in the PPP, PPPLF, MMLF, or other factors, such as other stimulus activities.

The interim final rule will allow institutions to determine whether they are subject to the requirements of Part 363 of the FDIC's regulations for fiscal years ending in 2021 based on the lesser of their (a) consolidated total assets as of December 31, 2019, or (b) consolidated total assets as of the beginning of their fiscal years ending in 2021. Currently, an institution determines if it is subject to the annual independent audit and reporting requirements of Part 363 based on its consolidated total assets as of the beginning of its fiscal year.

Part 363 requires institutions with assets of $500 million or more to obtain annual independent audits and meet related reporting requirements, and requires assessments of the effectiveness of internal control over financial reporting for institutions with

Regulatory Update, *continued*

consolidated total assets of $1 billion or more. It also includes requirements for audit committees at institutions meeting these thresholds, plus additional audit committee requirements for institutions with consolidated total assets of $3 billion or more.

The intent of the interim final rule is to neutralize burdens that institutions may incur or have incurred because of temporary increases in their consolidated total assets resulting from participation in recent COVID-19-related stimulus activities, including the PPP, PPPLF, and MMLF, as the effort to develop processes and systems to comply with the requirements of Part 363 can be substantial. The FDIC in the interim final rule reserves the authority to require an institution to comply with one or more Part 363 requirements if the FDIC determines that asset growth was related to a merger or acquisition.

On December 22, 2020, the FDIC issued a Financial Institution Letter to provide information on the FDIC intends to exercise the reservation of authority. In deciding whether to exercise its reservation of authority, the FDIC will review the following factors, on a case-by-case basis:

- the extent of participation in pandemic-related government programs,
- the institutions composite Uniform Financial Institutions rating,
- whether merger or acquisition transactions were supervisory in nature, and whether the acquired institution was merged out of existence,
- whether the institution is required to have its financial statements audited by an independent public accountant for reasons other than being required by Part 363,
- the degree of compliance with the requirements of Part 363, as applicable,
- the supervisory concerns set forth in an institution's Report of Examination,
- the effectiveness of the institution's internal audit function, and
- the nature of audit issues and internal control deficiencies set forth in the independent public accountant's management report to the institution, as applicable.

The FDIC will notify the institution in writing if it exercises its reservations of authority. If the institution believes it should be eligible for the temporary relief provided in 363.1(a)(2), the institution will have an opportunity to respond to the FDIC's reasons within 30 days of receipt of the notice. For institutions supervised by another federal regulator, the FDIC will consult with the primary federal regulator when exercising the reservation of authority.

Interagency Statement: LIBOR Transition for Loans

On November 6, 2020 the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System (collectively, the agencies) have issued a joint statement reiterating that a bank may use any reference rate for its loans that the bank determines to be appropriate for its funding model and customer needs. New contracts should either utilize a reference rate other than LIBOR or have robust fallback language that includes a clearly defined alternative reference rate after LIBOR's discontinuation. The agencies are not endorsing a specific replacement rate for LIBOR loans. The Alternative Reference Rates Committee recommended the Secured Overnight Financing Rate (SOFR) as its preferred alternative for both cash and derivative transactions. The use of SOFR, however, is voluntary, and examiners will not criticize banks solely for using a reference rate other than the SOFR for loans.

In October 2020, FASB issued a proposed ASU that would clarify the scope of ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which was released earlier this year. The amendments in the proposed ASU would clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to contracts that are affected by the discounting transition.

