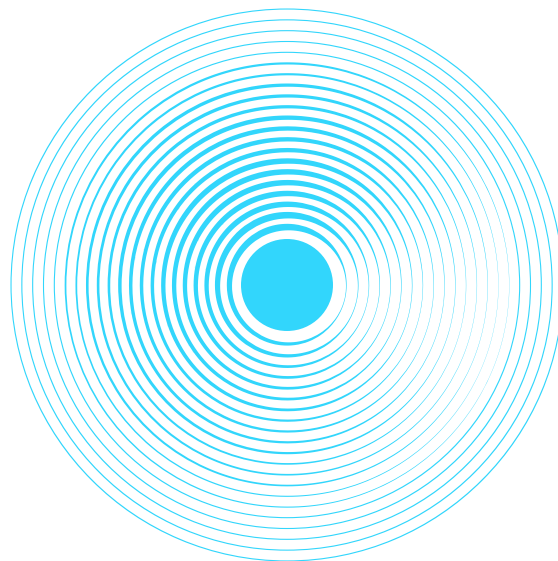




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Financial Reporting Considerations Arising From the Russia-Ukraine War

This publication was updated on March 31, 2022, to address additional financial reporting and accounting considerations related to asset seizure, potential effects of deconsolidation on the cumulative translation adjustment of a foreign entity, and the possible impacts of the conversion of contracts to Russian rubles. Text that has been added or amended since this publication's initial issuance has been marked with a ***boldface italic date*** in brackets.

Executive Summary

The geopolitical situation in Eastern Europe intensified on February 24, 2022, with Russia's invasion of Ukraine. The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed. In addition to the human toll and impact of the events on entities that have operations in Russia, Ukraine, or neighboring countries (e.g., Belarus) or that conduct business with their counterparties, the war is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as rising inflation and global supply-chain disruption. Because of its broader impact on these macroeconomic conditions, many companies globally may need to consider the war's effect on certain accounting and financial reporting matters. The degree to which entities are or will be affected by them largely depends on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets.

Political events and sanctions are continually changing and differ across the globe. While this alert does not address such activities specifically, it is intended to raise awareness of some of the key potential impacts arising from the Russia-Ukraine war that entities need to consider. These include:

- Interruptions or stoppage of production in affected areas and neighboring countries.
- Damage or loss of inventories and other assets.
- Closure of roads and facilities in affected areas.
- Supply-chain and travel disruptions in Eastern Europe.
- Volatility in commodity prices and currencies.
- Disruption in banking systems and capital markets.
- Reductions in sales and earnings of business in affected areas.
- Increased costs and expenditures.
- Cyberattacks.

It is important that entities aggregate and consider their direct and indirect exposures to the impacts of the war and consider the financial accounting and reporting implications, which could be numerous, particularly those with material subsidiaries, operations, investments, contractual arrangements, or joint ventures in Ukraine and Russia. Entities with significant suppliers, vendors, or customers in Ukraine or Russia, as well as organizations that lend to or borrow from entities in those countries, also may experience accounting challenges. Even entities that do not have direct exposure to Ukraine or Russia are likely to be affected by the overall economic uncertainty and negative impacts on the global economy and major financial markets arising from the war.

The significance of the issues discussed in this alert will of course vary depending on an entity's industry and circumstances, but we believe that those related to the following topics could be among the most pervasive and challenging:

- *Supply-chain disruption* — Entities, regardless of whether they have direct operations in Russia or Ukraine, are likely to experience additional supply-chain disruptions as a result of the war, including shortages of materials, higher costs of freight, and increased transportation delays. Given these challenges, entities may need to review their costs associated with accounting for inventory as well as revenue recognition practices.
- *Preparation of forward-looking cash flow estimates* — The use of forward-looking information is pervasive in an entity's assessment of, among other things, the impairment of nonfinancial assets (including goodwill), the realizability of deferred tax assets, and the entity's ability to continue as a going concern. The following are some unique complexities associated with the preparation of forward-looking information as a result of the war:
 - There is a wide range of uncertainty associated with the war's possible outcomes, which may influence an entity's long-term operating plan in the affected countries.
 - The economic impact of the war depends on variables that are difficult to predict. Examples include the duration of and degree to which government sanctions restrict the ability to operate in Russia and the nature and effectiveness of government assistance to the affected entity.
 - The effect of changes in key macroeconomic factors must be translated into estimates of an entity's own future cash flows.

Nevertheless, an entity will need to make good-faith estimates, prepare comprehensive documentation supporting the basis for such estimates, and provide

robust disclosure of the key assumptions used and, potentially, their sensitivity to change.

