QUARTERLY FINANCIAL SERVICES UPDATE

Third Quarter 2021

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October 1, 2021

Fall is officially here! Bring on the cooler temperatures, all things pumpkin, and financial reporting updates.

In this edition of our quarterly financial services update, we have provided some clarity around frequent topics of discussion we are hearing across the industry, as well as provided an update on recent releases by the FASB and banking regulators. We have also provided a summary of key projects in the works by the FASB that may impact your institution in the future. And as always, we have included a summary of recently issued accounting pronouncements and sample disclosures for your upcoming filings.

We will also be hosting a webinar on Thursday, October 7th to discuss some of the items discussed within this update, as well as others impacting the industry. You can register for the webinar at this link.

Lastly, if you have any questions regarding any of the items within, or if there are other areas where we might be of assistance, please reach out to our financial services team. We would be happy to help in any way we can.

Frequent Topics of Discussion across the Industry

Getting Prepared for ESG Disclosures

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Climate change has become a hot topic in recent years, and industries are pivoting to find more sustainable ways to operate in light of the concerns raised by this topic. Financial institutions will be impacted by this change and will need to begin to find ways to proactively address the environmental, social, and governance (ESG) risks associated with the idea of sustainability. The Securities and Exchange Commission (SEC) will likely begin to require public companies to report on climate impact in the near future. A key disclosure that environmental advocates are pushing for is related to Scope 3 emissions which are defined by the Environmental Protection Agency as, “the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly impacts in its value chain.” For financial institutions this would essentially require disclosures on the climate impact of its own operations, including its customers, which is no small task considering the amount of data that would be required for such disclosures.

While the focus of sustainability and ESG risk is typically on climate change, there are other related risks that must be considered. By definition, ESG risk encompasses environmental (e.g., climate changes, supply chain issues, new legislation on sustainability, etc.), social (non-compliance with labor standards, racial and gender inequality, product safety, etc.), and governance (compliance with regulations, corruption or bribery, protection of customer data, etc.) considerations. The inherent nature of these risks require that financial institutions take a holistic view to assess what risks are most prominent and how management can begin to address or mitigate these risks. While there is currently no regulatory requirement in place around addressing ESG risks within public filings, it is anticipated that financial institutions will soon begin to see regulations and disclosure requirements associated with these risks.

Sustainability has quickly become an area that is at the forefront of investor and customer minds and can often have a significant impact on the reputation and long-term success of a business. Due to the nature of ESG risks, it can be difficult for institutions to make significant changes to address these risks in a short period of time, and as a result, it is imperative that financial institutions begin to assess these risks now to be able to integrate any regulatory changes more quickly into the company’s business framework within a reasonable time frame. Policies and procedures should be reassessed to ensure that employees are made aware of ESG risks and are adequately trained on how to assist in identifying or mitigating these risks. Products and services offered by financial institutions will need to be reviewed to determine whether any products or services are offered that are focused on sustainability or help promote or reach groups that are involved in such efforts. In addition to policies and procedures, products and services, management should review a company’s customer and investor base to determine whether any incremental risks are associated with industries in which the customers or investors are involved.

Finding solutions to ESG risks will at times require tough decisions to be made. For example, a financial institution may have a significant customer base in an industrial sector known to be scrutinized for climate impact. Certain customers or investors within this industry group may be hesitant or slow to address climate change concerns and as such, the financial institution may face reputational or social risks. However, on the other side, the financial institution may face backlash from others within the industry for potentially discontinuing relationships with those in the industrial sector because of climate change issues. The same can be said for other industries that may draw ESG investor scrutiny. Significant issues that come to light when facing ESG risks will often require long-term solutions that financial institutions should begin to consider now.

The SEC released an illustrative sample letter containing comments that the Division of Corporation Finance may issue to companies regarding their climate-related disclosures or absence of disclosures. The sample letter (linked here) is a good starting point for institutions to review as it considers ESG related disclosures in its filings.

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Frequent Topics of Discussion across the Industry, *continued*

Should We Early Adopt CECL?

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Banks, credit unions, and other financial institutions have been actively preparing for the adoption of Accounting Standards Codification (ASC) 326 – Financial Instruments – Credit Losses (CECL). We have had a number of inquiries from our customers (with January 1, 2023 required adoption date) on the potential of early adoption. More than 150 SEC filers elected to adopt CECL in January 2020, and another 20 elected to adopt CECL in January 2021. This has provided institutions which have not yet adopted with an opportunity to learn from their adopting peers. Some noteworthy observations from the initial adopters include:

- **Reserves have increased.** Despite the varied impact of COVID-19 on models, CECL adopters increased reserve estimates more than those still using the incurred loss model. Due to institution-specific customizations and variations in methodology allowed under CECL, the percentage of increases varied significantly.
- **Unfunded commitments impact the reserve estimate.** Many institutions did not previously record an allowance for unfunded commitments. Under CECL, an allowance is required for unfunded commitments that are not unconditionally cancelable. Many early adopting banks have reported that unfunded commitments had a larger effect on the allowance at adoption than funded loans.
- **Recent acquisitions increase the reserve estimate.** Acquired portfolios were previously accounted for using separate purchase accounting guidance, which did not recognize an allowance at acquisition. Under CECL, an allowance is recorded on purchased loans. In theory, this accounting change provides for better comparability of reserve coverages between acquisitive and non-acquisitive institutions. However, many institutions have concerns about the double counting implications.
- **The loan portfolio mix affects the reserve estimate.** Typically, portfolios with longer duration resulted in larger increases in the allowance at adoption.
- **The forecast periods were generally one to two years.** CECL allows for forecasts to be incorporated into the qualitative factor adjustment. However, that forecast must be "reasonable and supportable."
- **Common model methodologies emerged.** The overwhelming majority of early adopters reported using a probability of default/loss given default model in some aspect of their estimate. The next most common methodology was a discounted cash flow model. Less than ten percent are currently reporting using the weighted-average remaining maturity (WARM) model, but this is likely a function of early adopters generally being larger, more sophisticated institutions. A shift toward more simplistic loss estimation methods is expected for 2023 adopters.
- **Don't forget about the potential implications for held-to-maturity and available-for-sale securities.**

While the effects of CECL implementation vary by institution, the common themes seen from early adopters can provide useful insight for institutions preparing for adoption.

Along with the final batch of SEC filers which are required to adopt in January 2022, it is expected that additional institutions will choose to early adopt in January 2022. There may be several factors driving early adoption considerations. One such factor may be investor perceptions/expectations. As many SEC filers have already adopted, investors may prefer institutions that trade as an SRC, EGC, or on the OTC adopt for comparability and consistency to peers in the industry. Another factor may be a concern for potential resource constraints of model vendors and model validation providers during 2022 as the large majority of institutions work toward the January 2023 implementation date. In addition, some institutions may find it advantageous to adopt CECL early while allowance levels remain elevated due to COVID concerns.

