QUARTERLY ACCOUNTING UPDATE WEBCAST – SPRING 2020

April 16, 2020
Today’s presenters

Faye Miller
Partner, National Accounting Policy Leader, RSM US LLP
faye.miller@rsmus.com

Brian Marshall
Partner, RSM US LLP
brian.marshall@rsmus.com

Ginger Buechler
Senior Director, RSM US LLP
ginger.buechler@rsmus.com

Julia Amstutz
Senior Manager, RSM US LLP
julia.amstutz@rsmus.com
Today’s presenters

Jay Schulman
Principal, National Leader of Blockchain and Digital Assets, RSM US LLP
jay.schulman@rsmus.com

Monique Cole
Principal, National Professional Standards Group and Technical Director of TAC, RSM US LLP
monique.cole@rsmus.com

Jamison Sites
Senior Manager, Digital Assets Tax Leader, RSM US LLP
Jamison.Sites@rsmus.com
<table>
<thead>
<tr>
<th>Topic</th>
<th>Minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of coronavirus on financial reporting</td>
<td>20</td>
</tr>
<tr>
<td>Recent FASB activity</td>
<td>5</td>
</tr>
<tr>
<td>Revenue recognition</td>
<td>5</td>
</tr>
<tr>
<td>Financial instruments</td>
<td>15</td>
</tr>
<tr>
<td>Cryptocurrency</td>
<td>15</td>
</tr>
</tbody>
</table>
Impact of coronavirus on financial reporting
Coronavirus: Financial reporting considerations

- Disclosures
- Receivables, loans and investments
- Inventories
- Fair Value
- Hedge accounting
- Goodwill
- Other long-lived assets
- Debt
- Valuation allowance on deferred tax asset
- Going concern

© RSM US LLP. All Rights Reserved.
## Coronavirus: Financial reporting considerations

<table>
<thead>
<tr>
<th>Financial assets</th>
<th>Impairment/allowance guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans, other receivables and commitments to lend (Pre-ASU 2016-13)</td>
<td>ASC 310-10-35</td>
</tr>
<tr>
<td>Operating lease receivables</td>
<td>ASC 842</td>
</tr>
<tr>
<td>Debt securities (Pre-ASU 2016-13) and Equity securities (Pre-ASU 2016-1)</td>
<td>ASC 320-10-35</td>
</tr>
<tr>
<td>Equity securities that are not subsequently measured at fair value through earnings (<em>Post-ASU 2016-01</em>)</td>
<td>ASC 321-10-35-3</td>
</tr>
<tr>
<td>Investments accounted for under the equity method and joint ventures</td>
<td>ASC 323-10-35-31 to 35-35A</td>
</tr>
<tr>
<td>AFS debt securities, most financial assets carried at amortized cost (including HTM securities, receivables, loans) and commitments to lend (Post-ASU 2016-13)</td>
<td>ASC 326</td>
</tr>
</tbody>
</table>
Coronavirus: Financial reporting considerations

• **Guidance:** ASC 820
• **Objective:** Determine the price at which an orderly transaction would take place between market participants under the market conditions that existed at the measurement date
• **Effect of the coronavirus:** May cause market volatility that could indicate that the prices do not reflect fair value. However, it would not be appropriate to disregard market prices at the measurement date, unless those prices are from transactions that are not orderly
Coronavirus: Financial reporting considerations

- **Guidance:** ASC 815
- **Applicability of hedge accounting:** A hedged forecasted transaction must be probable of occurring
- **Effect of the coronavirus:** Could affect the probability of hedged forecasted transactions occurring and continued application of hedge accounting
Coronavirus: Financial reporting considerations

Inventories

- **Guidance:** ASC 330-10-35
- **Losses recognition:** When the net realizable value of the inventory, or in some cases, the utility of the goods, is less than cost
- **Effect of the coronavirus:**
  - Reduced production could impact allocation of fixed overhead
  - Reduced demand could lead to price declines for which loss recognition may be warranted
Coronavirus: Financial reporting considerations