- *Recoverability and impairment of assets* — Perhaps the most salient examples of the increased challenge associated with forward-looking information are related to the performance of the impairment tests for long-lived assets, intangibles, and goodwill. For these nonfinancial assets, entities use recoverability and impairment models that rely on the development of cash flow projections, which are subject to significant uncertainties as a result of the war. However, impairments establish a new cost basis for the assets, and subsequent reversal of the recorded impairment is not permitted. While good-faith estimates in the current reporting period could result in material recorded impairments, unforeseen favorable developments could occur in subsequent quarters. In such a case, the recognized impairment would no longer be indicated, but it could not be reversed.
- *Loss of control, the ability to exercise significant influence, or cessation of operations* — Because of significant changes in the economic and political environment as a result of the war, entities with subsidiaries, investments, or operations in the affected regions may lose control of or the ability to exercise significant influence over such operations or determine that they will voluntarily stop operating them or exit the affected countries. Entities that do so may need to reconsider their accounting conclusions related to consolidation or equity method accounting. For example, a reporting entity should reassess whether a legal entity is a variable interest entity if, because of the war, one or more reconsideration events take place. Entities with equity method investments may need to consider whether (1) they are able to exercise significant influence over an equity method investee or (2) the equity method investment is other-than-temporarily impaired. In addition, entities may decide to sell or abandon long-lived assets in the affected regions. If the assets meet held-for-sale criteria, the entity is required to measure them at the lower of their carrying amount or fair value, less cost to sell. Assets are only considered abandoned when they are disposed of; however, before the actual disposal, an entity should consider whether an asset is impaired on a held-and-used basis.
- *Foreign currency* — As a result of the sanctions against Russia, it is possible that foreign currency restrictions or the development of multiple exchange rates could arise in certain countries. In addition, if there are inflation spikes in Russia and the neighboring countries, entities may be required to assess whether the economies of those countries have become highly inflationary (i.e., their three-year cumulative inflation rate approximates 100 percent). These events may affect the recognition and measurement of financial statements. Further, inflation and foreign exchange rate data in the affected countries may become scarce, unreliable, or subject to manipulation in such a way that entities may need to provide appropriate disclosures to avoid misleading financial statement users.
- *Subsequent events* — It may be challenging for an entity to separate recognized and unrecognized subsequent events in a global marketplace that is extremely volatile and in which major developments occur daily (e.g., the stock market's daily reaction to new information). In particular, when considering the guidance in ASC 855¹ on recognition and disclosures related to subsequent events, reporting entities should carefully evaluate information that becomes available after the balance sheet date but before the issuance of the financial statements. As noted in ASC 855-10-50-2, reporting entities must disclose both the nature of the event and an estimate of the financial effect (or a statement that an estimate cannot be made) of nonrecognized subsequent events when the absence of such disclosures would result in misleading financial statements.

¹ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."

For example, in their interim and annual financial statement disclosures related to accounting impacts arising from the war as of December 31, 2021, or January 31, 2022, entities most likely addressed the potential impact of the economic and geopolitical risks as nonrecognized subsequent events. However, depending on the war's duration and evolution, we expect future filings to reflect an increase in the recognition of accounting impacts arising from the war for entities that have material exposures to them. We also expect to see a continued focus on the sufficiency of footnote disclosures for affected account balances.

Further, we note that although the disclosure requirements in ASC 275 related to risks and uncertainties explicitly exclude the impacts of acts of war and proposed government regulations (e.g., future sanctions), an entity should consider whether ASC 275-10-50-1 may be relevant under the circumstances, particularly regarding compliance with the disclosure requirements in other ASC topics, including those related to whether a company is able to continue as a going concern, as discussed below.

- *Going concern* — An entity will need to assess its specific circumstances and consider whether it has the ability to continue as a going concern within one year after the date on which the interim or annual financial statements are issued (or available to be issued, when applicable). In performing the initial assessment (before taking into account management's plans), the entity must consider, among other things, (1) the extent of operational disruption, (2) potential diminished demand for products or services, (3) contractual obligations due or anticipated within one year, (4) potential liquidity and working capital shortfalls, and (5) access to existing sources of capital (e.g., available line of credit). This initial assessment would be based only on information that is available (i.e., known and reasonably knowable) as of the issuance date of the financial statements. The entity may be able to alleviate substantial doubt, if such doubt exists, if it is probable that its plans will be effectively implemented, and, if implemented, will mitigate the conditions that are raising substantial doubt in the first place and will do so within one year after the issuance date of the financial statements. Further, the entity must provide comprehensive disclosures in its annual and interim financial statements when events and conditions are identified that raise substantial doubt about the entity's ability to continue as a going concern even when management's plans alleviate such doubt.

