ACCOUNTING

Coronavirus: Lender accounting for PPP loans

We have updated our white paper, Coronavirus: Financial reporting considerations, to address the accounting by lenders for loans entered into under the Paycheck Protection Program (PPP). We discuss the lender’s accounting under the following subtopics and topic in the Financial Accounting Standards Board’s Accounting Standards Codification (ASC):

- ASC 310-10, “Receivables – Overall,” and ASC 310-20, “Receivables – Nonrefundable Fees and Other Costs,” for situations in which the lender has classified the loan as a loan held-for-investment or a loan held-for-sale
- ASC 825, “Financial instruments,” for situations in which the lender has elected to account for the loans under the fair value option

Refer to the white paper for additional information about a lender’s accounting for PPP loans, as well as many other financial reporting issues related to the coronavirus pandemic.

Update: Valuation of noncontrolling interests in business combinations

We have updated our white paper, Noncontrolling interests in business combinations, which discusses many of the complex considerations involved in estimating the fair value of a noncontrolling interest in the accounting for a business combination. The updated white paper reflects recent best practices in valuation for financial reporting in general and business combinations more specifically, including those in the recently issued AICPA Accounting and Valuation Guide, Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies. In addition, the updated white paper provides clarity around certain key valuation concepts and a new section that identifies unique considerations related to the valuation of rollover equity.

SEC

COVID-19: SEC provides update on its targeted regulatory relief

The SEC recently provided a cross-Divisional update regarding its targeted regulatory relief related to the COVID-19 pandemic, and whether such relief would be continued. Most notably, per this update, the SEC’s extended filing deadlines for quarterly and annual reports will not continue. However, a variety of other targeted regulatory relief continues in place, for example:
The temporary final rules that expedited the offering process for securities offerings initiated under Regulation Crowdfunding through August 31, 2020

The staff guidance related to other-than-in-person shareholder meetings

The conditional relief from the requirement to furnish proxy soliciting materials

The ability to submit certain filings via email in lieu of mailing or delivering the paper documents to the SEC

The staff accommodation regarding the creation and retention of manual signatures in electronically filed documents

COVID-19: Continued importance of high-quality financial reporting

As many companies prepare for their second-quarter financial reporting, SEC Chief Accountant Sagar Teotia issued a statement on the continued importance of high-quality financial reporting in light of COVID-19. In addition to addressing significant COVID-19-related financial reporting issues, the statement reminded audit committees of the critical need for their oversight in these times of rapid change and increased uncertainty. Other reminders issued by the Chief Accountant included the following:

- Companies should ensure that significant judgments and estimates made to address recently developing financial reporting matters are disclosed in a manner that is understandable by and useful to investors.

- As preparers adapt their financial reporting processes in response to the changing environment, if a change materially affects, or is reasonably likely to materially affect, an entity’s internal control over financial reporting, such a change must be disclosed in quarterly filings in the fiscal quarter in which it occurred.

- In each reporting period, including interim periods, management should consider whether relevant conditions and events, taken as a whole, raise substantial doubt about the entity’s ability to meet its obligations as they become due within one year after the issuance of the financial statements. In instances where substantial doubt about an entity’s ability to continue as a going concern exists, management should consider whether its plans alleviate such substantial doubt, and make appropriate disclosures to inform investors. If after considering management’s plans substantial doubt about an entity’s ability to continue as a going concern is not alleviated, additional disclosure is required.

- Although a review of interim financial information is not designed to identify conditions or events that indicate substantial doubt about an entity’s ability to continue as a going concern, an auditor may become aware of such conditions or events in the course of performing review procedures. In such cases, auditors should inquire with management and consider the adequacy of the relevant disclosure. After performing such procedures, to the extent the auditor determines the relevant disclosure is inadequate, the auditor should extend the procedures, evaluate the results and communicate as appropriate with the issuer and its audit committee.

Additional disclosure obligations that companies should consider with respect to COVID-19 previously was issued in Division of Corporation Finance Disclosure Guidance Topic No. 9.

PUBLIC SECTOR

GASB addresses accounting for Section 457 plans

The Governmental Accounting Standards Board recently issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of
GASB Statement No. 32. This Statement addresses (a) the applicability of component unit criteria to certain arrangements, including some Internal Revenue Code Section 457 deferred compensation plans, and (b) the accounting and financial reporting for Section 457 plans. Statement No. 97 requires that:

- For purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

- The financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet certain criteria.

- A Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan.

- Statement No. 84, as amended, be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

- Investments of all Section 457 plans be measured as of the end of the plan’s reporting period in all circumstances.

The requirements of Statement No. 97 that were effective upon issuance on June 23, 2020 are those that (a) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (b) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet certain criteria.

The requirements of Statement No. 97 that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of Statement No. 97 that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within Statement No. 97.

INTERNATIONAL

IASB issues amendments to IFRS 17

The International Accounting Standards Board (IASB) recently released amendments to International Financial Reporting Standard (IFRS) 17, Insurance Contracts, which included the following changes, among several others:

- Deferring the effective date of IFRS 17 by two years from annual reporting periods beginning on or after January 1, 2021 to annual reporting periods beginning on or after January 1, 2023

- Requiring a company to exclude some credit cards (and similar contracts) from the scope of IFRS 17

- Permitting a company to apply either IFRS 17 or IFRS 9, Financial Instruments, to some loans
- Requiring a company to present insurance contract assets and liabilities on the balance sheet in portfolios instead of in groups
- Providing an option for a company to change the estimates made in previous interim financial statements when applying IFRS 17 subsequently and a simplification at transition for companies that choose not to change such estimates
- Requiring a company that recognizes losses on insurance contracts on initial recognition to recognize at the same time expected recoveries of those losses from reinsurance contracts held that the company entered into before or at the same time as the loss-making insurance contracts were recognized
- Extending the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features

The IASB also issued an amendment to IFRS 4, *Insurance Contracts*, so that eligible insurers can still apply IFRS 9 alongside IFRS 17.

Additional information about the amendments is publicly available in the IASB’s Project Summary and Feedback Statement, *Amendments to IFRS 17*.