- **Guidance:** ASC 350-20-35-30
- **Triggering event:** An event or change in circumstances indicating the fair value of a reporting unit may be below its carrying amount
- **Effect of the coronavirus:** Could affect estimates of future cash flows and earnings, thereby materially affecting the measurement of fair value of a reporting unit and resulting in the need to perform an interim impairment test of goodwill
Coronavirus: Financial reporting considerations

- **Guidance:** ASC 360-10-35-21
- **Triggering event:** An event or change in circumstances that indicates carrying amount may not be recoverable
- **Effect of the coronavirus:** Could result in significant decrease in the market price of a long-lived asset or a significant adverse change in the business climate that could affect the value of the asset
Coronavirus: Financial reporting considerations

1. Valuation allowance on deferred tax asset
   - Management may have to reconsider whether deferred tax assets are fully realizable, particularly for entities with net operating loss carryforwards expiring in the near term.

2. Debt
   - If the impact of the coronavirus causes disruptions that result in cash flow problems, entities may need to amend terms of existing debt agreements or obtain waivers for debt covenants.
Coronavirus: Financial reporting considerations

- If conditions or events related to the coronavirus raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date the financial statements are issued (or available to be issued), certain financial statement disclosures are required under ASC 205-40
Coronavirus: SEC provides conditional regulatory relief

Extension for certain disclosure reports

• 45 days, subject to certain conditions

• Applies to Exchange Act annual and quarterly reports (Forms 10-K, 10-Q, 11-K) that would have been due between March 1 and July 1, 2020

• Requires 8-K filed by later of March 16 or original deadline
Disclosures about the evolving effects of COVID-19 and related risks, including how the company and management are responding to them, should be specific to a company’s situation.

Companies are advised to take steps to prevent their directors, officers and other corporate insiders from initiating securities transactions until investors have been appropriately informed about such risks.
## Coronavirus Aid, Relief and Economic Security (CARES) Act

<table>
<thead>
<tr>
<th>Tax Effects</th>
<th>Troubled Debt Restructurings (TDRs) and Impairments</th>
<th>Current Expected Credit Losses (CECL)</th>
</tr>
</thead>
</table>
| - Effects should be recorded in the period of enactment  
- Disclosure requirements may apply to financial statements for periods ending prior to enactment that have not yet been issued | - Financial Institutions provided temporary relief from troubled debt restructuring and impairment accounting requirements  
- Applies to loan modifications related to COVID-19 pandemic | - Temporary relief for insured depository institutions when applying CECL  
- Expires on the earlier of December 31, 2020 or the termination of the national emergency declared by the President. |
Recent FASB activity
Recently issued FASB guidance

<table>
<thead>
<tr>
<th>Final Standards Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020-01 Clarifying the Interactions between Topic 321, Topic 323, and Topic 815</td>
</tr>
<tr>
<td>2020-02 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)</td>
</tr>
<tr>
<td>2020-03 Codification Improvements to Financial Instruments</td>
</tr>
<tr>
<td>2020-04 Facilitation of the Effects of Reference Rate Reform on Financial Reporting</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Proposed Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/10/20 Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets</td>
</tr>
</tbody>
</table>
## Proposed effective date changes: Leases

<table>
<thead>
<tr>
<th>ASC 842: Leases</th>
<th>Current effective date</th>
<th>Proposed effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public business entities (PBEs) and employee benefit plans that file or furnish financial statements to the SEC</td>
<td>Fiscal years beginning after Dec. 15, 2018, including interim periods within those fiscal years</td>
<td>Fiscal years beginning after Dec. 15, 2018, including interim periods within those fiscal years</td>
</tr>
<tr>
<td>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</td>
<td>Fiscal years beginning after Dec. 15, 2018, including interim periods within those fiscal years</td>
<td>Fiscal years beginning after Dec. 15, 2019 including interim periods within those fiscal years</td>
</tr>
<tr>
<td>All other entities</td>
<td>Fiscal years beginning after Dec. 15, 2020 and interim periods within fiscal years beginning after Dec. 15, 2021</td>
<td>Fiscal years beginning after Dec. 15, 2021 and interim periods within fiscal years beginning after Dec. 15, 2022</td>
</tr>
</tbody>
</table>
ASC 842 Effective date for certain PBEs