Entities must carefully consider their unique circumstances and risk exposures when analyzing how the accounting impacts arising from the war may affect their financial reporting. Specifically, financial reporting and related financial statement disclosures need to convey all material current or potential effects arising from the war. Further, SEC registrants must consider whether to disclose information in, for example, the MD&A or risk factors section in addition to their disclosures in the footnotes to the financial statements.

Although it may be too early to assess the war's broad implications, an entity's related accounting and financial reporting considerations may be similar to those arising from a severe economic downturn or catastrophic natural disaster. This *Financial Reporting Alert* addresses those considerations in greater detail in the following sections:

- [SEC Reporting and Disclosure Considerations](#)
 - [Preliminary Earnings Estimates](#)
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- Inflation
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SEC Reporting and Disclosure Considerations

The SEC has not yet provided specific relief or guidance regarding reporting obligations for registrants that experience difficulties or delays as a result of the Russia-Ukraine war. However, such registrants may consider Rule 12b-25 of the Securities Exchange Act of 1934, which requires them to provide notification of the late filing of Form 10-K, Form 20-F, or Form 10-Q. It also gives them an additional 15 business days to file annual reports on Form 10-K or Form 20-F or 5 business days to file a Form 10-Q. Further, registrants may wish to contact the SEC staff to discuss any specific facts or circumstances that may prevent them from complying with their reporting obligations.

In a manner similar to the treatment of other emerging risks, entities may need to add to their SEC filings disclosures about the impact of the war. They may also wish to consider [Topics 9](#) and [9A](#)² of the SEC Division of Corporation Finance's Disclosure Guidance, which, although written in the context of the COVID-19 pandemic, outline concepts that may apply to registrants affected by the war.

The nature and extent of disclosures will depend on how significantly the war affects a particular registrant and its industry. When considering impacts, registrants should take into account broad potential issues such as:

- Closure or damage to facilities, inventory, or critical infrastructure.
- Disruptions or impacts to operations, employees, customers, suppliers, or distributors.

² CF Disclosure Guidance Topic Nos. 9, "Coronavirus (COVID-19)," and 9A, "Coronavirus (COVID-19) — Disclosure Considerations Regarding Operations, Liquidity, and Capital Resources."

- Supply-chain disruption.
- Production delays or limitations.
- Regulatory changes, sanctions, and trade or export controls.
- The risk of losses on significant contracts.
- The risk of increased cyberattacks.
- Volatility or disruptions in energy, financial, foreign currency, or commodity markets.

Registrants most commonly provide disclosures about emerging risks in one or more of the following sections of a filing:

- *Risk factors* — Registrants must disclose information about the most significant risks that apply to their company or its securities. Even if they already disclose general risk related to potential disruptions to the global geopolitical or economic environment, registrants should consider whether they need to update that disclosure to add specificity about the impacts of the war (e.g., registrants in certain industries that are more heavily affected by the war than others should consider disclosing specific risk factors explaining the impact, if material, of the war on their industry and business). If the situation in Ukraine is framed in an existing risk factor disclosure as a potential or hypothetical event, registrants should update the disclosure to clarify that the risk is no longer hypothetical and provide more specificity about the actual and potential impacts of the war.
- *MD&A* — MD&A supplements the financial statements by providing information about a registrant's financial condition, results of operations, and liquidity. Registrants that are significantly affected by the war should disclose in MD&A information related to the current impact on their operations, financial condition, or liquidity. They should also disclose any known trends or uncertainties that have had, or are reasonably expected to have, a material favorable or unfavorable impact on revenues or income.

In accordance with Regulation S-K, Item 303, registrants are also expected to disclose "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact" on their financial condition, results of operations, or liquidity. Given that in many cases, the ultimate effect of the war will not be known, disclosing the following information may help investors evaluate its potential impact: (1) quantitative and qualitative information about the assets, operations, employees, suppliers, or customers affected and (2) potential deterioration in revenue growth or profit margins. Registrants may also disclose the steps management is taking to respond to the war and the role of the board of directors in risk oversight. As stated in Instruction 6 to Regulation S-K, Item 303(b), "any forward-looking information supplied is expressly covered by the safe harbor rule for projections." Registrants may wish to consult legal counsel regarding forward-looking information and applying the safe harbor rule.