Regulatory Update, *continued*

OCC Reports Key Risks, Effects of COVID-19 in Federal Banking System

On November 9, 2020, the OCC releases its *Semiannual Risk Perspective for Fall 2020* which outlined key issued facing the federal banking system and the effects of COVID-19 pandemic in the banking industry. Banks remain in strong financial condition but profitability is stressed due to low interest rates and increasing levels of provisions for problem loans. The OCC reported credit, strategic, operational, and compliance risks, among the key risk themes in the report. The report highlighted the following items:

- Credit risk is increasing as the economic downturn impacts customer ability to service debts.
- Strategic risk is an emerging issue due to the historically low rate environment, potential credit stress and their effect on bank profitability.
- Operational risk is elevated as financial institutions respond to altered work environments and an evolving and complex operating environment. Cybersecurity threats contribute as a key driver of the heightened operational risk environment.
- Compliance risk is elevated due to a combination of altered work environments, and the requirement to quickly operationalize federal, state, and proprietary programs designed to support businesses and consumers.

Banking Agencies Urge Banks to Stop Using LIBOR

The Federal Reserve, FDIC, and OCC issued a joint statement on November 30, 2020, urging banks to stop entering into new contracts that use U.S. dollar London Interbank Offered Rate (LIBOR) as a reference rate as soon as practicable, and in any event by December 31, 2021. The banking supervisors said that new contracts that use LIBOR as a reference rate after the end of 2021 would create safety and soundness risks and warned banks that their practices will be examined accordingly.

The LIBOR administrator has said that it will consult about its intention to end the publication of the one week and two month US dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021. And the remaining US dollar settings immediately following the LIBOR publication on June 30, 2023.

The joint statement noted that if the LIBOR administrator extends the publication of U.S. dollar LIBOR beyond December 31, 2021, the agencies said there may be limited circumstances for banks to enter into new U.S. dollar LIBOR contracts after that time, such as:

- transactions that require participation in a central counterparty auction procedure in the case of a member default, including transactions to hedge the resulting US dollar exposure;
- market making in support of client activity related to LIBOR transactions executed before January 1, 2022;
- transactions that reduce or hedge the bank's or any client of the bank's LIBOR exposure on contracts entered into before January 1, 2022; and
- novations of LIBOR transactions executed before January 1, 2022.

Interagency Interim Final Rule Provides Regulatory Relief to Institutions Experiencing Temporary Asset Growth in Connection with COVID-19-Related Programs

The FDIC, Federal Reserve, and the OCC issued an interim final rule to permit insured institutions with under $10 billion in total assets as of December 31, 2019, (community banking organizations) to use asset data as of December 31, 2019, in order to determine the applicability of various regulatory asset thresholds during calendar years 2020 and 2021. The interim final rule was issued to provide temporary regulatory burden relief to certain institutions that exceeded, or may exceed, certain regulatory asset thresholds due, in large part, to their participation in government programs established in response to the COVID-19 pandemic (e.g., the Paycheck Protection Program (PPP), among others).

The relief provided by the rule varies based on the supervising regulatory agency. Outlined below is the temporary relief that is common for the FDIC, OCC and the Federal Reserve:

- The $10 billion threshold in the Community Bank Leverage Ratio

Regulatory Update, *continued*

- The $5 billion threshold for eligibility for reduced reporting requirements for the call report
- The $3 billion threshold for eligibility for an 18-month examination cycle

The following link provides additional information on the temporary relief specific to each regulatory agency:
https://www.govinfo.gov/content/pkg/FR-2020-12-02/pdf/2020-26483.pdf

Combined Final Rule on Brokered Deposits and Interest Rate Restrictions

On December 15, 2020, the FDIC finalized revisions to its regulations relating to the brokered deposits and interest rate restrictions that apply to less than well capitalized insured depository institutions. For brokered deposits, the final rule establishes a new framework for analyzing certain provisions of the "deposit broker" definition, including "placing deposits," "facilitating the placement of deposits," and "primary purpose." For the interest rate restrictions, the FDIC amended its methodology for calculating the national rate, the national rate cap, and the local market rate cap. Further, the FDIC explained when non-maturity deposits are accepted and when non-maturity deposits are solicited for purposes of applying the brokered deposits and interest rate restrictions.

