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# Accounting Update

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# Logan Hornback

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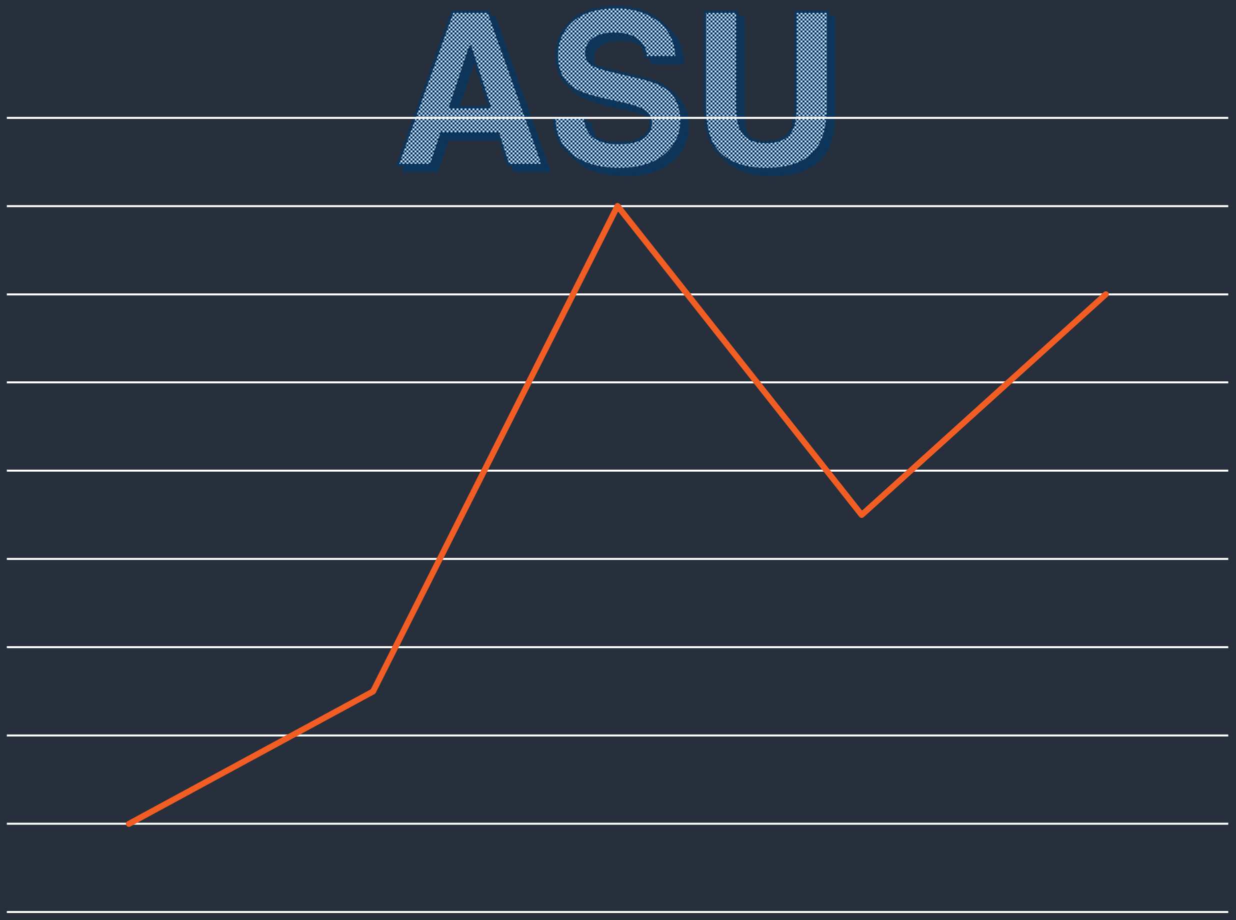
# Summary