Registrants should also consider providing early-warning disclosures in connection with areas of accounting in which significant judgment is required, such as contingencies, valuation allowances, or potential impairments. Such account-specific disclosures are frequently provided as part of the critical accounting estimates section of MD&A, as discussed (with respect to goodwill impairment) in [Section 9510](#) of the SEC's Financial Reporting Manual. Given the uncertainty associated with the war, an increased level of judgment may need to be applied in the estimation of future results and the potential range of reasonably likely outcomes. Registrants should therefore consider expanding their disclosures about (1) the key assumptions used in their most significant estimates and (2) the sensitivity of such estimates to changes that could reasonably occur as events associated with the war continue to develop. Consequently, registrants should consider updating, in their quarterly report on Form

10-Q, the critical accounting estimates previously disclosed in the Form 10-K if there have been material changes to key assumptions and estimates.

- *Footnotes to the financial statements* — As discussed previously, if issues related to the war materially affect entities' accounts, U.S. GAAP may require them to provide in their financial statements subsequent-event disclosures related to the potential impact and other account-specific disclosures.

While these disclosures would most often be included in a Form 10-K or Form 10-Q, providing a Form 8-K might give investors more timely information regarding a registrant's financial and operating status or the potential impact on revenue and earnings guidance for future periods. Further, these filings may also be used to announce that a registrant is withdrawing or updating previously issued guidance related to expected revenue and earnings targets. Registrants should also consider reporting obligations for certain events, including material dispositions of assets, exit or disposal activities, or impairments (see Form 8-K, Items 2.01, 2.05, and 2.06, respectively). If a registrant decides to dispose of or abandon its operations in Russia or a neighboring country and such operations are significant on the basis of the tests in Regulation S-X, Rule 1-02(w), the registrant would need to include pro forma financial information reflecting the disposition in a Form 8-K and in subsequent registration statements until the disposition is fully reflected in the historical financial statements. See [Chapter 8](#) of Deloitte's Roadmap *Impairments and Disposals of Long-Lived Assets and Discontinued Operations*.

Preliminary Earnings Estimates

As a result of the war, there may be circumstances in which complete GAAP financial information is not available at the time of an earnings release because of ongoing consideration of war-related matters. Registrants may choose to provide preliminary GAAP results that either include provisional amounts that are based on a reasonable estimate or a range of reasonably estimable GAAP results. They should also consider providing transparent disclosures that explain (1) why complete GAAP financial information is not available and (2) what additional information or analysis will be needed to complete it.

Non-GAAP Measures

Registrants may consider reflecting various impacts of the war in their non-GAAP measures. When using such measures, they must be aware of certain SEC requirements, including those in Regulation G and Regulation S-K, Item 10(e) (see Deloitte's Roadmap *Non-GAAP Financial Measures and Metrics* for more information). Registrants should clearly label and describe non-GAAP measures and adjustments but should not, for example, use titles or descriptions that are either vague or confusingly similar to those used for GAAP financial measures. For example, instead of describing an adjustment as "Effects of the War," a registrant should specify what the adjustment includes. In addition, registrants should disclose, if material, why they believe that the non-GAAP measure provides useful information to investors as well as a statement that discloses how management uses such a measure.

The SEC staff has published a number of compliance and disclosure interpretations (C&DIs) on non-GAAP financial measures, which it updates periodically to clarify its views on various presentation issues. As described in [Section 100](#) of the C&DIs, non-GAAP measures that could mislead investors include those that:

- Exclude normal, recurring cash operating expenses necessary for business operations.
- Are presented inconsistently between periods (e.g., adjusting for an item in the current reporting period but not doing so for a similar item in the prior period without appropriately disclosing the change and explaining the reasons for it).

- Exclude certain nonrecurring charges but do not exclude nonrecurring gains (e.g., “cherry picking” non-GAAP adjustments to achieve the most positive measure).
- Are based on individually tailored accounting principles, including certain adjusted revenue measures.

Any new adjustments or changes to non-GAAP measures related to the war should be clearly labeled, and changes to such measures should be transparently disclosed. Further, when evaluating whether a war-related adjustment is appropriate in a non-GAAP measure, a registrant should consider whether the adjustment is (1) directly related to the war or the impacts associated with it and (2) objectively quantifiable (as opposed to an estimate or projection). For example, it would not be appropriate to include routine costs in an adjustment for war-related charges or to adjust for amounts that cannot be objectively quantified, such as estimated lost revenue.