With respect to brokered deposits, the final rule:

- Clarifies when a person meets the "placing deposits" and "facilitation" parts of the deposit broker definition;
- Provides that a person with an exclusive deposit placement arrangement with one institution will not meet the "deposit broker" definition;
- Provides that the "primary purpose" exception will apply when, with respect to a particular business line, the primary purpose of the agent's or nominee's business relationship with its customers is not the placement of funds with depository institutions;
- Designates a list of business relationships that meet the primary purpose exception;
- Requires written notice for certain designated exceptions;
- Allows entities that do not meet one of the designated business relationships to apply for a primary purpose exception;
- Restates that brokered CDs will continue to be considered brokered deposits; and
- Affirms that third parties that either place or assist in the placement of deposits with a primary purpose of encouraging savings will not qualify for the primary purpose exception.

With respect to interest rate restrictions, the final rule:

- Defines the "National Rate" as the average (weighted by market share of domestic deposits) of rates paid by all institutions and insured credit unions;
- Defines the "National Rate Cap" as the higher of (1) the national rate, plus 75 basis points; or (2) for maturity deposits, 120 percent of the current yield on similar maturity U.S. Treasury obligations and, for non-maturity deposits, the federal funds rate plus 75 basis points; and
- Defines "Local Market Rate Cap" as 90 percent of the highest interest rate paid on a particular deposit product in the institution's local market area.

The final rule will become effective April 1, 2021; full compliance with the revised brokered deposit regulation is extended to January 1, 2022.

On the Horizon

The following selected FASB exposure drafts and projects are outstanding as of December 31, 2020.

FASB to Consider Amending Credit Loss Guidance

The FASB will consider revising the current expected credit loss (CECL) standard in four areas, according to board discussions on December 2, 2020. In addition to disclosures, staff members were instructed to research whether the board should amend the CECL standard in ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. At a high level, staff research flagged the following issues:

- Accounting for non-purchased credit deteriorated financial assets—the accounting for purchased financial assets that do not qualify for PCD accounting treatment was unintuitive and complex. Non-PCD accounting leads to double counting the allowance for credit losses, overstates the yield on non-PCD assets, and is difficult to explain or understand. In addition, companies indicated that it was not clear what purchased financial assets qualify for PCD treatment.
- Troubled debt restructuring by creditors—some companies have questioned the usefulness of the accounting and disclosures for credit debt restructurings under the CECL standard. They believe that troubled debt restructuring for creditors guidance should be eliminated with certain loan modification disclosures enhanced.
- Amending the scope of financial assets included in ASU 2016-13—nonfinancial institutions that adopted CECL indicated that there was minimal effect to their reserves when applying the guidance to trade receivables. Applying the standard to trade receivables was not worth the cost and effort and should be scoped out of CECL guidance, those companies said.
- Disclosures—substantial feedback was obtained from analysts who acknowledged CECL provides them with more information than under the incurred loss model (prior rules). However, they suggested disclosure enhancements should be made to improve the quality of information being provided.

Staff members will bring back the four topics to the board at a future meeting for vote on whether to add projects to the technical agenda on the topics, the discussions indicated. Board members observed that a full reporting cycle has still not yet passed for public companies, and therefore some of the research findings could evolve.

FASB Plans to Make Clarifications to Lease Accounting Guidance

The FASB plans to determine whether to propose more amendments to lease accounting guidance, and/or to provide targeted educational webinars, according to December 2, 2020, board discussions on its post-implementation review (PIR) of the standard.

One issue is specific to the interaction of guidance in ASC 360, *Property, Plant, and Equipment*, and ASC 842, *Leases*. Specifically, accounting differences have emerged related to two issues: a lessee's accounting for an abandoned but unimpaired right-of-use asset; and a lessee's accounting for an operating lease right-of-use asset that is held for sale. Because no specific guidance exists to address either situation, different approaches have evolved in practice.