For public business entities that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity’s filing with the SEC:

• SEC staff would not object to adopting Topic 842 for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021
Revenue recognition
Proposed delay to effective date for franchisors

- Implementation issue raised by private company franchisors on the accounting for initial franchise fees (IFF)
- Board response
  - Will evaluate how to reduce costs of implementation
  - Provide delay of effective dates

New proposed effective date for private company franchisors:
Fiscal years beginning after Dec. 15, 2019 and interim periods within fiscal years beginning after Dec. 15, 2020
FASB Staff Q&A document: Revenue recognition implementation

• Document integrates previously issued FASB staff, TRG and PCC memos into a question-and-answer format

• Includes 81 questions

• Organized by subject matter
Recently updated industry white papers

- Changes to revenue recognition in the life science industry
- Changes to revenue recognition for business and professional services
- Changes to revenue recognition impacting insurance entities
- Changes to revenue recognition for financial institutions
Financial instruments
New broadly applicable financial instruments guidance taking effect

**Measurement of Credit Losses on Financial Instruments**

- Applies to all entities and to assets that are routinely held by nonlending institutions, including trade accounts receivable, contract assets and investments in debt securities.

**Effective date for calendar year-ends**

- PBEs except SRC: Permitted 2020*, Required 2022
- Other entities: Permitted 2020*, Required 2022

*CARES Act provides temporary relief to financial institutions
New broadly applicable financial instruments guidance taking effect

Measurement of Credit Losses on Financial Instruments

- Resources
  - Chapters 4 and 6 of *A guide to accounting for investments, loans and other receivables*
  - CECL Resource Center
  - ASC 326: Credit losses—Abbreviated readiness checklist for nonlenders
SAB 119 aligned the SEC’s interpretive guidance with Topic 326 by adding Section M to Topic 6 of the SAB Series:

- Measuring current expected credit losses
- Development, governance and documentation of a systematic methodology
- Documenting the results of a systematic methodology
- Validating a systematic methodology
ASU 2020-03 Codification improvements to financial instruments

ASU 2020-03 makes narrow-scope improvements to various aspects of the financial instruments guidance, including credit losses

Clarifies interaction of ASC 326 (Credit losses) with ASC 842 (Leases) and 860-20 (Sales of financial assets)

- Contractual term of a net investment in a lease determined in accordance with ASC 842 should be the contractual term used to measure expected credit losses under ASC 326
- When an entity regains control of financial assets sold, an allowance for credit losses should be recorded in accordance with ASC 326

Clarifies that all nonpublic companies and organizations are required to provide certain fair value option disclosures
New broadly applicable financial instruments guidance taking effect


Effective date for calendar year-ends

- Permitted
- Required

2018
2019
2020
New broadly applicable financial instruments guidance taking effect


Equity investments *with* readily determinable fair value
- Measure at fair value
- Recognize changes through earnings

Equity investments *without* readily determinable fair value
- Measure at fair value
- Recognize changes through earnings
- Election to account for at cost
- Adjustments to fair value through earnings if indicators of impairment or occurrence of an observable price change
Paragraph 321-10-35-2:

If entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer,

Measure the equity security at fair value as of the date that the observable transaction occurred.

Result: Diverse views about the application of the measurement alternative and the equity method of accounting.

Diverse views have also emerged about whether forward contracts and purchased options should be accounted for in accordance with Topic 321, Topic 323 or Topic 815.
Interactions between Topic 321, Topic 323 and Topic 815 (cont.)

• Observable price changes in orderly transactions that should be considered when applying the measurement alternative in accordance with ASC 321 include:
  – Transactions that require it to either apply or discontinue the equity method of accounting under ASC 323

• For the purpose of applying ASC 815-10-15-141(a), an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, the underlying securities would be accounted for under the equity method in ASC 323.
  – An entity also would evaluate the remaining characteristics in ASC 815-10-15-141 to determine the accounting for those forward contracts and purchased options.
Interactions between Topic 321, Topic 323 and Topic 815 (cont.)