- ASU 2016-03 Measurement of Credit Losses
- ASU 2017-04 Goodwill Impairment
- ASU 2019-12 Simplifying the Accounting for Income Taxes
- ASU 2020-01 Investments – Equity Securities
- ASU 2020-04 Rate Reference Reform
- ASU 2020-06 – Debt with Conversion and Other Options and Derivatives and Hedging
- ASU 2021-04 – EPS, Debt Modifications, Stock Compensation, and Contracts in Entity’s Own Equity
- ASU 2021-07 – Compensation – Stock Compensation
- ASU 2021-09 – Leases: Discount Rate for Non Public
- ASU 2021-10 – Disclosures by Business Entities about Government Assistance
- ASU 2022-01 – Derivatives and Hedging
- SEC Rules

# Have we hit peak ASU?



# ASU 2016-13 Measurement of Credit Losses on Financial Instruments

- Main objective - there has been concern that current GAAP was delaying the recognition of **expected** credit losses, since previous standards focus on **incurred** losses
- Effective:
  - Effective for public companies with years beginning after December 15, 2019
  - Effective for nonpublic companies with years beginning after December 15, 2022
  - Early adoption is permitted
- ASU 2020-02 and ASU 2020-03 – narrow focus improvements

# ASU 2016-13 Measurement of Credit Losses on Financial Instruments

- Who is affected by this update?
  - Applicable to all financial instruments that are not accounted for at fair value through net income
  - Loans, debt securities, mortgages, credit cards, trade AR
  - Impact is **NOT** just limited to financial institutions

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# ASU 2016-13 Measurement of Credit Losses on Financial Instruments

- Main provisions of the update:
  - Requires a financial asset (or asset group) measured at amortized cost basis to be presented at the net amount expected to be collected. (**Current GAAP based on probable incurred losses)**
  - Requires available-for-sale securities to determine if all or part of unrealized loss is a credit loss.
  - Credit losses relating to available-for-sale (AFS) debt securities should be recorded through an allowance for credit losses.
  - Additional disclosures

# ASU 2016-13 Measurement of Credit Losses on Financial Instruments

- Transition
  - Mostly will be required to use the modified retrospective approach with an adjustment to opening retained earnings
  - There are some other exceptions
    - Held to maturity (HTM) securities will be required to use the current expected credit loss (CECL) model prospectively
    - AFS impairment should be done prospectively and previous write-downs will remain with future expected losses as an allowance

# ASU 2017-04 Goodwill Impairment

- Removes step 2 of the goodwill impairment test
  - In current GAAP, step 2 measures impairment loss by comparing implied fair value of the goodwill
- Now will apply one-step quantitative test
  - Impairment recorded as the excess of carrying amount over fair value (i.e. based on current step 1)
- Does not amend the qualitative assessment

# ASU 2017-04 Goodwill Impairment

- For tax deductible goodwill, calculate impairment charge and deferred tax effect using simultaneous equations method
- If reporting unit has zero or negative carrying amount, eliminated the requirements to perform a qualitative assessment
- Required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets

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# ASU 2017-04 Goodwill Impairment

- Effective date and transition requirements:
  - Public companies (SEC filers) with fiscal years beginning after December 15, 2019
  - Public companies (Non-SEC filers) with fiscal years beginning after December 15, 2020
  - Nonpublic companies with fiscal years beginning after December 15, 2021
  - Early adoption is permitted

# ASU 2019-12 Simplifying the Accounting for Income Taxes

- Removes specific exceptions to the general principles in Topic 740. It eliminates the need for an organization to analyze whether the following apply in a given period:
- Exception to the incremental approach for intraperiod tax allocation;
- Exceptions to accounting for basis differences when there are ownership changes in foreign investments; and
- Exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses.

# ASU 2019-12 Simplifying the Accounting for Income Taxes

- The ASU also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for:
  - Franchise taxes that are partially based on income;
  - Transactions with a government that result in a step up in the tax basis of goodwill;
  - Separate financial statements of legal entities that are not subject to tax; and
  - Enacted changes in tax laws in interim periods.

