## Agenda

<table>
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<th>Topic</th>
<th>Minutes</th>
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<td>Recent FASB activity</td>
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<td>Revenue recognition</td>
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<td>Leases</td>
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<td>Financial instruments</td>
<td>15</td>
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<td>Other items</td>
<td>10</td>
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RECENT FASB ACTIVITY
Recently issued FASB guidance

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-08</td>
<td>Compensation—Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer</td>
</tr>
<tr>
<td>2019-09</td>
<td>Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates</td>
</tr>
<tr>
<td>2019-10</td>
<td>Financial Services—Insurance (Topic 944): Effective Date</td>
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<td>2019-11</td>
<td>Codification Improvements to Topic 326, Financial Instruments—Credit Losses</td>
</tr>
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<td>2019-12</td>
<td>Simplifying the Accounting for Income Taxes</td>
</tr>
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</table>
ASU 2019-12—Simplifying the Accounting for Income Taxes

ASU 2019-12 removes the exceptions to:

- The incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items.
- The requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment.
- The ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary.
- The general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.
ASU 2019-12—Simplifying the Accounting for Income Taxes

ASU 2019-12 requires:

- Recognition of a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax.
- Evaluation of when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction.
- Reflection of the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date.

An entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements.
## Effective date changes: Leases

<table>
<thead>
<tr>
<th>ASC 842: Leases</th>
<th>Effective date before pending changes</th>
<th>Effective date after pending changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public business entities (PBEs), 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 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>All other entities</td>
<td>Fiscal years beginning after Dec. 15, 2019 and interim periods within fiscal years beginning after Dec. 15, 2020</td>
<td>Fiscal years beginning after Dec. 15, 2020 and interim periods within fiscal years beginning after Dec. 15, 2021</td>
</tr>
</tbody>
</table>

IFRS 16 continues to be effective for annual reporting periods beginning on or after Jan. 1, 2019
### Effective date changes: Hedging simplification amendments

<table>
<thead>
<tr>
<th>Hedging simplification amendments</th>
<th>Effective date before pending changes</th>
<th>Effective date after pending changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBEs</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><strong>No change</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All other entities</td>
<td>Fiscal years beginning after Dec. 15, 2019 and interim periods within fiscal years beginning after Dec. 15, 2020</td>
<td>Fiscal years beginning after Dec. 15, 2020 and interim periods within fiscal years beginning after Dec. 15, 2021</td>
</tr>
</tbody>
</table>
### Effective date changes: Credit losses

<table>
<thead>
<tr>
<th>ASC 326: Credit losses</th>
<th>Effective date before pending changes</th>
<th>Effective date after pending changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBEs that are SEC filers, except for smaller reporting companies (SRCs)</td>
<td>Fiscal years beginning after Dec. 15, 2019, and interim periods within those fiscal years</td>
<td>Fiscal years beginning after Dec. 15, 2019, and interim periods within those fiscal years</td>
</tr>
<tr>
<td>PBEs that are SRCs</td>
<td>Fiscal years beginning after Dec. 15, 2019, and interim periods within those fiscal years</td>
<td>Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years</td>
</tr>
<tr>
<td>All other PBEs</td>
<td>Fiscal years beginning after Dec. 15, 2020, and interim periods within those fiscal years</td>
<td>Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years</td>
</tr>
<tr>
<td>All other entities</td>
<td>Fiscal years beginning after Dec. 15, 2021, and interim periods within those fiscal years</td>
<td>Fiscal years beginning after Dec. 15, 2022, and interim periods within those fiscal years</td>
</tr>
</tbody>
</table>

IFRS 9 continues to be effective for annual reporting periods beginning on or after Jan. 1, 2018.

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Effective date changes: Insurance targeted improvement amendments

<table>
<thead>
<tr>
<th>Insurance targeted improvement amendments</th>
<th>Effective date before pending changes</th>
<th>Effective date after pending changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBEs that are SEC filers, except for SRCs</td>
<td>Fiscal years beginning after Dec. 15, 2020, and interim periods within those fiscal years</td>
<td>Fiscal years beginning after Dec. 15, 2021, and interim periods within those fiscal years</td>
</tr>
<tr>
<td>All other PBEs, including SRCs</td>
<td>Fiscal years beginning after Dec. 15, 2020, and interim periods within those fiscal years</td>
<td>Fiscal years beginning after Dec. 15, 2023, and interim periods within fiscal years beginning after Dec. 15, 2024</td>
</tr>
<tr>
<td>All other entities</td>
<td>Fiscal years beginning after Dec. 15, 2021, and interim periods within fiscal years beginning after Dec. 15, 2022</td>
<td>Fiscal years beginning after Dec. 15, 2023, and interim periods within fiscal years beginning after Dec. 15, 2024</td>
</tr>
</tbody>
</table>
REVENUE RECOGNITION
ASU 2019-08 - Improvements to Nonemployee Share-Based Payment Accounting

ASU requires the application of ASC 718 to measure and classify share-based payments to a customer.

