ACCOUNTING

**ASC 326: Credit losses—Abbreviated readiness checklist for nonlenders**

To assist nonlenders with their transition to Topic 326, *Financial Instruments—Credit Losses*, of the Financial Accounting Standards Board’s Accounting Standards Codification (ASC), we have prepared *ASC 326: Credit losses—Abbreviated readiness checklist for nonlenders* (the checklist), which includes three sections addressing:

- Recognition and measurement of credit losses on financial assets measured at amortized cost and off-balance-sheet credit exposures
- Recognition of credit losses on available-for-sale debt securities
- Overall credit loss considerations, including those related to presentation, disclosure, transition, documentation and internal controls

While ASC 326 is arguably the most significant fundamental accounting change lenders have ever faced, the scope of ASC 326 extends to assets that are routinely held by nonlenders, including cash equivalents, trade and other receivables, contract assets and debt securities. Substantially all assets within the scope of ASC 326-20 will have an allowance for credit losses.

While the checklist will not alleviate the need to be familiar with the authoritative guidance, nonlenders may find it helpful as they prepare to transition to ASC 326 by the applicable effective date, which for calendar-year-end SEC filers (other than those that are eligible to be smaller reporting companies [as defined by the SEC]) is January 1, 2020.

For additional information about ASC 326, refer to Chapters 4 and 6 of our publication, *A guide to accounting for investments, loans and other receivables*.

**Updated leases overview and lessee accounting guide**

We have updated the following publications to reflect the changes recently made by the Financial Accounting Standards Board (FASB) to the effective date of Topic 842, *Leases*, of the FASB’s Accounting Standards Codification (ASC):

- *Leases: Overview of ASC 842*, which provides a high-level summary of certain guidance in ASC 842 applicable to lessees and (or) lessors.
• **A guide to lessee accounting under ASC 842** (our lessee guide), which includes in-depth discussion and numerous detailed examples on all facets of a lessee’s accounting for its leases.

Our lessee guide also was updated to: (a) address how a lessee should account for its guarantee of a lessor’s debt and (b) discuss the specific transition guidance related to preexisting leases that were acquired in a business combination.

While the effective date of ASC 842 for most public business entities and certain not-for-profit entities and employee benefit plans (with limited exceptions) already has passed, other entities have until their fiscal year beginning after December 15, 2020 (and interim periods thereafter). As such, for these other entities that have a calendar year end, ASC 842 is effective in their fiscal years ending December 31, 2021. While this may seem like it is well off into the future, there should be no delay in the implementation of ASC 842 given the complexities involved. Chapter 10 of our lessee guide provides additional information and examples about the effective date and lessee transition guidance in ASC 842.

**Monitoring inflation when applying ASC 830**

The Center for Audit Quality International Practices Task Force has updated its framework, *Monitoring Inflation in Certain Countries*, for compiling inflation data to assist financial statement preparers in monitoring inflation statistics in connection with their determination of the inflationary status of countries in which they have operations. The Task Force compiled cumulative inflation data by country (for those countries for which the International Monetary Fund publishes data), and then categorized the countries based on their cumulative inflation rates and the implementation guidance in Topic 830 of the Financial Accounting Standards Board Accounting Standards Codification (ASC), “Foreign Currency Matters.” In addition, the Task Force identified countries where projected cumulative inflation rates would have been categorized into categories considering the guidance in ASC 830 and in circumstances where there was not consistent reliable data, as follows:

- Countries with three-year cumulative inflation rates exceeding 100% (ASC 830, Case A)
- Countries with projected three-year cumulative inflation rates greater than 100% in the current year
- Countries with three-year cumulative inflation rates exceeding 100% in recent years, but with three-year cumulative inflation rates between 70% and 100% in the most recent calendar year (ASC 830, Case B)
- Countries with recent three-year cumulative inflation rates exceeding 100% after a spike in inflation in a discrete period (ASC 830, Case C)
- Countries with three-year cumulative inflation rates between 70% and 100% in the current year, or with a significant (25% or more) increase in inflation during the last calendar year or a significant increase in projected inflation in the current year, or with projected three-year cumulative inflation rates greater than 100% in the next year

The information in the framework may be helpful to a financial statement preparer in applying ASC 830, in conjunction with its internal controls over financial reporting, to reach a conclusion on whether a country’s economy should be considered highly inflationary. Financial statement preparers should be especially prudent when monitoring inflation data in countries where there is a concern about the reliability of the inflation data.
FASB Staff Q&A document: Revenue recognition implementation

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which provides a robust framework for addressing revenue recognition issues and replaces almost all pre-existing revenue recognition guidance in current U.S. generally accepted accounting principles upon its effective date. To help address issues identified by entities as they implement the new guidance, the FASB established the Transition Resource Group (TRG). The TRG has discussed many implementation issues submitted by constituents and previously published the summaries of those discussions in a series of memos. Additionally, the Private Company Council (PCC) published educational memos, and the FASB staff published some additional resources for the franchising industry.