Frequent Topics of Discussion across the Industry, *continued*

Institutions contemplating a January 2022 adoption should consider the following items:

- **Disclosure of the impact of recently issued accounting standards (SEC Staff Bulletin No. 74).** The potential effects of CECL adoption are required to be disclosed in the quarterly filings (10Q) and the annual filing (10K) leading up to adoption. These disclosures should be both qualitative and quantitative in nature.
  - *Qualitative disclosures:* The institution should disclose a comparison of accounting policies under the new standard as well as the status of implementation.
  - *Quantitative disclosures:* By the December 31, 2021 annual filing, the institution should disclose the amount the allowance for credit losses and the reserve for unfunded commitments will increase or decrease as a result of adoption.
  - *Internal control considerations:* Management is required to evaluate whether appropriate internal controls are in place to minimize the risk that SAB 74 disclosures are inaccurate or incomplete. Audit committees are responsible for setting the tone and establishing oversight and a review process to ensure that management is exercising appropriate judgment and that appropriate and adequate SAB 74 disclosure controls are in place and operating effectively.
  - *Auditor considerations:* Auditors are required to obtain sufficient understanding of internal controls over financial reporting and respond to identified risks regarding the controls over financial statement disclosures, which include controls over SAB 74 disclosures.
- **Completion of model validation prior to adoption.** CECL model validation services are tailored to assess models ranging from simple spreadsheet-based constructs to more sophisticated software implementations. The scope of validations includes model governance, data inputs, model methodology, and model testing.
- **Methodology, policies, and internal controls need to be updated.** CECL represents one of the most significant changes to financial institution accounting in decades. Institutions need documentation around implementation oversight which will include detailed understanding of management's process for implementing the standard and developing accounting estimates. This will require new allowance for credit losses policies and CECL methodologies to be drafted, reviewed, and approved. Management will need to implement or modify current internal controls to address all areas of the CECL model (economic variables, internal lending data, calculation of expected credit losses, disclosures, etc.).

Management teams should discuss these considerations and others with their Boards of Directors, external auditors, and model providers as they make strides toward implementation.

CECL SCALE Method

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On July 15, 2021, the Federal Reserve introduced the Scaled CECL Allowance for Losses Estimator (SCALE) tool. The SCALE tool is a simple, spreadsheet-based method developed to assist smaller community banks (with total assets of less than $1 billion) in calculating their CECL compliant allowances for credit losses (ACLs) using proxy expected lifetime loss rates. This method utilizes publicly available peer data from Schedule RI-C, Part II, of the Call Report to develop the initial proxy estimate. The spreadsheet is intended to simplify the CECL implementation process for smaller, less complex institutions.

Frequent Topics of Discussion across the Industry, *continued*

While the SCALE method uses peer data for the initial determination of the proxy expected lifetime loss rates, it incorporates institution-specific qualitative adjustments and an adjustment to proxy loss rates to reflect the institution's historical performance. Loans assessed for expected losses on an individual basis are evaluated on a separate tab and excluded from the general reserve calculation. The spreadsheet is segmented into four tabs with a summary tab outlining the total ACL by portfolio segment, as reported in Schedule RI-C, Part II. The institution's end-of-period loan segment balances, less individually assessed loans, are multiplied by the calculated proxy ACL lifetime loss rates, adjusted for institution-specific qualitative adjustments and proxy loss adjustments, to arrive at a final estimated ACL by portfolio segment.

The SCALE method is unique in that the initial ACL lifetime loss rate is calculated by dividing the portfolio segment allowance by the segment's amortized cost per the peer data as reported in Schedule RI-C, Part II. In using the reported allowance balances by segment as the starting point, the peer institutions' qualitative assumptions, forecasts, and prepayment assumptions are embedded into the historical loss rates which drives the need for institution-specific adjustments. Qualitative adjustments should be made to capture information not already incorporated in the proxy expected lifetime loss rates. Interagency Policy Statement on the Allowance for Credit Losses is still referenced as the relevant guidance for the application of Qualitative Factors. An adjustment should also be made for the institution's specific historical performance. The average annual net charge-off rate for the peer group is compared to that of the institution (over a predetermined time-period). A percentage difference is calculated within the spreadsheet tab, which carries to the summary tab as an adjustment to the total estimated expected losses. As an example, if the institution-specific average net loss rate is less than the peer net loss rate for the determined period, the total ACL will be reduced.

In determining the appropriate peer group, management should seek to include peers that reflect similar credit risk characteristics. The total population of peers may include national or regional institutions. Management should be able to support the reasonableness of the peer(s) selections. Peer data can be accessed through the FFIEC's Central Data Repository.

The SCALE tool has been made available here, along with a detailed listing of instructions to help guide institution management in the implementation phase. While SCALE is one of many acceptable CECL methods, ultimately bank management remains responsible for selecting an appropriate model methodology and maintaining an appropriate ACL under CECL. The institution's use of any method for estimating the ACL should be well-documented and clearly supported by analysis and rationale.

Third Party Risk Management

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SUMMARY

On July 13, 2021, the federal banking agencies, including the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC), released proposed interagency guidance covering risk management of third-party relationships. The proposed interagency guidance would replace each of the federal banking agencies' existing guidance on this subject. The proposed interagency guidance provides a framework to be used in all phases of the risk management life cycle of third-party relationships. Similar to existing OCC guidance, the phases of the third-party risk relationship cycle are: planning, due diligence and third-party selection, contract negotiation, ongoing monitoring, and termination. In addition, the same three principles discussed within existing OCC guidance are incorporated into the proposed interagency guidance, which includes: oversight and accountability, documentation and reporting, and independent review.

PLANNING

Prior to partnering with third-parties, banking organizations should consider whether the banking organization's strategic goals, objectives, and risk appetite align with a given third-party's offered products and services. The risks involved and level of reliance on the third-party relationship should dictate the level and detail of planning activities performed, and involvement of senior management and the Board of Directors (or designated committee). Common considerations would include: the criticality of the third-

Frequent Topics of Discussion across the Industry, *continued*

party's services as it relates to ongoing operations, impact to existing processes and systems, degree of customer-facing activities, handling of confidential customer information, and compliance with relevant laws and regulations, among others.

DUE DILIGENCE AND THIRD-PARTY SELECTION

Similar to planning activities, the degree of due diligence performed prior to entering into a contract with a third party should be commensurate with the level of risk and complexity of the third-party relationship. To that end, more extensive due diligence may be necessary when the third-party relationship is higher risk or involves critical activities. The proposed interagency guidance provides sixteen factors to considering in performing due diligence of a third party, as follows:

- Strategy and Goals
- Legal and Regulatory Compliance
- Financial Condition
- Business Experience
- Fee Structure and Incentives Management
- Reliance on Subcontractors
- Qualifications and Backgrounds of Company Principals
- Risk Management
- Information Security
- Management of Information Systems
- Insurance Coverage
- Human Resources
- Operational Resilience
- Incident Reporting and Management Programs
- Physical Security
- Conflicting Contractual Arrangements with Other Parties

The due diligence process should unveil whether a third-party relationship is likely to post significant new risks to the banking organization and how said risks may be mitigated. Due diligence activities can be time-consuming and costly for banking organizations. As such, banking organizations may desire to outsource due diligence procedures and/or collaborate with other banking organizations, among other options to alleviate constraints on internal resources. However, banking organizations, particularly the board of directors and senior management, should understand they are not absolved of their responsibility to make decisions on behalf of the banking organization or for ensuring effective risk management processes are in place.