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# ASU 2019-12 Simplifying the Accounting for Income Taxes

- Effective dates:
  - PBEs – fiscal years beginning after December 15, 2020
  - Non-PBEs – fiscal years beginning after December 15, 2021
  - Early adoption is permitted

# 2020-01 Investments—Equity Securities

- Clarifies interaction among accounting standards for equity securities, equity method investments and certain derivatives
- Clarifications:
  - A company is required to evaluate observable transactions when applying or discontinuing the equity method accounting, when the measurement alternative has been applied. Thus may have to record at Fair Value

# 2020-01 Investments—Equity Securities

- Clarifications (continued):
  - When determining the accounting for certain forward contracts and purchased options, a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option

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# 2020-01 Investments—Equity Securities

- Effective dates:
  - PBEs – fiscal years beginning after December 15, 2020
  - Non-PBEs – fiscal years beginning after December 15, 2021

# ASU 2020-04 Reference Rate Reform

- This ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform.

- The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued.
  - Receivables, Debt, Leases, Derivatives, Other

- The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for a limited time through December 31, 2022.

# ASU 2020-06 – Debt with Conversion and Other Options and Derivatives and Hedging

- This ASU simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP.
- Previously this was some of the more complex guidance and bounce between several ASC.

# ASU 2020-06 – Debt with Conversion and Other Options and Derivatives and Hedging

- Simplifications
  - Eliminates the models that require separation of a cash conversion or beneficial conversion feature from the host contract.
  - More convertible debt instruments will be reported as a single liability instrument
  - More convertible preferred stock as a single equity instrument
- Unless derivative bifurcation features or convertible debt was issued at a substantial premium

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# ASU 2020-06 – Debt with Conversion and Other Options and Derivatives and Hedging

- Simplifications
  - Derivative scope exceptions changes
    - Removed three settlement conditions required to avoid derivative accounting and meet the scope exception: Ability to deliver registered shares, collateral and counterparty rights
    - Penalty payments in an instrument do not preclude equity classification
    - Confirmed instruments not indexed to the issuer's stock must be remeasured at fair value each reporting period
  - EPS Related Items
    - Treasury stock method no longer allowed for convertible instruments
    - Presumption that instrument will be settled in shares

# ASU 2020-06 – Debt with Conversion and Other Options and Derivatives and Hedging

- Effective dates:
  - PBEs – fiscal years beginning after December 15, 2021 (including inter dates within those periods)
  - Non-PBEs – fiscal years beginning after December 15, 2023
  - Early adoption is permitted

# ASU 2021-04 – Modification of Equity-Classified Call Options

- The guidance clarifies whether an issuer should account for a modification or an exchange of a freestanding equity-classified written call option (Warrant) that remains equity classified after modification or exchange as
  - (1) an adjustment to equity and, if so, the related earnings per share (EPS) effects, if any, or
  - (2) as capitalized debt issuance costs
  - (3) an expense and, if so, the manner and pattern of recognition.