To assist in navigating these materials, the FASB has issued Revenue Recognition Implementation Q&As, which integrates previously issued FASB staff, TRG and PCC memos into a question-and-answer format. The Q&A document compiles existing guidance into a user-friendly format, which includes 81 questions and is organized by subject matter. It is not intended to change any prior analysis.

For a detailed discussion of revenue recognition under Topic 606, refer to A guide to revenue recognition. Additional information is available in our Revenue Recognition Resource Center.

Updated: Q&A on the public business entity definition

We have updated our white paper, Q&A on the public business entity definition, to include the definition of a security and cover the guidance issued by the American Institute of Certified Public Accountants in Section 7100, Definition of a Public Business Entity, of its Technical Questions and Answers, including guidance related to:

- The form of securities that should be considered when evaluating whether an entity is a public business entity.
- The factors to consider in determining whether an over-the-counter market exists.
- The nature of contractual restrictions that may exist on the transfer of a security.

Updated white paper: Revenue recognition in the life sciences industry

We have issued an updated version of our white paper, Changes to revenue recognition in the life sciences industry, to further assist entities in the life sciences industry in applying the new revenue recognition model in Topic 606, “Revenue from Contracts with Customers,” of the Financial Accounting Standards Board’s Accounting Standards Codification (ASC).

For more information regarding ASC 606, visit our Revenue Recognition Resource Center.

Updated white paper: Revenue recognition for professional services

We have issued an updated version of our white paper, Changes to revenue recognition for business and professional services, to further assist entities in the business and professional services industry in applying the new revenue recognition model in Topic 606, “Revenue from Contracts with Customers,” of the Financial Accounting Standards Board’s Accounting Standards Codification (ASC).

For more information regarding ASC 606, visit our Revenue Recognition Resource Center.

Updated white paper: Revenue recognition in the insurance industry

We have issued an updated version of our white paper, Changes to revenue recognition impacting insurance entities, to further assist entities in the insurance industry in applying the new revenue recognition model in Topic 606, “Revenue from Contracts with Customers,” of the Financial Accounting
Standards Board’s Accounting Standards Codification (ASC). The white paper has been updated for recent activities, including guidance issued by the American Institute of Certified Public Accountants Insurance Entities Revenue Recognition Task Force.

For more information regarding ASC 606, visit our Revenue Recognition Resource Center.

**Clarifying the interactions between ASC 321, ASC 323 and ASC 815**

Topic 321, “Investments—Equity Securities,” of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) provides the ability to measure certain equity securities without a readily determinable fair value at cost, minus impairment, if any. ASC 321-10-35-2, as amended, states that if an entity identifies observable price changes in orderly transactions for the identical or a similar investment of the same issuer, it should measure the equity security at fair value as of the date that the observable transaction occurred. Diverse views have emerged about the application of this measurement alternative and the equity method of accounting in accordance with ASC 323, “Investments—Equity Method and Joint Ventures.”

The FASB recently issued 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 Emerging Issues Task Force). This ASU clarifies that the 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 example, as it relates to investments for which the measurement alternative is elected, if an observable price change in an orderly transaction for the identical investment or similar security of the same issuer results in a change in ownership that causes the investor to either newly apply or discontinue the equity method, the carrying amount of the security accounted for under the measurement alternative should be adjusted to its fair value immediately before applying or upon discontinuing the equity method.

ASU 2020-01 also addresses questions about how to apply the guidance in Topic 815, “Derivatives and Hedging,” for certain forward contracts and purchased options to purchase securities that, upon settlement or exercise, would be accounted for under the equity method of accounting. The ASU clarifies that, 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 or the fair value option in accordance with the financial instruments guidance in Topic 825, “Financial Instruments.” An entity also should evaluate the remaining characteristics in ASC 815-10-15-141 to determine the accounting for those forward contracts and purchased options.