Alternatives to Non-GAAP Measures

Given the potential challenges associated with fully quantifying the impacts of the war, a registrant may determine that transparent disclosure in MD&A may more effectively inform investors about certain of those impacts than non-GAAP measures. For example, if a registrant elects to provide disclosures that simply quantify the estimated impact of the war on financial statement line items without adjusting the registrant’s GAAP results (i.e., without establishing new totals or subtotals), those disclosures are not considered non-GAAP measures and would not be subject to the SEC’s requirements and interpretations that apply to such measures. When presenting disclosure alternatives, a registrant should discuss individually material war-related impacts separately.

Broad Financial Reporting and Accounting Considerations

Forecasting

Many entities may face significant challenges related to forecasting as a result of ongoing uncertainties associated with the Russia-Ukraine war. These challenges are compounded by inflation unlike that seen in the past 40 years as well as ongoing global supply-chain issues that began during the COVID-19 pandemic, some of which may involve shortages of key components needed for production.

In response to cost structure changes that include higher inventory and freight costs along with pressure to increase employee compensation, entities should (1) consider how they expect the altered cost structures to continue into the future and (2) evaluate whether they will be able to offset any increased costs with pricing adjustments. If entities are unable to procure resources needed to produce and deliver goods and services, they may see a significant decline in revenues.

An entity’s forecasts are used in a variety of accounting estimates, including, but not limited to, those related to the assessment of (1) goodwill or other long-lived assets for impairment, (2) whether valuation allowances related to the recovery of deferred tax asset balances are needed, and (3) liquidity and the appropriateness of the going-concern presumption. In developing forecasts and assessing the related accounting implications, an entity should consider whether the effects of the uncertainties are short-term or long-term and how that determination will affect various accounting estimates. It should also ensure that the forecasts used in business planning are consistent with those used in developing accounting estimates.

Inflation

The Russia-Ukraine war has exacerbated the current inflationary environment both in Russia as a result of sanctions that devalue its currency and in other countries as their businesses

and currencies react to the war's implications worldwide. Although inflation affects entities differently, there are some common considerations related to the evaluation of how recent inflationary trends may affect their accounting and financial reporting.

For example, because inflation is most likely driving up the costs of acquiring goods, inventory, and related packaging materials as well as employee wages, entities should consider whether they can pass along those increased costs to their customers. See the [Supply-Chain Disruptions](#) and [Inventory](#) sections for considerations related to costs that are capitalized as part of inventory.

Entities may also have increased costs associated with long-term revenue contracts that they may or may not be able to pass along to their customers. If an entity is unable to raise its prices under a revenue contract, it may incur a loss or a decline in its estimated profitability associated with the contract. Entities should consider the potential accounting implications of reduced or negative profitability on a revenue contract, including the period in which to record a loss if applicable. See the [Revenue Contracts With Customers](#) section for further discussion.

As a result of inflation, long-term contracts such as leases or certain supply agreements may need to be renegotiated or possibly terminated, which in turn may have accounting implications. For example, if a lease contract is modified, an entity may (depending on the terms) be required to reassess the lease's classification and measurement.

In addition, inflation may lead to an increase in interest rates and corresponding declines in the fair value of fixed-rate financial assets. Entities should also consider the impacts of inflation on estimated credit and loan loss reserves.

As entities review their investment strategies in light of recent and ongoing inflation, they may consider making different types of investments or moving away from holding excess cash on hand. For example, an entity may consider investing in gold, digital assets (such as cryptocurrencies), or Treasury Inflation-Protected Securities as a hedge against inflation. Entities contemplating such investments should consider the complex accounting and financial reporting that may result from holding them. For example, inflation-indexed debt securities are subject to specific interest recognition guidance under U.S. GAAP. Further, entities should evaluate them to determine whether they contain a derivative that must be accounted for separately.

Further, certain entities should monitor the appropriateness of the discount rate used to measure any pension-related liabilities, particularly since even a seemingly small change in the discount rate can significantly affect an entity's pension liability. For example, higher interest rates may lead to decreases in both pension liabilities and required employer contributions. However, such decreases may be offset by higher employee wages.

Supply-Chain Disruptions

Supply-chain disruptions that were already prevalent during the COVID-19 pandemic have intensified as a result of the Russia-Ukraine war. Resulting shortages include key exports from Russia and Ukraine, such as palladium, oil, natural gas, wheat, and sunflower oil, as well as goods that may involve longer and more expensive cargo freight routes.