CONTRACT NEGOTIATION

Banking organizations should ensure contracts with third parties clearly define the rights and responsibilities of all parties involved. In the event third parties prohibit or restrict changes to a standard contract, banking organizations should gain an understanding of the resulting implications. Alternative service providers may need to be considered if risks to the banking organization cannot be mitigated or if the banking organization's needs will not be met. Senior management should involve the Board of Directors (or committee thereof) and/or legal counsel during contract negotiations, depending upon the circumstances. The proposed interagency guidance enumerates the following factors that should be considered during contract negotiations:

- Nature and Scope of the Arrangement
- Performance Measures or Benchmarks
- Responsibilities for Providing, Receiving, and Retaining Information
- The Right to Audit and Require Remediation
- Responsibility for Compliance with Applicable Laws and Regulations
- Cost and Compensation
- Ownership and License
- Confidentiality and Integrity
- Operational Resilience and Business Continuity
- Indemnification
- Insurance
- Dispute Resolution
- Limits on Liability
- Default and Termination
- Customer Complaints
- Subcontracting
- Foreign-Based Third Parties
- Regulatory Supervision

Frequent Topics of Discussion across the Industry, *continued*

ONGOING MONITORING

As with performing initial due diligence over a third-party relationship, the extent of ongoing monitoring performed should be commensurate with the level of risk and complexity of the third-party relationship. Throughout the life of the third-party relationship, banking organizations should evaluate the overall relationship effectiveness, degree and type of risks involved, and significant changes that may have occurred within the third-party. Examples of significant changes could include material audit findings, deterioration in financial condition, security breaches, data loss, service or system interruptions, or compliance lapses. Qualified and sufficient staffing should be tasked with performing ongoing monitoring of third-party relationships. Significant issues should be escalated to senior management, or, if warranted, the Board of Directors or committee thereof. Banking organizations should also include regular testing of internal controls over their third-party risk management activities. A banking organization's internal auditor or an independent third party may be engaged to conduct periodic reviews of their third-party risk management processes. The proposed interagency guidance provides various factors banking organizations should consider as part of their ongoing monitoring activities to ensure risks are appropriately understood and mitigated when necessary.

TERMINATION

Banking organizations may wish to terminate a contract with a third party for many reasons, which may include expiration of the contract, dissatisfaction with the services provided, among others. Termination of a third-party contract should be done as efficiently as possible, without interrupting day-to-day operations. Prior to contract termination, banking organizations should consider the risks associated with transitioning service providers, impact to operations, retention, and destruction of sensitive or confidential information, among others.

SUPERVISORY REVIEWS OF THIRD-PARTY RELATIONSHIPS

Considering the proposed interagency guidance, it appears likely that examiners will increase their focus on reviewing third-party risk management in the near future. Furthermore, examiners may use their authority to subject a banking organization's third parties to examination, if warranted. All applicable laws and regulations remain the responsibility of the banking organization, such as those related to consumer protection, BSA/AML, OFAC, and others.

In summary, banking organizations should consult the proposed interagency guidance and begin preparing for any potential changes to existing processes and internal controls. Also included in the publication is an exhibit for frequently asked questions pertaining to the management of third-party relationships. The agencies have requested comments on the proposed interagency guidance by September 17, 2021. The full publication can be found at:

https://www.fdic.gov/news/press-releases/2021/pr21061a.pdf

FDICIA Readiness

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The Federal Deposit Insurance Corporation Improvement Act (FDICIA) raises the regulatory bar for banks at the $500 million and $1 billion asset thresholds. FDICIA was enacted in 1991 to strengthen the banking industry following the savings and loan crisis of the 1980s. If a bank begins its fiscal year with total assets exceeding the FDICIA thresholds of $500 million or $1 billion, the bank must then comply with FDICIA requirements at that threshold.

During 2020, the economic impact and overall disruption of COVID-19 caused the FDIC to issue an interim final rule that ultimately allowed institutions to defer the implementation of FDICIA from January 1, 2021 to January 1, 2022. There is no additional delay expected for fiscal periods beginning January 1, 2022.

Frequent Topics of Discussion across the Industry, *continued*

Whether it has been through M&A, organic growth, or a recent surge due to the Paycheck Protection Program (PPP) loans and the excess liquidity within the industry, many banks find themselves growing rapidly and potentially closer to the $500 million and $1 billion asset thresholds than initially expected. This increase in asset size provides additional opportunities, but also presents new risks, challenges, and regulatory requirements. FDICIA requires a more sophisticated risk management structure, so management teams should prepare for compliance well in advance of crossing the size threshold. Preparation should include ensuring the bank has appropriate personnel and resources dedicated to the transition and subsequent maintenance of compliance.

For further detail of the requirements at the $500 million and $1 billion thresholds, respectively, refer to our Q1 2021 Update at this link.

Accounting for Investments in Fintech

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Through innovation and technology, the financial services industry is changing faster than ever, and many institutions are looking at ways to satisfy evolving customer preferences. Financial technology (or “fintech”) was once thought to be a threat to traditional banking, but many institutions are now seeing the benefits of partnering with fintech companies to enhance or broaden product offerings, or simply improve operating efficiency. As your financial institution considers partnering or investing in fintech, it is important the finance team consider the related accounting for these investments, as the accounting will vary based on the level of influence derived from the investment. Certain arrangements with fintechs are contractual and are very similar to other third-party service provider arrangements. The discussion below is more focused on accounting for equity investments in these companies.

As venture/early-stage companies, fintechs often need capital to fund their innovation and product development. Financial institutions are uniquely positioned to provide this capital while benefitting from the investment and the fintech’s service offerings. Accounting for equity investments falls into 3 different categories based on the level of control the investor has over the entity. In determining the appropriate level of investment in a certain fintech, management should consider not only the accounting and reporting considerations inherent with each category of investment, but also the institution’s ability to impact the direction of the specific fintech development and the risks and rewards associated with each.

- Equity Security:
  - The first investment category for discussion results in the lowest level of involvement on the part of the institution. In general, when the institution owns less than 20 percent of the voting common stock of the fintech, the institution does not have what would be considered significant influence or the ability to control as further discussed below. In this case, the fintech investment should usually be accounted for as an equity security. If there is a readily available share price, the security should be accounted for at fair value, with changes in fair value reflected on the income statement. When dealing with newer or smaller fintechs, it is more common that there is not a readily available share price. In these cases, the institution should record the investment at cost, and then adjust the amount for any observable changes in fair value for identical or similar securities. For example, if the fintech issues new shares in a private placement, the institution should use the new valuation to adjust its value of the investment, with the change reported on the income statement, assuming the new shares issued are identical or similar.

- Significant Influence:
  - The second category of investment considers whether the institution has the ability to exercise significant influence over the fintech. The common threshold for this category is at least 20 percent, but less than 50 percent ownership of the fintech. These percentages are not bright lines as there are other factors to consider when determining if the institution has significant influence. The investments often convey certain rights that should be considered such as voting rights, representation on the board of directors, cumulative dividend rights or liquidation preferences as well as participation in policy-making decisions. If it is determined that the institution exerts significant influence over the

Frequent Topics of Discussion across the Industry, *continued*

fintech, the investment is accounted for under the equity method of accounting. Under the equity method, the institution's share of net income would be reported on the income statement, and the investment in fintech would increase by the same amount on the balance sheet.