A second issue arose from the interaction of ASC 842 with ASC 805, *Business Combinations*, and asset acquisitions. In relation to sale-leaseback transactions, an issue cropped up with an arrangement that was not a successful sale at contract commencement because a purchase option exists, but subsequently may be a successful sale because the purchase option expired before the end of the contractual lease term. Views differ in: 1) the assessment of the date at which the leaseback classification should be determined for purposes of accepting whether the transaction qualifies as a sale under ASC 842; and 2) the date at which lease back classification should be determined for purposes of accounting for the leaseback when the transaction initially does not qualify as a sale under the leases standard.

FASB to Reintroduce Amortization of Goodwill for Public Companies

On December 16, 2020 the FASB tentatively said it would require public companies to amortize goodwill over a 10-year period on a straight-line basis only, without exception. The board said that for an amortization period a company's management can deviate from

On the Horizon, *continued*

the default period if management could justify the reasons for doing so. The amortization period would need to be elected on a transactional basis.

The question of whether goodwill is a wasting asset and should be amortized has been debated in accounting circles for decades. Prior to the issuance of FASB Statement (FAS) No. 141, goodwill was in fact amortized, often on a straight-line basis over periods up to 40 years. But after FAS 141 was issued goodwill was no longer amortized until the FASB permitted a policy election to amortize goodwill for private companies under Accounting Standards Update (ASU) No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill (A Consensus of the Private Company Council)*.

The board's tentative decision to reintroduce amortization of goodwill will get some pushback as some will be against it, citing that extensive deliberations went into FAS 141 and IFRS 3, *Business Combinations*, and that there are no new facts that would support reopening those past deliberations.. Others, however, believe the current model does not faithfully represent how goodwill is consumed – i.e., the current model of writing off goodwill when impaired does not reflect how goodwill loses value over time and is prone to unintentional or sometimes intentional misstatements.

FASB Proposes to Ease Goodwill Triggering Event Evaluation for Private Companies, Nonprofits

On December 21, 2020, the FASB issued a proposed ASU to provide an accounting alternative that would reduce the complexity for certain private companies and not-for-profit organizations when performing the goodwill triggering event evaluation. The proposal would allow private companies and nonprofits to evaluate whether an event caused goodwill to become impaired only as of the annual reporting date, rather than at interim periods.

Under current U.S. GAAP, private companies have to monitor and evaluate interim goodwill triggering events as they occur throughout the year. This involves the preparation of interim balance sheet and cash flow projections, which lose relevance at the annual reporting date when financial statements are issued. Those companies find it costly and complex to have to perform on an interim basis the goodwill triggering event evaluation because they only issue GAAP-compliant financial statements annually.

Under the proposal, companies and organizations would not be required to monitor for goodwill impairment triggering events during interim periods, but would instead evaluate the facts and circumstances that exit as of year-end to determine whether its more likely than not that goodwill is impaired.

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.

On the Horizon, *continued*

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.

Determining Current Price of an Underlying Share for Equity-Classified Share-Option Awards

In August, the FASB issued a proposed ASU intended to reduce cost and complexity for private companies when determining the fair value of the shares underlying a share-option award on its grant date or modification date. Members of the Private Company Council (PCC) conveyed concerns that current guidance on determining fair value for these shares creates unnecessary cost and complexity for some stakeholders. This is primarily because the private company equity shares underlying the share option often are not actively traded and, thus, observable market prices for those shares or similar shares do not exist.

The proposed ASU would allow a nonpublic entity to determine the current price of a share underlying an equity-classified share-option award using a valuation method performed in accordance with specific regulations of the U.S. Department of the Treasury that provide acceptable methodologies to comply with the "presumption of reasonableness" requirements of Section 409A of the U.S. Internal Revenue Code.

EITF Agenda Items

The Emerging Issues Task Force did not meet during the fourth quarter.