For many entities, such disruptions are increasing the costs associated with moving goods through the supply chain. Entities should consider whether to include these costs in inventory and, if so, whether adjustments based on the expected net realizable value of the inventory are warranted. This determination is likely to vary by industry and entity given (1) the use of different types of materials, (2) supplier diversity, and (3) an entity's ability to transfer cost increases to its customers through higher selling prices. See the [Inventory](#) section for further discussion.

As raw materials, finished goods, and supplies make their way through a disrupted supply chain, entities should consider the point in time at which the buyer assumes ownership of them to ensure their appropriate reporting on the balance sheet. If transit times increase or the transport of goods is stalled, entities that may have had only immaterial amounts of goods in transit because of historically short transfer times may find it necessary to implement more robust accounting processes and internal controls to appropriately account for their inventories (some of which may be physically held by third parties). Likewise, entities should ensure that suitable cut-off procedures result in revenue recognition in the appropriate period.

Further, entities struggling to obtain certain products that are inputs to finished goods may consider adjusting their manufacturing processes to use different inputs or produce the products differently. Entities should also consider whether the need to use alternate raw materials or processes affects the warranties offered and the accounting for those warranties. Changes in the terms and conditions of warranties, the expected life of products, or expected warranty claims may differ by product type, and such differences, combined with increased material and labor costs, could affect the related warranty accounting.

Balance Sheet Classification Considerations

The Russia-Ukraine war has triggered a series of economic and other sanctions against Russia, and additional sanctions may be imposed by various countries and organizations. Entities with classified balance sheets should consider whether the classification of certain assets as current is still appropriate in light of those sanctions. They should also consider both the direct impact (restrictions imposed on assets) and the indirect impact (restrictions that may cause challenges in selling, realizing, or consuming assets) of the sanctions. For a discussion of the impact of the war on debt classification, see the [Classification of Current and Noncurrent Financial Liabilities](#) section.

Cash, Restricted Cash, and Restricted Cash Equivalents

The sanctions imposed against Russia could directly affect an entity's ability to use or withdraw cash or cash equivalents. For example, several countries have announced that they will ban certain Russian financial institutions from the Society for Worldwide Interbank Financial Telecommunication (better known as SWIFT), which will disrupt executions of banking transactions that involve those financial institutions. As a result, entities that have cash or cash equivalents in those financial institutions could experience restrictions on withdrawals or on their use of the cash or cash equivalents for current operations.

Cash available for general operations is distinguishable from cash restricted in accordance with third-party special-purpose agreements. When a cash account is restricted, the ability of the account's owner to withdraw funds at any time is contractually or legally restricted. Since an entity cannot withdraw restricted cash without prior notice or penalty, the entity should not present such cash as cash or cash equivalents. While the terms "restricted cash" and "restricted cash equivalents" are not defined in U.S. GAAP, Regulation S-X, Rule 5-02(1),³ requires registrants to separately disclose account balances whose withdrawal or usage is restricted. As a result, entities typically present restricted cash and restricted cash equivalents separately from cash and cash equivalents on their balance sheet. However, entities may include restricted cash and restricted cash equivalents in other balance sheet line items. Accordingly, an entity's definition of "restricted cash" or "restricted cash equivalents" is typically an accounting policy matter. Such a policy should be applied consistently and will need to take into account the nature of both the financial instruments and the restrictions. When establishing their accounting policy, entities may not have contemplated restrictions associated with sanctions. Therefore, if an entity decides to present cash balances affected by sanction restrictions as restricted cash, we believe that such presentation would not represent

³ For titles of and links to Regulation S-X rules, see the [eCFR Web site](#).

a change in accounting principle under ASC 250 but rather the result of the adoption or modification of an accounting principle necessitated by transactions or events that are clearly different in substance from those previously occurring.

In addition, in accordance with ASC 230-10-50-7, “[a]n entity shall disclose information about the nature of restrictions on its cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.” Further, ASC 230-10-50-8 states, in part, that “[w]hen cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity shall, for each period that a statement of financial position is presented,” include those balances within beginning and ending total cash when presenting the statement of cash flows.

Other Assets

In light of the sanctions imposed against Russia, entities should consider whether classification of other current assets is appropriate.

Under ASC 210-10-45, current assets are used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business (typically 12 months). If certain assets are not expected to be sold, realized in cash, or consumed within 12 months, it may be appropriate for entities to state separately, on the balance sheet or in a footnote thereto, any item that is restricted. The determination of whether this is appropriate will depend on an entity's facts and circumstances and its ability to find alternative ways to sell, realize in cash, or consume the assets over the course of one year or its operating cycle.