Effective date for calendar year-ends

- **Permitted**
  - PBES: 2021
  - Other entities: 2022

- **Required**
  - PBES: 2022
  - Other entities: 2022
New broadly applicable financial instruments guidance taking effect


• Resources
  – A guide to accounting for investments, loans and other receivables

ASU 2016-01
Transition away from LIBOR – Potential accounting impact

- Assessment of debt modifications
- Lease modification accounting
- Reassessment of embedded derivatives
- Application of certain hedge accounting guidance
Reference rate reform

Scope

• Contracts that reference LIBOR or an interest rate that has been discontinued or is anticipated to be discontinued

Main provisions

• Optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met.

• Continued application of hedge accounting for hedge relationships that are impacted by reference rate reform yet remain highly effective.

Effective period

• From issuance, on March 12, 2020, until Dec. 31, 2022

ASU 2020-04
Cryptocurrency
Agenda

• Background
• AICPA Audit and Accounting Working Group Guidance
• Audit and Accounting Challenges
• Tax Challenges
Expansion of the use of digital assets

- The evolution of widely accepted alternatives to fiat currency is well underway.
- Developments in blockchain technology are pushing the acceptance of digital assets as settlement for “traditional” transactions and allowing for tracking of transactions in ways not previously available.
Digital assets: An application of blockchain technology

Digital asset types

- Crypto assets
- Bitcoin, ether, litecoin
- Stable coin
- Asset-backed token
- Crypto commodity
- Utility token
- Security token
- Privacy centric token

“Blockchain is to Bitcoin, what the internet is to email. A big electronic system, on top of which you can build applications. Currency is just one.”
Challenges of using blockchain and digital assets

The use of blockchain and digital assets has wide implications for entities, including in the areas of:

• Governance, regulatory and risk considerations
• Income tax, state and local taxes
• Information systems
• Internal controls and processes
• Skillset of management and other service providers, including auditors
Regulatory bodies commonly associated with digital assets

- **IRS**
  - Updated guidance in Oct 2019
  - Further updates expected

- **SEC**
  - Regulates digital asset securities

- **CFTC**
  - Regulates digital asset commodities (bitcoin, ether, and their derivatives)

- **FINRA**

- **FinCEN**
- **State regulators, e.g. NYDFS**
- **AICPA**
  - Digital Asset Working Group
Challenges in accounting for digital assets

• No new accounting standards issued by FASB or IASB focusing on accounting for digital assets
• Research studies & working groups have been formed by FASB, IASB, AICPA, and similar institutes across the world
• AICPA’s Digital Asset Working Group published *Accounting for and Auditing of Digital Assets* in December 2019
Agenda for AICPA’s Digital Asset Working Group

**Auditing**
- Client Acceptance
  - Final review
- Risk Acceptance
  - Final review
- Process and Controls
  - In progress
- Illegal Acts and Related Parties
  - In progress

**Accounting**
- Q&A format
- First round published in December
- Second round in progress
- Will soon address:
  - Specialized industry guidance
  - Broker-dealers
  - Principle market
  - Cut-off
  - Fair value
Contents of the AICPA Accounting Practice Aid

- Classification and Measurement When an Entity Purchases Crypto Assets
- Recognition and Initial Measurement When an Entity Receives Digital Assets that are Classified as Indefinite-Lived Intangible Assets
- Accounting for Digital Assets Classified as Indefinite-Lived Intangible Assets
- Measurement of Cost Basis of Digital Assets that are Classified as Indefinite-Lived Intangible Assets
- Derecognition of Digital Asset Holdings that are Classified as Indefinite-Lived Intangible Assets
- Recognition of Digital Assets When an Entity Uses a Third-Party Hosted Wallet Service
Measurement basis

- Practice Aid provides accounting guidance for entities buying, selling and holding digital assets:
  - Entities will generally classify digital assets as indefinite-lived intangible assets, subject to impairment testing. These entities will not subsequently measure digital assets at fair value.
- Entities applying specialized industry guidance likely to classify and measure digital assets in accordance with such guidance
Implications of receiving digital assets

Whether an entity plans to immediately exchange digital assets into fiat currency, hold, or transact further in digital assets, the entity will need to determine:

• How the digital assets will be received
• With whom they will be exchanging the digital assets and/or how they will be transacting in digital assets in the future
• Whether to use a custodian and/or a trading platform
• Governance and risk management
• Changes to internal controls and processes
• Accounting policy
Evolution of audit and assurance

As blockchain technology is more widely adopted, companies and auditors will need to adapt.