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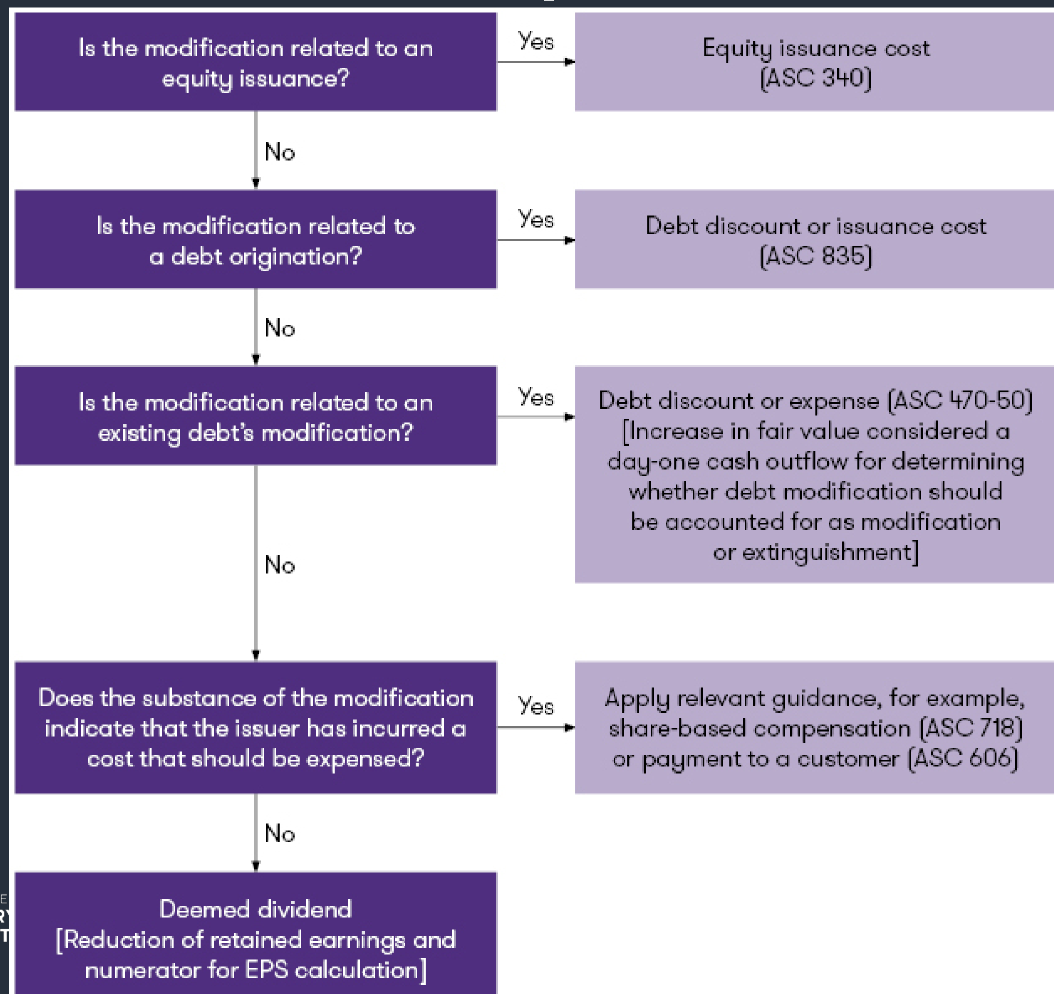
# ASU 2021-04 – ASU 2021-04 – Modification of Equity-Classified Call Options



# ASU 2021-04 – ASU 2021-04 – Modification of Equity-Classified Call Options

- Effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted.
- Apply prospectively to modifications or exchanges occurring on or after the effective date of the amendments.

# ASU 2021-07 – Compensation – Stock Compensation

- Provides private companies the option to elect a practical expedient to determine the current price input of equity-classified share-based awards issued as compensation using the reasonable application of a reasonable valuation method.
- Previously most companies used an option pricing model
- Effective for private entities for fiscal years beginning after December 15, 2021. Early adoption is permitted. Prospective basis.

# ASU 2021-09 – Leases: Discount Rate for Non Public

- 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 the cost and complexity of having to calculate an incremental borrowing rate.
- Can be done by class of asset and not applied to all leases

# ASU 2021-10 – Disclosures by Business Entities about Government Assistance

- Does NOT provide any recognition or measurement guidance
- Required to disclose:
  - Nature of the transaction and the entity's related accounting policy
  - Financial statement lines affected and the amounts reflected in the current period
  - Any significant terms or conditions
  - General information if the entity is legally prohibited from making certain disclosures

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# ASU 2021-10 – Disclosures by Business Entities about Government Assistance

- Largely consistent with what is already being disclosed in practice (for example, PPP loan disclosures, ERC)
- Meant to reduce diversity in practice
- Effective for all entities for annual periods beginning after December 15, 2021, early adoption permitted

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# ASU 2022-01 – Derivatives and Hedging

- Intended to better align hedge accounting with an organization’s risk management strategies.
- Expands the current single-layer method to allow multiple hedged layers of a single closed portfolio under the method. To reflect that expansion, the last-of-layer method is renamed the portfolio layer method

# ASU 2022-01 – Derivatives and Hedging

- Effective for public entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted.
- Effective for private entities for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted
- Apply prospectively to modifications or exchanges occurring on or after the effective date of the amendments.