Amount to be recorded as a reduction in revenue is based on the grant-date fair value of the share-based payment.

Classification and subsequent measurement of the award are subject to the guidance in ASC 718

- Exception when share-based payment award is subsequently modified and the grantee is no longer a customer.
Practice issue: Recognizing costs in construction and production type contracts

ASC 605-35 approaches for recognizing costs

Alternative A

Costs of earned revenue should be computed by multiplying total estimated contract cost by the percentage of completion on the contract.

Alternative B

Cost of earned revenue recognized should be the cost incurred during the period.
Practice issue: Recognizing costs in construction and production type contracts (cont.)

<table>
<thead>
<tr>
<th>ASC 605-35</th>
<th>ASC 606</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alternative A:</strong> Costs of earned revenue should be computed by multiplying total estimated contract cost by the percentage of completion on the contract.</td>
<td><strong>Alternative B:</strong> Cost of earned revenue recognized should be the cost incurred during the period.</td>
</tr>
</tbody>
</table>
Polling question

Under legacy GAAP, did you account for any costs in construction or production type contracts by applying alternative A in 605-35?

A. Yes
B. No
C. Not sure
D. N/A
Recently updated industry white papers

- Changes to revenue recognition for franchisors
- Changes to revenue recognition in the technology industry
Virtually all entities have elected to apply the transition method under which prior financial statements are not “restated”

Significant majority have opted to apply the “package” of practical expedients

Majority of entities did not disclose whether they applied hindsight
  - Of those that did disclose, 2 to 1 ratio did not apply hindsight

Significant majority elected the short-term lease practical expedient

About three quarters of entities elected the expedient not to separate lease and nonlease components
  - Remainder split evenly between not applying and no disclosure

Significant majority of lessees used the incremental borrowing rate as the discount rate
  - However, not many disclosed how that rate was calculated
Issues noted to date

- Embedded leases
- Discount rate
- Variable payments
- Capitalization thresholds
Embedded leases

• Discussed in previous webcasts

• Lease definition
  - Specified asset
  - Control

• Have to have accounted for embedded leases correctly under ASC 840 in order to apply the package of practical expedients at transition

• Identification
  - Sales contracts
  - Service contracts (including “as a service” contracts)
  - Supply contracts
  - Dedicated manufacturing assets or capacity
Discount rate

• Is the implicit rate reasonably determinable?
  – If not, use incremental borrowing rate (IBR)
    • Rate at which lessee would borrow on a collateralized basis over a similar term an amount equal to the lease payments

• Secured rate vs unsecured rate

• Estimating the IBR
  – Collateral
    – Adjustment from an unsecured rate

• Use of a parent or group rate

• Portfolio approach
Variable payments

- Excluded from measurement of liability and ROU asset unless linked to an index or rate

- Variable payments must be allocated to lease and nonlease components (unless expedient to not separate is elected)

- Should not automatically default to the residual approach to estimate standalone prices
Capitalization thresholds

• No “minimum threshold” like the one in IFRS

• However, materiality does apply

• A capitalization threshold may be appropriate, but should consider:
  – Any existing capitalization threshold for PP&E may need to be adjusted to reflect additional ROU assets being capitalized
  – Inappropriateness of evaluating the impact of recognition on a “net” basis
  – Impact of lease liabilities
Polling question

Do you plan to take advantage of the deferred effective dates to delay implementation of ASC 842?

A. Yes
B. No
C. Not sure
D. N/A
FINANCIAL INSTRUMENTS
## Codification improvements – Credit losses

<table>
<thead>
<tr>
<th>Narrow-scope amendments include:</th>
<th>Permit organizations to record negative allowances associated with expected recoveries on assets that had already shown credit deterioration at the time of purchase.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Provide transition relief when adjusting the effective interest rate for troubled debt restructurings (TDRs) that exist as of the adoption date.</td>
</tr>
<tr>
<td></td>
<td>Extend the disclosure relief for accrued interest receivable balances to additional relevant disclosures involving amortized cost basis.</td>
</tr>
<tr>
<td></td>
<td>Provide clarifications regarding application of the guidance in paragraph 326-20-35-6 for financial assets secured by collateral maintenance provisions.</td>
</tr>
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</table>