As entities begin to adopt this technology, care must be taken to ensure that data is being appropriately captured and considered within the financial statement close process.

Data from the blockchain must be considered if it contains evidence related to the financial statements.

Auditors must consider disconfirming evidence, whether on or off the blockchain.

Companies need to reconsider their internal processes and controls to ensure that all evidence is being captured.
Blockchain and Tax
How is Blockchain Taxed?

2014 IRS guidance

- “Convertible virtual currencies” are property
- Left lots of questions but we could reach opinions based on analogy

2019 IRS guidance

- Still property
- Confirmed that standard reporting and withholding was applicable
- Provided new definitions (although inconsistent with industry terminology)
- Nearly every transaction is a gain recognition event (even unsolicited ones)
- Only acceptable accounting methods: Specific ID or FIFO
- No de minimis exception

Recent Comments from Michael Desmond (IRS Chief Counsel)

- New 1040 crypto checkbox designed to increase self reporting
- IRS will turn attention to Sec. 6045 Returns of Brokers
Why Blockchain Matters for Tax

• Similar to the internet but different…
  • Both frictionless → High volume, difficult to manually monitor
  • Transactions of value not communication → Likely taxable
  • Distributed not centralized → No central point for tax enforcement
• Blockchain technology enables
  • Real time third-party automated transaction monitoring
  • Real time tax collection
• Client demands exceed our technological capabilities
  • Current clients are being referred to third party software providers for basic tax
    basis calculations
  • Short-term future client needs cannot currently be met
  • Must develop process/structure to monitor short and long-term needs
Blockchain Consulting for Middle Market Businesses

Leveraging emerging technologies to bridge critical trust and transparency gaps

In the simplest sense, a blockchain is a ledger that cryptographically signs and secures transaction records. The technology can be utilized for payments, securities issuance, contract automation and data transfers of all types.

In a fundamental way, this disruptive technology will change how companies operate. Major companies have launched blockchain initiatives to track shipments of cargo from manufacturer to distributor to retailer, trace food products to their source in times of contamination, and create smart contracts that execute provisions automatically using workflow and scanning technology.

We have an integrated team of audit, tax and consulting professionals committed to serving the blockchain industry. As the rules of the game change, we can provide middle market companies with the guidance they need to make blockchain technology work to their advantage.

www.rsmus.com/blockchain
QUESTIONS AND CLOSING REMARKS

Save the date!
Next quarterly accounting update

Jul 16
Financial Reporting Resource Center

Timely, insightful knowledge regarding today’s reporting issues and requirements

Understanding the constant changes and updates to financial reporting requirements is challenging. We closely follow the activities of the various regulatory and standard-setting bodies so we can share information and knowledge about the latest developments and how they will affect your reporting and compliance needs. Organized by topic, the Financial Reporting Resource Center provides you with a singular place for the insight and answers you can count on. That’s the power of being understood™.

Accounting — Technical guidance and developments regarding business combinations, financial instruments, goodwill, leases and revenue recognition
Gain timely insights on your industry and business issues. Information fueled by our experience and customized to your needs.

Check the box to subscribe to the publications that interest you. Leaving the box unchecked will remove you from the subscription list for the publication.

Email Address*

Assurance, tax and consulting resources

- Financial Reporting Insights
  Assurance
  A biweekly resource for recent financial reporting developments and practice issues.

- Tax Alerts
  Tax
  Regular notification of recent tax developments and legislative updates.

- Tax Digest
  Tax
  A monthly digest of key state, federal and international tax developments to keep you abreast of current and pending tax concerns.

- Technology Bulletin
  Consulting
  Quarterly information to help you make critical technology decisions for the stability and growth of your organization.

- Risk Bulletin
  Consulting
  Key insights to help your organization manage risk.

Industry focus

visit - rsmus.com/subscribe
THANK YOU FOR YOUR TIME AND ATTENTION