- Investments with the Ability to Control:
  - The final category of investment is the scenario in which the institution has obtained the ability to control the fintech. This typically means obtaining voting interests of more than 50 percent. When this occurs, the investment will be accounted for as a business combination, and the fintech entity will be included as a consolidated subsidiary in the institution's financial statements. In this scenario, management should be prepared to include the fintech entity in their consideration of internal controls over financial reporting; the fintech may also be subject to increased regulatory oversight as a subsidiary of the institution.

Each investment scenario above comes with its own challenges. Management should consider each scenario and the resulting impacts on accounting and financial reporting as well as the risks associated with each before entering into an investment with a fintech company. Please reach out to your Elliott Davis team member for further clarification or guidance surrounding your specific situation.

FASB Update

The following selected Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) during the third quarter. A complete list of all ASUs issued or effective in 2021 is included in Appendix A.

FASB Issues Standard to Improve a Lessor's Accounting for Certain Leases with Variable Lease Payments

In July, the FASB issued ASU 2021-05, Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments, which requires a lessor to classify a lease with variable lease payments that do not depend on an index or rate (hereafter referred to as "variable payments") as an operating lease on the commencement date of the lease if specified criteria are met. Before this ASU, sales-type leases or direct financing leases with significant variable payments may have resulted in a "day one loss" on the arrangement even if the overall economics of the arrangement were expected to be profitable. To account for a sales-type or direct financing lease under ASC 842, Leases, a lessor must derecognize the underlying asset and recognize a net investment in the lease. The net investment in the lease is initially measured, in part, based on the present value of the lease payments not yet received from the lessee. The "lease payments" reflected in the initial measurement of the net investment in the lease exclude variable lease payments that are not based on an index or rate (for example, payments based on future sales of output or future purchases of supplies).
As a result, the recognition of the net investment in the lease may be less than the derecognition of the underlying asset.

ASU 2021-05 adds ASC 842-10-25-3A as a new paragraph. This new guidance requires a lessor to classify a lease with variable lease payments that do not depend on an index or rate as an operating lease at lease commencement if:

1. The lease would have been classified as a sales-type lease or direct financing lease in accordance with the classification criteria in ASC 842-10-25-2 and 25-3, respectively.

2. The lessor would have recognized a selling loss at lease commencement.

When applying the guidance in ASC 842-10-25-3A, the lessor would not derecognize the underlying asset upon lease commencement but would continue to depreciate the underlying asset over its useful life. Further, in accordance with ASC 842-30-25-11, the lessor would recognize fixed lease payments as income over the lease term on a straight-line basis unless another systematic and rational basis is more representative of the pattern in which benefit is expected to be derived from the use of the underlying asset. Variable lease payments would be recognized as income in profit or loss in the period in which the changes in facts and circumstances on which the variable lease payments are based occur, as indicated in ASC 842-30-25-11(b).

Effective Dates
For entities that have not adopted ASC 842 on or before July 19, 2021, lessors should apply the transition requirements in ASC 842-10-65-1 when adopting ASU 2021-05. An entity should adopt the ASU on the same date on which it adopts ASC 842. Lessors that have adopted ASC 842 as of July 19, 2021, should apply the transition requirements below for fiscal years beginning after December 15, 2021.

The amendments in ASU 2021-05 should be applied by using either of the following approaches:

- Retrospective application to leases that commence or are modified on or after the adoption of ASC 842, when the modification does not meet the conditions to be accounted for as a separate contract (as defined in ASC 842-10-25-8).

- Prospective application to leases that commence or are modified on or after the date on which a lessor first applies the amendments in ASU 2021-05, when the modification does not meet the conditions to be accounted for as a separate contract (as defined in ASC 842-10-25-8).

Early adoption of ASU 2021-05 is permitted, as long as the adoption of this ASU does not occur before the adoption of ASC 842.

FASB Update, *continued*

FASB Amends SEC Guidance in the Codification for Disclosures on Depository Lending and Investment Companies

In August, the FASB issued ASU 2021-06, *Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942),* and *Financial Services—Investment Companies (Topic 946)* to amend SEC paragraphs in the Accounting Standards Codification to reflect the issuance of SEC Release No. 33-10786, *Amendments to Financial Disclosures about Acquired and Disposed Businesses*, and No. 33-10835, *Update of Statistical Disclosures for Bank and Savings and Loan Registrants*.

SEC Release No. 33-10786 was issued in May 2020 to assist registrants in making more meaningful determinations of whether a subsidiary or an acquired or disposed business is significant, and to improve the disclosure requirements for financial statements relating to acquisitions and dispositions of businesses, including real estate operations and investment companies. SEC Release No. 33-10835 were issued in September 2020 to provide modernize Guide 3 disclosures for banking registrants.

The amendments in ASU 2021-06 were effective upon issuance.

Regulatory Update

SEC Releases Annual Regulatory Agenda

In June, the Office of Information and Regulatory Affairs, a division of the Office of Management and Budget, released the Spring 2021 Unified Agenda of Regulatory and Deregulatory Actions, which includes a regulatory agenda from SEC. It provides several potentially contentious rule proposals and amendments related to climate change disclosure, human capital management disclosure, amendments regarding special purpose acquisition companies (SPAC), and amendments to the use of affirmative defense provisions under the insider trading rules. A statement from the SEC's Republican Commissioners, Roisman and Peirce, soon followed the agenda's publication, and questioned whether the list is fully comprehensive and noting certain significant items that appear to be missing, including rules to provide clarity for digital assets.

The semiannual regulatory agenda lists a number of rule proposals expected over the next year. Chief among these propositions are those rules addressing climate change, human capital management, and corporate board diversity, which follows SEC Chair Gensler's promises to focus on ESG. For example, at the Conference on Financial Market Regulation, Chair Gensler's opening remarks noted that climate risk and the workforce will be one of his top priorities and an early focus of his tenure at the SEC. The SEC has also created a page on its website, "SEC Response to Climate and ESG Risks and Opportunities," which provides a number of resources to correspond with the SEC's all-agency approach to ESG.

The SEC further plans to propose rules related to SPAC mergers and address unfinished rulemaking mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, including finalizing pay versus performance rules and reproposing rules requiring exchanges to mandate the claw back of certain incentive-based compensation upon a financial statement restatement.

The SEC also intends to reconsider and further evaluate proxy rulemaking and several other recently amended rules, including those involving the disclosure of payments by resource extraction issuers and shareholder proposals.

SEC Approves New Nasdaq Rules on Board Diversity

The SEC approved rules proposed by the Nasdaq Stock Market LLC requiring all listed companies to meet certain minimum diversity targets or disclose why they aren't doing so. Most Nasdaq-listed companies will be required to have, or explain why they do not have, at least two diverse board members, including one director who self-identifies as female and one director who self-identifies as either an underrepresented minority or lesbian, gay, bisexual, transgender, queer or other (LGBTQ+). Companies with five or fewer board members need to have one diverse board member to meet the target. Underrepresented minorities are defined as individuals who self-identify as one or more of the following groups: Black or African American, Hispanic or Latinx, Asian, Native American or Alaska Native, Native Hawaiian or Pacific Islander, or two or more races or ethnicities.