PCC Activities

The Private Company Council (PCC) met on September 22, 2020. Below is a brief summary of issues addressed by the PCC at the meeting:

- <u>Summary of September 21, 2020 Meeting with the AICPA's Technical Issues Committee (TIC):</u> PCC members reported on the issues discussed with TIC during their annual PCC-TIC Liaison meeting. PCC members and FASB Board members discussed the challenges private companies are having in applying the guidance on goodwill impairment in the current environment, including in the identification and evaluation of triggering events. PCC members indicated that, at a minimum, private companies could benefit from educational materials covering this issue, including those currently being developed by the FASB staff. They also recommended that the Board consider simplifying that guidance for private companies. PCC members also briefly highlighted the complexities in accounting for the Small Business Administration Paycheck Protection Program loans.
- <u>Current Issues in Financial Reporting:</u> PCC and Board members briefly discussed practice issues arising from the current business environment under the COVID-19 pandemic. Topics discussed included a borrower's accounting for debt modifications and troubled debt restructurings, interim impairment testing of nonfinancial assets, the Paycheck Protection Program, and accounting for inventory impairment in times of longer turnover. PCC members noted that private companies are struggling to identify practice aids and research guidance relevant to COVID-19 accounting issues. The PCC discussed how the FASB could improve stakeholder awareness of educational resources. Furthermore, the Board emphasized that it continues to monitor conditions and stands ready to support private companies encountering technical accounting issues. Board members encouraged PCC members and other stakeholders to continue providing feedback.
- <u>Implementation Issues—Revenue:</u> FASB staff provided the PCC with an overview of the *Revenue Recognition—Practical Expedient for Private Company Franchisors* project and the recently issued proposed ASU, *Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient*. The project seeks to address the difficulty in determining whether pre-opening services are distinct from the franchise license. The proposed practical expedient is aimed at simplifying

On the Horizon, *continued*

the performance obligation analysis. The PCC supported the proposed Accounting Standards Update. PCC members also discussed the effect of the adoption of ASC 606, *Revenue from Contracts with Customers*, on Common Interest Realty Associations (CIRAs) and, in particular, on accounting for reserve assessments. PCC members and FASB staff noted that prior industry-specific guidance used by the CIRA industry has been superseded and therefore is no longer applicable.

- Implementation Issues—Leases: FASB staff provided the PCC with an overview of the *Leases: Targeted Improvements* project that was added to the Board's technical agenda on July 29, 2020. That project provides targeted improvements related to:
    - Sales-type leases with substantial variable lease payments
    - Remeasurement of lease payments based on a reference index or rate
    - Reduction of scope in a lease contract.

FASB staff also provided a brief report of the Leases Roundtable held on September 18, 2020. Topics of discussion included lessee application of the guidance related to the rate implicit in the lease and to the incremental borrowing rate, lease modification guidance, embedded leases, and lessee allocation of fixed and variable payments between lease and nonlease components. As part of its post-implementation review efforts, the staff will summarize the feedback and develop a plan for the Board to consider.

- Profits Interests and Their Interrelationship with Partnership Accounting: FASB staff and this issue's working group members provided the PCC with an update on the formation of the working group and discussed its first meeting. The working group's objectives are to assist with outreach, identify practice issues on profits interests and partnership accounting, identify a scope for a potential PCC project on profits interests, and ultimately identify potential solutions to the practice issues. The working group will conduct outreach with specialists to better understand legal, tax, and valuation issues associated with profits interests.
- Disclosure Framework—Disclosure Review: Income Taxes: FASB staff provided a summary of comments on certain proposed amendments that are relevant to nonpublic business entities that the Board received in response to the proposed ASU, *Income Taxes (Topic 740): Disclosure Framework—Changes to the Disclosure Requirements for Income Taxes*. PCC members provided feedback on the proposed disclosures and potential alternative disclosures relating to disaggregated tax information and carryforwards.

The PCC also met on December 3, 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: FASB staff gave an overview of the feedback received from comment letters in response to the proposed Accounting Standards Update—Compensation—Stock Compensation (Topic 718): Determining the Current Price of an Underlying Share for Equity-Classified Share-Option Awards. PCC members discussed the comment letter feedback on the following areas associated with the proposed practical expedient:
    - Expected costs and benefits
    - Scope
    - References to Section 409A of the Internal Revenue Code
    - Award-by-award application
    - Transition
    - Other ancillary issues.