**ASU 2019-11**
ASC 326, Credit losses - Applicability

• Do you have any of the following?
  - Receivables
  - Contract assets
  - Loans (not held for sale)
  - Debt securities
  - Net investments in leases
  - Off-balance sheet credit exposures

• If so, your company will be impacted (assuming these assets are not accounted for at fair value through earnings)
A guide to accounting for investments, loans and other receivables

• Chapter 1: Overview
• Chapter 2: Accounting for equity securities
• Chapter 3: Accounting for debt securities
• Chapter 4: Recognition of credit losses on AFS debt securities
• Chapter 5: Accounting for loans and other receivables
• Chapter 6: Recognition and measurement of credit losses on financial assets measured at amortized cost and off-balance-sheet credit exposures
• Chapter 7: Fair value option
• Chapter 8: Presentation and disclosure considerations
Clarifications to derivatives and hedging

Change in hedged risk in a cash flow hedge

ASU 2017-12

Allowed the risk causing variability in cash flows of the forecasted transaction to change if certain criteria are met.

Proposal

Clarifies whether that change can happen both prospectively and retrospectively and, if so, how hedge accounting guidance should be applied in those instances.
Other issues addressed in the proposed ASU include:

- Contractually specified components in cash flow hedges of nonfinancial forecasted transactions
- A foreign-currency-denominated debt instrument as a hedging instrument and hedged item (dual hedge)
- Use of the term “prepayable” under the shortcut method
Convertible instruments – Investor accounting

- Does it meet the definition of a debt security?
  - If yes - Can’t be classified as held-to maturity (ASC 320-10-25-5g)

- Is it accounted for in its entirety at fair value through earnings?
  - If no – Consider whether any embedded features require bifurcation as a derivative (ASC 815-15-25-1)
Examples of embedded features that require bifurcation as a derivative

Option to convert at a pre-defined price or rate (if underlying shares are actively traded or net settlement otherwise exists), since a conversion option is not clearly and closely related to a debt host contract.

Features that involve a substantial premium or discount and can accelerate redemption (815-15-25-42), given that net settlement exists under 815-10-15-107, including:

- Options to convert at a significant (i.e., 10% or greater) discount to the fair value of the shares or significant discount to a qualified financing price.
- Ability to receive a significant premium upon a change in control or other contingent event.
• Potential issuer derivative scope exception at 815-10-15-74 does not apply to investor
Polling question

Do you invest in any convertible instruments or provide convertible debt financing?

A. Yes
B. No
C. Not sure
D. N/A
OTHER ITEMS
Actuarial valuation: new mortality tables and scale

• Society of Actuaries (SOA) released updated mortality improvement scale, **Scale MP-2019**

• Plan sponsors to consider when measuring benefit costs and obligations of plans that provide benefits based on the life expectancy of participants
Actuarial valuation: new mortality tables and scale (cont.)

- If the related financial statements were not issued prior to October 23, 2019, GAAP requires the change in the mortality scale to be considered in the latest actuarial valuation, even if:
  - It is presented as of the beginning of the year
  - The valuation was prepared prior to the release of Scale MP-2019

October 23, 2019
Polling question

Does your company sponsor a benefit plan that will need to consider the updated mortality tables and scale in calculating benefit costs and obligations?

A. Yes  
B. No  
C. Not sure  
D. N/A
AICPA releases practice aid on accounting for and auditing digital assets addressing the following topics:

- 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
Effective date reminders

- **Annual Effective Date Reminder**
  - Lists those pronouncements issued as of November 1, 2019, which became effective on or after January 1, 2019 for most entities or have not yet become effective for all entities as of November 1, 2019.
QUESTIONS AND CLOSING REMARKS

Save the date!
Next quarterly accounting update

Apr 16
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  Technology Consulting
  Technology announcements and special promotions from McGladrey about the Microsoft Dynamics Business Solution Suite.

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  Consulting
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Before we conclude

How did we do?
• Please take a moment to participate in the attendee survey by following the link in the Resource List

CPE credit
• Eligible participants will receive 1.0 credit for attending today’s event
• Visit the Certification center and click the download icon to access your certificate
• Be sure to download and save your certificate to your computer before the event concludes
  o Certificates are not available for download from a smart phone. Download your certificate from any computer using the same link you are using to view the webcast
  o You must have Javascript and Cookies enabled to download the certificate
  o RSM employees: CPE will automatically appear on your MyLearning transcript (no further action is required)
  o Group CPE is not available for this event

Follow-up
• We will respond to questions following today’s event
• The presentation slides and a link to the call recording will be sent to all participants within a few days
THANK YOU FOR YOUR TIME AND ATTENTION