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# SEC Rules

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# Pay vs Performance Pay - Final Rule

- Relationships of Executive Compensation Actually Paid and Financial Performance
- New Table Required

| | | | | | Value of Initial Fixed $100 Investment Based On: | | | |
|---|---|---|---|---|---|---|---|---|
| Year (a) | Summary Compensation Table Total for PEO (b) | Compensation Actually Paid to PEO (c) | Average Summary Compensation Table Total for Non-PEO NEOs (d) | Average Compensation Actually Paid to Non-PEO NEOs (e) | Total Shareholder Return (f) | Peer Group Total Shareholder Return* (g) | Net Income (h) | [Company-Selected Measure]* (i) |
| Y1 | | | | | | | | |
| Y2 | | | | | | | | |
| Y3 | | | | | | | | |
| Y4* | | | | | | | | |
| Y5* | | | | | | | | |

- Columns with asterisk not required for SRC

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# Pay vs Performance Pay - Final Rule

- Certain columns are Actually Paid vs earned in already included Summary Compensation Table
  - Adjusts for pension benefits and share based compensation
- Company selected measure
  - In accordance with GAAP but can be non-GAAP financial measures
  - Most important measure to link compensation
  - Can have multiple
- Must also disclose
  - the relationship between the columns
  - The TSR peer group
  - Three to seven most important measures used to link compensation for most recent year

# Pay vs Performance Pay - Final Rule

- Will be included in Proxy filing with current compensation requirements
- Effective for companies with fiscal years ending on or after December 16, 2022
- Non SRC’s may start with three years instead of five
- SRC’s may start with two years instead of three
- Does not apply to EGC’s
- IPO’s and newly registered non EGC’s only need to disclose for the years they are under subject to SEC reporting

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# Climate Disclosures – Proposed Rule

- Required footnote disclosures
  - Climate-related financial impacts
  - Climate-related expenditure metrics
  - Must use a bright line of 1% impact to that financial statement line item
- Required to provide quantitative and qualitative disclosures in a separately captioned “Climate-Related Disclosure” section immediately preceding MD&A

# Climate Disclosures – Proposed Rule

- Disclose in this new section
  - Scope 1, Scope 2 and Scope 3 greenhouse gas (“GHG”) emissions
  - Climate related risks and opportunities
  - Climate risk management processes
  - Climate targets and goals
  - Governance and oversight of climate-related risks
- Scope 1 and 2 GHG emission disclosures subject to an independent attestation requirements
- Not a defined climate-related reporting framework or standards
  - Global Reporting Initiative, GHG Protocol Standards, Task Force on Climate-related Financial Disclosures and Sustainability Accounting Standards Board

# Climate Disclosures – Proposed Rule

- Required Comparative disclosures for all years presented
- EGC, IPO, SPAC targets would be required to comply
- Privates may be requested for this data from publics for their filings
- Current proposed effective dates
  - Large Accelerated Filer – FY 2023 and add Scope 3 disclosures in 2024
    - GHG limited assurance in 2024 with Reasonable assurance 2026
  - Accelerated Filer – FY 2024 and add Scope 3 disclosures in 2025
    - GHG limited assurance in 2025 with Reasonable assurance 2027
  - SRC – FY 2024 and add Scope 3 disclosures in 2025
    - Not Required to have Scope 1 and 2 GHG emissions attestation

# Questions

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