Management will need to exercise significant judgment when considering the indirect impact of sanctions and other restrictions imposed on assets. In many cases, given that the ultimate effect of the sanctions and restrictions will not be known, disclosing their nature may help investors evaluate the potential impact when classification as current versus noncurrent is not immediately apparent.

Income Statement Classification Considerations

Entities may need to determine whether to report or disclose the financial effects of the war (e.g., incremental operating gains or losses) in the financial statements as a separate component of income from continuing operations.

Under ASC 220-20-45-1, if an entity concludes that a material event is of an unusual nature or occurs infrequently (or both), the entity must either report the nature and financial effects of the event as a separate component of income from continuing operations or provide disclosure in the financial statement footnotes. Under this guidance, “unusual nature” represents a situation in which the underlying event has a high degree of abnormality and is not related to the ordinary activities of the entity. Furthermore, “infrequency of occurrence” represents an event that would not reasonably be expected to recur in the foreseeable future. Many entities may consider the Russia-Ukraine war to be unusual or infrequent (or both); however, an entity must use judgment and take into account its specific circumstances to determine whether events stemming from the war would be considered unusual or infrequent. For example, if an entity operates in an industry that has experienced sanctions in the past, additional sanctions may not be considered infrequent or unusual.

In addition, entities would consider whether to separately disclose related amounts on the basis of the materiality of their impact on the financial statements. ASC 220-20 does not provide guidance on assessing how the financial effects of a qualifying event should be disclosed; accordingly, a registrant may need to use significant judgment when determining the amounts to separately report or disclose. We believe that in determining how to report

such amounts, an entity could reasonably conclude that disclosing direct and incremental costs or benefits related to the war would be consistent with the spirit of this guidance (e.g., asset impairments, costs of exiting a country, or business interruption insurance recoveries). However, as the war evolves, an entity's manner of conducting business may change. Accordingly, it may become more difficult to objectively distinguish unusual costs from those that are the new normal. New internal controls may need to be implemented along with such presentation.

Income statement presentation for public companies is also addressed in Regulation S-X, Rule 5-03, for commercial and industrial companies. In certain instances, the SEC has given registrants the flexibility to disaggregate the components of required line items on the face of the statement of comprehensive income. Registrants that are significantly affected by the war may consider presenting a separate line item or line items in their statement of comprehensive income that reflects the war's impact. To the extent that an entity elects to present a separate line item or line items on its statement of comprehensive income, we encourage it to transparently disclose both the nature and amount of all costs included in the line item(s) in the footnotes to the financial statements and in MD&A.

Registrants that decide to present a separate line item or line items for the impact of the war should consider the effect on gross profit or operating income subtotals presented. For example, while a subtotal for gross profit is not required by Rule 5-03, certain costs such as inventory impairment are expected to be part of costs of sales (and therefore included in gross profit) by analogy to ASC 420-10-S99-3. In addition, under Rule 5-03, a subtotal for operating income is not required on the face of the income statement; but if a registrant presents a subtotal for operating income, it should generally present any line item related to the war as part of operating income.⁴ Further, we believe that a separately presented line item related to the war should not be preceded by a subtotal such as "income before war-related amounts" (even if the subtotal is presented without a caption).

Impairment of Nonfinancial Assets (Including Goodwill)

Inventory

The Russia-Ukraine war may affect the recoverability of certain inventory balances. Entities with inventories located in regions affected by the war or that were previously expected to be sold to customers in those regions may have to assess whether trade sanctions imposed by certain governments may preclude them from disposing of their inventory in the normal course. Entities may therefore need to assess whether a larger reserve for obsolete or slow-moving stock (e.g., markdowns) may be necessary in an interim or annual period as a result of those sanctions or the inability to access other markets. In addition, manufacturing entities may have to reassess their practices for fixed overhead cost absorption if production volumes become abnormally low during the year as a result of plant closings or lower demand for their products.

ASC 330 requires that most inventory be measured at the lower of its cost or (1) market value (for inventory measured by using last in, first out or the retail inventory method) or (2) net realizable value (for all other inventory). In a volatile economic environment, it may be particularly important for entities to determine whether the utility of their inventory on hand has been impaired. Entities should apply the guidance in ASC 330-10-35-1A through 35-11, which addresses adjustments of inventory balances to the lower of cost or market or net realizable value as appropriate. Interim inventory impairment losses should generally be reflected in the interim period in which they occur, with subsequent recoveries recognized as gains in future interim periods of the same annual period.

⁴ However, if an entity concludes that a nonoperating gain or loss is related to the war, we would expect the gain or loss to remain a nonoperating item (i.e., classification as "war-related" does not change the characteristic of the gain or loss as operating vs. nonoperating).