  At a future meeting, the PCC will consider expanding the scope of the practical expedient, clarifying the basis of application, and expanding the references to Section 409A.
- Current Issues in Financial Reporting: FASB staff highlighted that a FASB Staff Educational Paper on Topic 470 (Debt): Borrower's Accounting for Debt Modifications was recently made available on the FASB website.
- FASB staff briefly reviewed the Goodwill—Triggering Event Assessment Alternative for Private Companies and Not-For-Profit Entities project, which was added to the Board's technical agenda in response to feedback received from the PCC and the AICPA's Technical Issues Committee (TIC), and for which the Board has instructed the staff to proceed with a proposed Update. Given the proximity to year-end, PCC members concurred with the 30-day comment period decided by the Board.

On the Horizon, *continued*

PCC members discussed which entities should be included in the scope of the accounting alternative. FASB staff expects the proposed Update to be issued for public comment in mid-December.

- Identifiable Intangible Assets and Subsequent Accounting for Goodwill: FASB staff provided the PCC with an update on this project, focusing on recent Board discussions. FASB staff gave an overview of the approaches being considered by the Board for amortization periods, including default amortization periods, management-determined amortization periods, and approaches with elements of both. PCC members provided their views on the length of a default amortization period, management deviations from a default amortization period, and whether there should be an imposed cap or floor on an amortization period. PCC members mostly supported a 10-year default amortization period. Some PCC members expressed the need for a floor to be imposed on the amortization period, others did not think a floor would be necessary, and still others preferred that a cap be imposed on the amortization period.
- Profits Interests and Their Interrelationship with Partnership Accounting: FASB staff briefly summarized the PCC's prior discussion about profits interests and partnership accounting. FASB staff noted that a working group was formed in August comprising three PCC members and a member of the AICPA's TIC. The working group currently is conducting outreach with specialists to better understand legal, tax, and valuation issues associated with profits interests. Based on the initial outreach conducted, FASB staff described common valuation methodologies used to measure awards of profits interests and some of the factors that contribute to complexity in practice. FASB staff reiterated that its outreach was in the early stages and would be supplemented by additional outreach and research going forward.
- Implementation Issues—Revenue: FASB staff provided the PCC with an update of the Revenue Recognition—Practical Expedient for Private Company Franchisors project and the proposed Accounting Standards Update, Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient, whose comment period ended in early November. The project seeks to address certain difficulties private company franchisors experience in applying Topic 606, Revenue from Contracts with Customers. FASB staff briefly summarized the comment letter feedback received and asked PCC members for feedback. Generally, PCC members supported the Board's efforts to reduce the cost of applying the revenue guidance for private company franchisors.
- Implementation Issues—Leases: FASB staff provided the PCC with an update on the post-implementation review process and summarized the Board's discussion at the December 2, 2020 Board meeting. At that meeting, the Board directed the staff to conduct additional research on the practical expedient that allows nonpublic lessees to use the risk-free rate as the lease discount rate. Specifically, the Board requested additional information on the appropriateness of the risk-free rate and whether the practical expedient should be applied at the underlying-class-of-asset level rather than at an entity-wide level. PCC members were supportive of refining the practical expedient and provided feedback on the appropriateness of replacing the risk-free rate with an alternative rate (for example, an A or BBB rate).
- Disclosure Review—Share-Based Payments: FASB staff provided an overview of this research project and highlighted private company considerations raised during research. PCC members noted that the current required disclosures for private companies generally are not difficult to prepare and those disclosures provide relevant information to users of private company financial statements. Some PCC members indicated that there could be some opportunity to improve certain disclosures required for private companies.