For public business entities, ASU 2020-01 is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other entities, ASU 2020-01 is 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, (a) for public business entities for periods for which financial statements have not yet been issued and (b) for all other entities for periods for which financial statements have not yet been made available for issuance.

**SEC**

**Proposed amendments to certain financial disclosure requirements**

The SEC recently issued a proposed rule, Management’s Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information. If finalized, the proposed amendments would eliminate Regulation S-K Item 301, Selected financial data, and Item 302, Supplementary financial information,
because they are largely duplicative of other existing requirements. The proposed rule also includes amendments to Item 303, *Management’s discussion and analysis of financial condition and results of operations*, (MD&A) which, if finalized, would, among other changes:

- **Add a new Item 303(a), Objective**, to state the principal objectives of MD&A.
- **Replace Item 303(a)(4), Off-balance sheet arrangements**, with a principles-based instruction to prompt registrants to discuss off-balance sheet arrangements in the broader context of MD&A.
- **Eliminate Item 303(a)(5), Tabular disclosure of contractual obligations**, given the overlap with information required in the financial statements.
- **Revise the interim MD&A requirement in Item 303(b) to provide flexibility by allowing companies to compare their most recently completed quarter to either the corresponding quarter of the prior year (as is currently required) or to the immediately preceding quarter.**

The proposed rule is available for comment for 60 days following its publication in the Federal Register.

The SEC also recently provided guidance on key performance indicators and metrics in MD&A. The guidance provides that, where companies disclose metrics, they should consider whether additional disclosures are necessary and gives examples of such disclosures. The guidance also reminds companies of the requirements in Exchange Act Rules 13a-15 and 15d-15 to maintain disclosure controls and procedures and that companies should consider these requirements when disclosing metrics.

**FINANCIAL INSTITUTIONS**

**Financial institutions: Overview of lessor accounting under ASC 842**

Our white paper, *Financial institutions: Overview of lessor accounting under ASC 842*, provides an overview of the lessor guidance in Topic 842, *Leases*, in the Financial Accounting Standards Board’s Accounting Standards Codification (ASC), that most affects financial institutions that provide lease financing to their customers. Implementation of ASC 842 has resulted (or will result) in financial institutions adjusting their existing financial accounting and reporting practices. In addition, the effects of implementing ASC 842 may have implications to a financial institution’s underwriting activities, internal control processes and the interaction between the underwriting, approval, credit monitoring, servicing and accounting functions within the financial institution. To assist in understanding the effects of the lessor accounting guidance in ASC 842 on a financial institution, our white paper highlights the operational considerations that may arise when applying specific aspects of that guidance.

**Loan loss allowance for specialty lenders is a key due diligence issue**

We have issued an updated version of our white paper, *Allowance for loan losses is a key due diligence issue*, which continues to have an overall focus on the loan loss allowance for specialty finance lenders being a key due diligence issue for private equity groups and other strategic investors that have invested in, or are interested in investing in, the specialty finance industry. In addition to discussing the legacy loan loss accounting guidance for homogenous loans and individually evaluated loans, the updated white paper now also includes discussion of the new credit losses accounting guidance for loans measured at amortized cost. Central to this discussion is the current expected credit losses (CECL) model, including examples of methods that may be used, requirements that must be met when applying a method, and the judgments that may be necessary in estimating an allowance for credit losses using the CECL model.
The updated white paper also includes information about the effective dates for the new credit losses guidance.

**Updated white paper: Revenue recognition for financial institutions**

We have issued an updated version of our white paper, Changes to revenue recognition for financial institutions, to further assist financial institutions in applying the new revenue recognition model in Topic 606, “Revenue from Contracts with Customers,” of the Financial Accounting Standards Board’s Accounting Standards Codification (ASC).

For more information regarding ASC 606, visit our Revenue Recognition Resource Center.

**INTERNATIONAL**

**IASB clarifies requirements for classifying liabilities**

The International Accounting Standards Board (IASB) has issued narrow-scope amendments to International Accounting Standard (IAS) 1, Presentation of Financial Statements, which clarify how to classify debt and other liabilities as current or non-current. The amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments include:

- Specifying that an entity’s right to defer settlement must exist at the end of the reporting period
- Clarifying that classification is unaffected by management’s intentions or expectations about whether the entity will exercise its right to defer settlement
- Clarifying how lending conditions affect classification
- Clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments

The amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.