All listed companies must also provide statistical information about the diversity of their boards by the later of August 6, 2022, or the filing date of their proxy statement or information statement for their annual shareholders meeting (or the date they file their Form 10-K or Form 20-F if they do not file a proxy or information statement) in 2022.

Under the rule's transition provision, all listed companies must have one diverse director (or explain why they don't) by the later of August 6, 2023, or the date they file their proxy statement or their information statement for their annual shareholders meeting (or the date they file their Form 10-K or Form 20-F if they do not file a proxy or information statement) in 2023.

Companies with six or more board members must have two diverse directors (or explain why they don't) no later than August 6, 2025, if they are listed on the Nasdaq Global Select or Nasdaq Global Market tiers or August 6, 2026, if they are listed on the Nasdaq Capital Market tier.

Regulatory Update, *continued*

House Bill Would Add Emissions Financing to Systemic Risk Designation Process

House Democrats on September 15, 2021, introduced a bill that would implement a broad crackdown on the financing of fossil fuel projects, including by adding financed emissions to the criteria for a nonbank firm to qualify as a Systemically Important Financial Institution (SIFI) under the Dodd-Frank Act. H.R. 5253, the Fossil Free Finance Act, would also subject banks that meet a $50 billion asset threshold and nonbank SIFIs to a series of deadlines to cut their financing of greenhouse gas emissions, among other requirements. In the near term, the measure would bar the financing of new or expanded fossil fuel projects by next year and ban thermal coal financing past 2024.

The Dodd-Frank Act created the Financial Stability Oversight Council (FSOC) and empowered it to mark firms whose failure could endanger the broader financial system as SIFIs, a designation that brings with it greater Federal Reserve scrutiny. FSOC, when weighing a nonbank designation, today takes into account its size, inter-connectedness, and concentration, among other factors.

Republican lawmakers have pushed back against the notion that FSOC should expand its scope to include climate risk. In a late March letter, a group of Republicans on the House Financial Services Committee urged Treasury Secretary Janet Yellen to avoid a rushed decision in response to political pressure on climate risk. Yellen, as Treasury Secretary, chairs the Dodd-Frank Act systemic risk watchdog, whose members also include SEC Chair Gensler and other financial regulators.

Authentication and Access to Financial Institution Services and Systems

The Federal Financial Institutions Examination Council (FFIEC) issued new guidance titled *Authentication and Access to Financial Institution Services and Systems*. The guidance provides financial institutions with examples of effective authentication and access risk management principles and practices. These principles and practices are for digital banking services and information systems. The guidance replaces the FFIEC-issued Authentication in an Internet Banking Environment (2005), and the Supplement to Authentication in an Internet Banking Environment (2011).

Answers to FAQs about the Impact of LIBOR Transitions on Regulatory Capital Instruments

In July, the FDIC is issued answers to frequently asked questions (FAQs) about the impact of LIBOR transitions on regulatory capital instruments under 12 CFR 324. Among other things, the FAQs address the issue of changing a reference rate from LIBOR to an alternative rate and clarify that such a transition would not change the capital treatment of the instrument, provided the alternative rate is economically equivalent with the LIBOR-based rate. The Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System are issuing similar FAQs.

Proposed Revisions to the Consolidated Reports of Condition and Income (Call Reports) Related to Deferred Taxes and the Standardized Approach for Counterparty Credit Risk (SA-CCR)

The FDIC, the Board of Governors of the Federal Reserve System, and the OCC (collectively, the agencies) propose to revise the Call Report instructions' Glossary entry for "Income Taxes," and Schedule RC-R, Part I, Regulatory Capital Components and Ratios, which would have a new line item 31.b, "Standardized Approach for Counterparty Credit Risk opt-in election" beginning with the December 31, 2021 Call Reports.

The agencies are proposing to revise the "Income Taxes" Glossary entry to address treatment of temporary difference deferred tax items and operating loss and tax credit carryforward deferred tax assets as stated in the proposed rule on tax allocation agreements. The new item related to SA-CCR would identify institutions that have chosen to early adopt or voluntarily elect SA-CCR, which would allow for enhanced comparability of the reported derivative data and better supervision of the implementation of the framework at these institutions.

Regulatory Update, *continued*

Agencies Issue Guide to Help Community Banks Evaluate Fintech Relationships

In August, the FDIC, the Board of Governors of the Federal Reserve System, and the OCC (collectively, the agencies) issued a Guide intended to help community banks assess risks when considering relationships with financial technology (fintech) companies. Community banks are entering into business arrangements with fintech companies to offer enhanced products and services to their customers, increase efficiency, and reduce internal costs. The Guide covers six key due diligence topics that community banks can consider: business experience and qualifications, financial condition, legal and regulatory compliance, risk management and control processes, information security, and operational resilience. The Guide highlights potential sources of information that may be useful when evaluating fintech companies.

Bank Accounting Advisory Series Updated

The OCC released an update to the Bank Accounting Advisory Series (BAAS). The BAAS addresses a variety of accounting topics and promotes consistent application of accounting standards and regulatory reporting among national banks and federal savings associations. This edition of the BAAS reflects updates to accounting standards issued by the FASB on such topics as amortization of premiums on callable debt securities and evaluating goodwill impairment triggering events for private companies. Additionally, this edition includes answers to frequently asked questions from the industry and bank examiners.

On the Horizon

The following selected FASB exposure drafts and projects are outstanding as of September 30, 2021.

Institutional Investor Group Asks FASB to Prioritize ESG Disclosures and Cash Flows for Future Agenda

The Council of Institutional Investors (CII) told the FASB that disclosure rules around ESG matters and the presentation of the statement of cash flows are two topics the board should prioritize on its technical agenda, as both areas lack key information investors seek. CII is a nonprofit, nonpartisan association of United States public, corporate and union employee benefit funds, other employee benefit plans, state and local entities charged with investing public assets, and foundations and endowments with combined assets under management of approximately $4 trillion.

CII said there is a pervasive need for more information about human capital management in the financial statements, more granularity and disaggregation about breakdown of cost of sales and selling, general, and administrative expense to understand a company's cost structure by nature (such as labor), as this would allow investors to better understand a company's operating results and future cash flows. Moreover, climate change is a systemic risk, so it is critical that investors can access clear disclosures of the risks it poses to long-term value creation by the companies in which they invest, according to the letter. There is inadequate information being disclosed on climate risk when it would have a material effect on an impairment analysis, fair value calculation, or expected credit losses.

On the cash flows statement, CII would support requiring presentation of cash flows from operating activities under the direct method, a step it said would be an improvement as the indirect method is not intuitive.

Banks Hesitant to Shift from LIBOR

Banks and other financial institutions are still hesitant over transitioning old existing contracts away from the London Interbank Offered Rate (LIBOR), which expires in two years, and many are holding off until the very last minute, according to recent FASB discussions with an advisory panel. The discussion comes at a time when regulators have been pushing lending institutions to stop using LIBOR at the end of December this year, though its expiration date is set for June 2023.

For new contracts, some financial institutions have already stopped using LIBOR and have moved to the Bloomberg Short-Term Bank Yield Index (BSBY) or the Secured Overnight Financing Rate (SOFR) the discussions also indicated. There are trillions of dollars of loans, derivatives, and financial contracts that are tied to LIBOR. Some regulators have cautioned that BSBY has many of the same flaws as LIBOR as both benchmarks are based upon unsecured, term, bank-to-bank lending. They have expressed preference for SOFR as an alternative to LIBOR.