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 2020-11, Financial Services—Insurance (Topic 944): Effective Date and Early Application	Insurance entities that issue long-duration contracts	The amendments in this ASU delay the effective date of ASU 2018-12 For SEC-filers excluding smaller reporting companies, the amendment is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. For all other entities, the amendment is effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal year beginning after December 15, 2025.
ASU 2020-10, Codification Improvements	All entities	The amendments in Sections B and C of this ASU are effective for annual periods beginning after December 15, 2020, for public business entities. For all other entities, the amendments are effective for annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022.
ASU 2020-09, Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762	All entities that are SEC filers	Effective upon issuance.
ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs	All entities	For public business entities, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is not permitted. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.
ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity	Entities that issue convertible instruments and/or contracts in an entity's own equity.	Effective for public business entities that meet the definition of a SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.

Appendix A

Important Implementation Dates, *continued*

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. 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
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	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 2019-01, 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*

<table>
<tr><th>Pronouncement</th><th>Affects</th><th>Effective Date and Transition</th></tr>
<tr><td>ASU 2018-11, Leases (Topic 842)—Targeted Improvements</td><td>All entities</td><td>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.</td></tr>
<tr><td>ASU 2018-10, Codification Improvements to Topic 842, Leases</td><td>All entities</td><td>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.</td></tr>
<tr><td>ASU 2018-09, Codification Improvements</td><td>All entities</td><td>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 annual periods beginning after December 15, 2018, for public business entities.</td></tr>
</table>

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, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application of the amendments is permitted for all entities. See ASU 2020-05 for amendment that delays effective date of this ASU.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements

For the Quarter Ended December 31, 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, 2020, and interim periods within fiscal years beginning after December 15, 2021.-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 December 31, 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 2017-12 — 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 2018-08 — 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*

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended December 31, 2020

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 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 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,*

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended December 31, 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 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.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended December 31, 2020

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.

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*

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended December 31, 2020

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 2019-08 — 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*

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended December 31, 2020

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.

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 December 31, 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 for entities that have not already adopted 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.

ASU 2020-06 — Applicable to all entities:

In August 2020, the FASB issued guidance to improve financial reporting associated with accounting for convertible instruments and contracts in an entity's own equity. The amendments are effective for *[fiscal years beginning after December 15, 2021, including interim periods within those fiscal years – public business entities that meet the definition of a SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC] [fiscal years beginning after December 15, 2023, including interim periods within those fiscal years – all other entities]*. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-08 — Applicable to all entities:

In October 2020, the FASB issued guidance to clarify the FASB's intent that an entity should reevaluate whether a callable debt security that has multiple call dates is within the scope of FASB Accounting Standards Codification (FASB ASC) 310-20-35-33 for each reporting period. The amendments will be effective for *[fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 – public business entities] [fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application is permitted for all other entities for fiscal years, and interim periods within those fiscal years, 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 2020-09 — Applicable to SEC filers:

In October 2020, 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.

ASU 2020-10 — Applicable to all entities:

In October 2020, the FASB issued amendments to clarify the Accounting Standards Codification and make minor improvements that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments are effective for *[annual periods beginning after December 15, 2020. Early application is permitted for any annual or interim period for which financial statements have not been issued - public business entities] [annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. Early application is permitted for*

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended December 31, 2020

any annual or interim period for which financial statements are available to be issued - all other entities]. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-11 — Applicable to insurance entities that issue long-duration contracts:

In November 2020, the FASB issued guidance to defer the effective dates for insurance entities which have not yet applied the long duration contracts guidance by one year. The new effective dates will be *[fiscal years beginning after December 15, 2022, 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, 2024, and interim periods within fiscal year beginning after December 15, 2025.-all other entities]* 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 December 31, 2020, the FASB had issued the following Accounting Standard Updates during the year.**

- **ASU 2020-11,** *Financial Services—Insurance (Topic 944): Effective Date and Early Application*
- **ASU 2020-10,** *Codification Improvements*
- **ASU 2020-09,** *Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762*
- **ASU 2020-08,** *Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs*
- **ASU 2020-07,** *Not-for-Profit Reporting of Gifts-in-Kind (Contributed Nonfinancial Assets)*
- **ASU 2020-06,** *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*
- **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)*