Improvements to Fair Value Guidance for Equity Securities

In September, the FASB issued a proposal that would improve financial reporting for investors and other financial statement users by increasing comparability of financial information across reporting entities that have investments in equity securities measured at fair value that are subject to contractual restrictions preventing the sale of those securities.

ASC 820, Fair Value Measurement, states that when measuring the fair value of an asset or a liability, a reporting entity should consider the characteristics of the asset or liability, including restrictions on the sale of the asset or liability, if a market participant also would take those characteristics into account. Key to that determination is the unit of account for the asset or liability being measured at fair value.

Some stakeholders noted that ASC 820 contains conflicting guidance on what the unit of account is when measuring the fair value of an equity security. This has resulted in diversity in practice on whether the effects of a contractual restriction that prohibits the sale of an equity security should be considered in measuring that equity security's fair value.

On the Horizon, *continued*

To address this, the amendments in the proposed ASU would clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value.

AICPA FinREC Weighs in on Credit Loss Standard

The Financial Reporting Executive Committee (FinREC) of the AICPA has issued proposed guidance that will be added to the AICPA Accounting Guide, Brokers and Dealers in Securities. An exposure draft has been released for review, and comments were requested by July 17, 2021.

If adopted, the update would include sample financial statement language for SEC-registered broker-dealers. The sample language would be included in the accounting policy footnote, after cash and cash equivalents, and would state the broker-dealer's policy for estimating losses on financial assets upon adoption of ASC 326-20. The guide would also include sample language for off-balance sheet credit exposures, receivables from customers, and securities borrowed. The purpose of this addition to the guide is to give broker-dealers some clarity on what their accounting policy footnote should include upon adoption of ASC 326 – Financial Instruments – Credit Losses.

This proposed update also includes updated financial statement language related to the Receivables From and Payables to Customers section.

Statement of Cash Flow Needs to Be Revised for Financial Institutions According to Analysts

The FASB should consider revising the statement of cash flows to better reflect what financial institutions do, according to a May meeting of the Investor Advisory Committee (IAC) of the FASB. Analysts have a host of problems with what's given to investors in the current statement of cash flow format and it comes down to a fundamental view as to what is an operating activity at a financial institution. As it now stands, many financial institutions' free cash flow and free cash flow yields cannot be reliably compared across the sector as is done for other sectors. Among potential solutions the FASB could take is to either change the definition of operating activities for financial institutions such that more applies to what the financial institutions do or try to get to what net cash income really is for banks.

ABA Calls for Changes in Accounting Rules for Tax Credit Investments

The banking sector has asked the FASB to expand the accounting rules for qualified affordable housing project investments to other tax credit investments, stating the guidance should apply to more programs. Specifically, the American Bankers Association (ABA) says the FASB should amend rules under ASC 323-740, *Investments—Equity Method and Joint Ventures*, to include all investments that are made for the primary purpose of receiving tax credits and other tax benefits based on satisfying the conditions of tax rules in ASC-740-25-1. Other investment programs such as the New Markets Tax Credit Program (NMTC) have similar structure and tax advantages to low income housing tax credits (LIHTC) but are subject to different accounting standards.

The NMTC program attracts private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries called Community Development Entities (CDEs). Banks have asserted that since there is no guidance specific to NMTC investments today, they have to present the depletion of these tax credit investments as an expense in their pre-tax income line while recognizing the economic benefit of the investment below the pre-tax income line as a reduction to income tax expense. The timing of the recognition of this expense and the associated tax credit benefit are often misaligned.

Lack of consistency in the application of the accounting for tax credit investments negatively impacts users of financial statements, preparers, and ultimately those who are served by the underlying projects, according to the ABA.

On the Horizon, *continued*

Improvements to Discount Rate Guidance for Lessees That Are Not Public Business Entities

The FASB issued a proposal that would improve discount rate guidance for lessees that are not public business entities—including private companies, not-for-profit organizations, and employee benefit plans. It is intended to reduce the expected cost of implementing the lease accounting standard (ASC 842, *Leases*) for those entities while retaining the expected benefits for users of financial statements.

ASC 842 currently provides lessees that are not public business entities with a practical expedient that allows them to make an accounting policy election to use a risk-free rate as the discount rate for all leases. The FASB originally provided this practical expedient to relieve those lessees from having to calculate an incremental borrowing rate, which could create unnecessary cost and complexity.

Some private company stakeholders expressed reluctance to use the risk-free rate election for all leases. Those stakeholders noted that in the current economic environment, a risk-free rate (e.g., a U.S. Treasury rate) is low compared with their expected average incremental borrowing rates, and that using the risk-free rate election could increase an entity's lease liabilities and right-of-use assets.

To address these concerns, the amendments in the proposed ASU would allow lessees that are not public business entities to make the risk-free rate election by class of underlying asset, rather than at the entity-wide level. It also would require that, when the rate implicit in the lease is readily determinable for any individual lease, a lessee would use that rate (rather than a risk-free rate or an incremental borrowing rate), regardless of whether it has made the risk-free rate election.

FASB Proposal to Improve and Expand Hedge Accounting

In May, the FASB issued a proposal intended to better align hedge accounting with an organization's risk management strategies. In 2017, the FASB issued a new hedging standard to better align the economic results of risk management activities with hedge accounting. The new standard increased transparency around how the results of hedging activities are presented, both on the face of the financial statements and in the footnotes, for investors and analysts when hedge accounting is applied.

One of the major provisions of that standard was the addition of the last-of-layer hedging method. For a closed portfolio of fixed-rate pre-payable financial assets or one or more beneficial interests secured by a portfolio of pre-payable financial instruments, such as mortgages or mortgaged-backed securities, the last-of-layer method allows an entity to hedge its exposure to fair value changes due to changes in interest rates for a portion of the portfolio that is not expected to be affected by prepayments, defaults, and other events affecting the timing and amount of cash flows.

Since issuing the hedging standard, stakeholders have told the FASB that the ability to elect hedge accounting for a single layer is useful, but hedge accounting could better reflect risk management activities if expanded to allow multiple layers of a single closed portfolio to be hedged under the method.

The proposed ASU would expand the current single-layer model to allow multiple-layer hedges of a single closed portfolio of pre-payable financial assets or one or more beneficial interests secured by a portfolio of pre-payable financial instruments under the method. To reflect that expansion, the last-of-layer method would be renamed as the portfolio layer method.

Additionally, the proposed ASU would:

- Clarify eligible hedging instruments in a single-layer strategy
- Provide additional guidance on the accounting for and disclosure of fair value hedge basis adjustments that would be applicable to both the current single-layer model and the proposed multiple-layer model
- Indicate how fair value hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio.

On the Horizon, *continued*

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.

Consolidation Reorganization

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

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

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

EITF Agenda Items

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

PCC Activities

The Private Company Council (PCC) met on Monday, June 21 and Tuesday, June 22, 2021. Below is a brief summary of topics 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”: The PCC reached a final consensus on a practical expedient for a private company to determine the current price input of equity-classified share-based awards issued to both employees and nonemployees that describes the characteristics of a reasonable application of a reasonable valuation method. The PCC discussed significant external review feedback and addressed sweep

On the Horizon, *continued*

issues related to scope, application, disclosure, effective date, and measurement. The PCC also discussed the costs and benefits of stating within the Accounting Standards Codification that valuation approaches from the Treasury Regulations of Section 409A of the U.S. Internal Revenue Code are examples of ways to achieve the practical expedient. The FASB will meet at a future meeting to consider endorsement of the final consensus.

- Profits Interests and Their Interrelationship with Partnership Accounting: FASB staff provided the PCC with an update on the research and outreach conducted by the staff and Working Group on this PCC research project. PCC members shared their experiences with profits interests in practice, noting that generally profits interests awards are granted to senior management and that the terms of the awards are diverse and can be complex. PCC members noted that there are challenges associated with measuring profits interests and some noted that determining whether to apply the guidance in Topic 718, Compensation—Stock Compensation, or Topic 710, Compensation—General, can be challenging. Other PCC members emphasized the importance of broadly considering the types of partnerships and similar entities that issue profits interests when identifying the scope of a potential project. FASB staff provided the PCC with an example of profits interests awards granted by a private company that remained outstanding after an initial public offering.

- Current Issues in Financial Reporting: PCC members discussed practice issues arising from the current business environment under the COVID-19 pandemic. PCC members discussed the accounting and reporting for employee retention credits included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act and subsequent COVID-19-related legislation.

- Disclosures by Business Entities about Government Assistance: FASB staff reported that, at its May 26, 2021 meeting, the Board completed redeliberation on the proposed Accounting Standards Update, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance, including narrowing the scope to transactions a business entity is accounting for, by analogy, under a grant or contribution model. The Board directed the staff to draft a final Accounting Standards Update for vote by written ballot. PCC members asked the staff several clarifying questions about the transition method and the disclosure requirements.

- Improving the Accounting for Asset Acquisitions and Business Combinations (Phase 3 of the Definition of a Business project): FASB staff provided the PCC with a project update and noted this project's objective and background. FASB staff then gave a summary of the accounting for contingent consideration in business combinations and solicited feedback from PCC members. PCC members had mixed views on how to account for contingent consideration in a business combination and what the expected costs and expected benefits would be under different models. Some PCC members were in favor of contingent consideration only being recognized when it is probable and estimable. However, if the contingent consideration arrangement does not meet that recognition criteria, key information should be disclosed. Others noted they thought there were benefits to recognizing the fair value of the contingent consideration at the acquisition date.

- Revenue—Post-Implementation Review: PCC members briefly discussed implementation issues related to Topic 606, Revenue from Contracts with Customers, and FASB staff provided an update on the next steps of the post-implementation review.

- Leases (Topic 842)—Discount Rate for Lessees That Are Not Public Business Entities: FASB staff updated the PCC on the proposed Accounting Standards Update, Leases (Topic 842), Discount Rate for Lessees That Are Not Public Business Entities, which was issued on June 16, 2021, and has a comment period ending on July 16, 2021. The proposed amendments are intended to improve discount rate guidance for lessees that are not public business entities, including private companies. FASB staff solicited feedback on an alternative that would require disclosure of the weighted-average discount rate separately for leases that use the risk-free rate and all other leases. PCC members noted that the alternative disclosure may result in additional cost for preparers and expressed mixed views about the decision-usefulness of the information resulting from the alternative disclosure, versus a more qualitative disclosure.

On the Horizon, *continued*

- Identifiable Intangible Assets and Subsequent Accounting for Goodwill: FASB staff provided a project update and solicited feedback from PCC members on certain factors that may be used to estimate the useful life of goodwill. Several PCC members did not agree with the use of an estimated payback period as a method to estimate the useful life of goodwill and cautioned against it being the only alternative method to a default amortization period. PCC members indicated that the transition was smooth for those private companies that have elected the accounting alternative to amortize goodwill and that most private companies have elected to test goodwill for impairment at the entity level, rather than at the reporting unit level.

- Disclosure Framework: Disclosures—Interim Reporting: FASB staff solicited feedback from PCC members to better understand common reporting practices of nonpublic entities, including the types of financial information produced by private companies and requested by private company financial statement users at interim periods. PCC members provided feedback that private company interim financial information tends to exclude notes to the financial statements and that the content of the financial information is generally driven by covenant compliance and other debt considerations.

Appendix A

Important Implementation Dates

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

Selected Implementation Dates (FASB/EITF/PCC)

Pronouncement	Affects	Effective Date and Transition
ASU 2021-06, Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants (SEC Update)	Financial institutions that are SEC filers	Effective upon issuance.
ASU 2021-05, Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments	Lessor entities	The amendments are effective for fiscal years beginning after December15, 2021, for all entities, and interim periods within those fiscal years for public business entities and interim periods within fiscal years beginning after December 15, 2022, for all other entities.
ASU 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force)	Entities that issue freestanding written call options that are classified in equity	The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. Early adoption is permitted for all entities, including adoption in an interim period.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2021-03, Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events	Private companies and not-for-profit entities that elect the accounting alternative	The amendments in this ASU are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021.
ASU 2021-01, Reference Rate Reform (Topic 848): Scope	All entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform	Effective upon issuance.
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.
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.

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Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
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.
ASU 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities	Entities other than public business entities	The amendments in this ASU delay the effective dates of ASU 2014-09 and ASU 2016-02.
ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting	All entities	Effective for all entities as of March 12, 2020 through December 31, 2022.
ASU 2020-03, Codification Improvements to Financial Instruments	All entities	The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in this ASU do not require transition guidance and will be effective upon issuance. However, many of the amendments do have transition guidance with effective dates for fiscal years beginning after December 15, 2019, for public business entities.
ASU 2020-02, Financial Instruments—Credit Losses (Topic 326) and Leases (Topic 842)—Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting Standards Update No. 2016-02, Leases (Topic 842) (SEC Update)	All entities that are SEC filers	Effective upon issuance.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
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.
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.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
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.
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 2019-01, 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 2018-15, 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 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts	Insurance entities that issue long-duration contracts	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, 2022. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. Early application of the amendments is permitted.
ASU 2018-11, Leases (Topic 842)—Targeted Improvements	All entities	The amendments related to separating components of a contract affect the amendments in ASU 2016-02, which are not yet effective but can be early-adopted. For entities that have not adopted ASC 842 before the issuance of this ASU, the effective date and transition requirements for the amendments in this ASU related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02. For entities that have adopted ASC 842, the effective date and transition of the amendments related to separating components of a contract are as follows: • The practical expedient may be elected either in the first reporting period following the issuance of this ASU or at the original effective date of ASC 842 for that entity. • The practical expedient may be applied either retrospectively or prospectively. All entities, including early adopters that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected.

Appendix A

Important Implementation Dates, *continued*

Pronouncement	Affects	Effective Date and Transition
ASU 2018-10, Codification Improvements to Topic 842, Leases	All entities	For entities that early-adopted ASC 842, the amendments are effective upon issuance, and the transition requirements are the same as those in ASC 842. For entities that have not adopted ASC 842, the effective date and transition requirements will be the same as the effective date and transition requirements in ASC 842.
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*.	***<u>Contributions Received:</u>*** 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. ***<u>Contributions Made:</u>*** 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 2018-01, 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, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early application of the amendments is permitted for all entities.

Appendix B

Illustrative Disclosures for Recently Issued Accounting Pronouncements

For the Quarter Ended September 30, 2021

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 entities:
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.

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended September 30, 2021

ASU 2017-08 — Applicable to entities that hold investments in callable debt securities held at a premium:
In March 2017, the FASB amended the requirements in the Receivables—Nonrefundable Fees and Other Costs Topic of the Accounting Standards Codification related to the amortization period for certain purchased callable debt securities held at a premium. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Company for *[interim and annual periods beginning after December 15, 2018.-public business entities] [annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020.-all other entities]* Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2017-11 — Applicable to entities that issue financial instruments that include down round features:
In July 2017, the FASB amended the requirements in the Earnings per Share, Distinguishing Liabilities from Equity, and Derivatives and Hedging Topics of the Accounting Standards Codification to address the complexity of accounting for certain financial instruments with down round features. The amendments will be effective for the Company for *[interim and annual periods beginning after December 15, 2018.-public business entities] [annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020.-all other entities]* Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2017-12 — Applicable to entities that elect to apply hedge accounting:
In August 2017, the FASB amended the requirements of the Derivatives and Hedging Topic of the Accounting Standards Codification to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments will be effective for the Company for *[interim and annual periods beginning after December 15, 2018.-public business entities] [fiscal years beginning after December 15, 2020 and interim periods within fiscal years beginning after December 15, 2021.-entities other than public business entities]* Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-01 — Applicable to entities with land easements:
In January 2018, the FASB amended the requirements of the Leases Topic of the Accounting Standards Codification. The amendments permit an entity to elect an optional transition practical expedient to not evaluate under the new lease accounting guidance land easements that exist or expired before the entity's adoption of the new lease accounting guidance and that were not previously accounted for as leases under previous lease accounting guidance. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASU 2016-02. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-10 — Applicable to lessee and lessor entities:
In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to make narrow amendments to clarify how to apply certain aspects of the new leases standard. The amendments are effective for *[reporting periods beginning after December 15, 2018.-public business entities] [annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020-all other entities]*. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-11 — Applicable to lessee and lessor entities:
In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to give entities another option for transition and to provide lessors with a practical expedient. The amendments will be effective for the Company for *[reporting periods beginning after December 15, 2018.-public business entities] [annual periods beginning after December 15, 2019, and interim periods within annual reporting periods beginning after December 15, 2020-all other entities]*. The Company does not expect these amendments to have a material effect on its financial statements.

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended September 30, 2021

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 2018-14 — Applicable to 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 entities:
In August 2018, the FASB amended the Intangibles—Goodwill and Other Topic of the Accounting Standards Codification to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments will be effective for the Company for *[fiscal years beginning after December 15, 2019.-public business entities] [fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021-all other entities]*. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-17 — Applicable to all entities:
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 entities:
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.

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended September 30, 2021

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

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

ASU 2018-20 — Applicable to all entities:

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 entities:

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 2019-04 — 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.

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended September 30, 2021

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

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

ASU 2019-08 — 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.

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended September 30, 2021

ASU 2019-11 — Applicable to all entities:

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

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 — Applicable to 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 2020-03 — 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 September 30, 2021

ASU 2020-04 — Applicable to all entities:
In March 2020, the FASB issued guidance to provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The amendments are effective as of March 12, 2020 through December 31, 2022. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2020-05 — Applicable to all entities:
In June 2020, the FASB issued guidance to defer the effective dates for certain companies and organizations which have not yet applied the revenue recognition and leases guidance by one year. The new effective dates will be: *Revenue Recognition: annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020; Leases: fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022*. The Company does not expect these amendments to have a material effect on its financial statements.

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 – <u>public business entities that meet the definition of a SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC</u>] [fiscal years beginning after December 15, 2023, including interim periods within those fiscal years – <u>all other entities</u>]*. 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 – <u>public business entities</u>] [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 - <u>all other entities</u>]*. The Company does not expect these amendments to have a material effect on its 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 - <u>public business entities</u>] [annual periods beginning after December 15, 2021, and interim periods within annual periods beginning after December 15, 2022. Early application is permitted for any annual or interim period for which financial statements are available to be issued - <u>all other entities</u>].* 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.-<u>public business entities that meet the definition of an SEC filer, excluding entities eligible to be SRCs as defined by the SEC</u>] [for fiscal years beginning after December 15, 2024, and interim periods within fiscal year beginning after December 15, 2025.-<u>all other entities</u>]* The Company does not expect these amendments to have a material effect on its financial statements.

Illustrative Disclosures for Recently Issued Accounting Pronouncements, *continued*

For the Quarter Ended September 30, 2021

ASU 2021-01 — Applicable to entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform:

In January 2021, the FASB issued amendments to clarify that certain optional expedients and exceptions in the reference rate reform topic for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The amendments were effective immediately upon issuance. The Company elected to apply the amendments [retrospectively to eligible modifications as of any date from the beginning of the interim period that includes March 12, 2020] or [prospectively to new modifications made on or after any date within the interim period that includes January 7, 2021]. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2021-03 — Applicable to private companies and not-for-profit entities that elect the accounting alternative

In March 2021, the FASB amended the Intangibles—Goodwill and Other topic of the Accounting Standards Codification to provide an accounting alternative for private companies and not-for-profit organizations when performing the goodwill triggering event evaluation. Under the amended guidance, a private company or not-for-profit organization may elect to perform a goodwill triggering event assessment, and any resulting test for goodwill impairment, as of the end of the reporting period, whether the reporting period is an interim or annual period. The amendments are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2021-04 — Applicable to Entities that issue freestanding written call options that are classified in equity

In May 2021, the FASB issued amendments that clarify an issuer's accounting for certain modifications or exchanges of freestanding equity-classified written call options that remain equity classified after modification or exchange. The amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2021-05 — Applicable to lessor entities

In July 2021, the FASB issued amendments to require lessors to classify and account for a lease with variable payments as an operating lease if (a) the lease would have been classified as a sales-type lease or a direct financing lease and (b) the lessor would have otherwise recognized a day-one loss. The amendments are effective for *[fiscal years beginning after December 15, 2021 – <u>all entities</u>] [interim periods within fiscal years beginning after December 15, 2021 – <u>public business entities</u>] [interim periods within fiscal years beginning after December 15, 2022 – <u>all other entities</u>]*. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2021-06 — Applicable to financial institutions that are SEC filers

In August 2021, the FASB issued amendments to update SEC paragraphs in the Accounting Standards Codification to reflect the issuance of SEC Release No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants. The amendments are effective upon issuance. 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 September 30, 2021, the FASB had issued the following Accounting Standard Updates during the year.

- ***ASU 2021-06 –*** *Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants (SEC Update)*
- ***ASU 2021-05 –*** *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*
- ***ASU 2021-04—****Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force)*
- ***ASU 2021-03—*** *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*
- ***ASU 2021-02—****Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient*
- ***ASU 2021-01—****Reference Rate Reform (Topic 848): Scope*