In addition, entities with noncancelable, unhedged firm purchase commitments for inventory should recognize expected net losses on the basis of the lower of cost or market or net realizable value, as appropriate, in a manner consistent with the method for inventory on hand, to the extent that they are unable to recover such cost through reasonably assured selling prices or firmly committed sales contracts.

Under ASC 330, variable production overhead costs should be “allocated to each unit of production on the basis of the **actual use** of the production facilities” (emphasis added). In addition, fixed overhead costs must be allocated to each manufactured item on the basis of an expectation that production facilities are running at **normal production** capacity, which refers to a “range of production levels [that are] expected to be achieved over a number of periods or seasons under normal circumstances” (e.g., annual production). A manufacturing entity with facilities in regions affected by the war or neighboring countries may experience numerous challenges (e.g., shortages of labor and materials, supply-chain disruptions, unplanned factory downtime) that, if sustained, may result in an abnormal reduction of its production levels. Such an entity should not increase the amount of fixed overhead costs allocated to each inventory item but rather should recognize the unallocated fixed overhead costs as an expense in the period in which they are incurred.

Entities should also carefully consider whether ASC 330-10-30-7 requires them to expense as incurred any abnormal shipping and handling costs or wasted materials. The impacts of inflation and supply-chain challenges would not necessarily result in costs that are “abnormal” and should therefore be expensed. However, certain raw materials inventory may no longer be accessible (resulting in spoilage), and certain inventory located in the regions affected by the war may need to be relocated. Depending on the facts and circumstances, those incremental costs could be considered abnormally high costs or spoilage that otherwise would not have been incurred and should be expensed. In addition, inventory may be in transit for longer periods than in the past. Entities should have proper cutoff procedures to ensure inventory purchased or sold is being recognized in the appropriate period.



Disclosure Considerations

ASC 330-10-50 provides disclosure guidance related to losses from applications of lower of cost or market or net realizable value, as appropriate and losses on firm purchase commitments.

Costs to Obtain or Fulfill a Revenue Contract and Up-Front Payments to Customers

An entity may have capitalized costs to obtain or fulfill a contract as an asset in accordance with ASC 340-40-25-1 or ASC 340-40-25-5, respectively. ASC 340-40-35-1 through 35-6 provide guidance on determining the appropriate amortization period and on recognizing any impairment loss on such an asset. An entity may need to update its amortization approach to reflect any significant changes in the expected timing of the transfer of the related goods or services. In addition, an entity must recognize an impairment charge if the carrying amount of the asset exceeds (1) the sum of the amount of consideration expected to be received and the amount of consideration already received but not yet recognized as revenue less (2) the costs that are directly related to providing the remaining promised goods or services under the contract that have not been recognized as expenses. The consideration determined in (1) above should be adjusted to reflect variable consideration on an unconstrained basis and to account for the customer’s credit risk. The amounts determined under both (1) and (2) should include the effects of expected contract renewals from the same customer. An entity may also need to consider whether contract modifications or changes in expectations regarding customer renewals affect the amortization or recoverability of these revenue-related costs.

An entity may also have capitalized up-front payments to customers that are reflected as a reduction in the transaction price. We believe that the entity could perform similar analyses for any asset recognized for such up-front payments.

Further, an entity should evaluate contract assets for impairment by using the same model as customer receivables. See the [Financial Instruments and Contract Assets](#) section for more information.



Disclosure Considerations

A public entity is required to disclose any impairment losses recognized for costs incurred to obtain or fulfill a contract.

Indefinite-Lived Intangible Assets Other Than Goodwill

Changes in an entity's business or legal environment, such as sanctions, export controls, or the reduction or cessation of operations as a result of the Russia-Ukraine war, may lead to impairment of the entity's indefinite-lived intangible assets. As stated in ASC 350-30-35-4, an indefinite-lived intangible asset is one for which "there is no foreseeable limit on the period of time over which it is expected to contribute to the cash flows of the reporting entity." Common examples of indefinite-lived intangible assets include certain brands, trademarks, or licenses.

Indefinite-lived intangible assets are tested annually for impairment and between annual testing dates if an event or a change in circumstances indicates that it is more likely than not that such assets are impaired in accordance with ASC 350-30. ASC 350-30-35-18B provides examples of these events or changes in circumstances, which include, but are not limited to, financial performance, legal or political factors, entity-specific events, and industry or market considerations such as a deterioration in the environment in which the entity operates. If an entity determines on the basis of its assessment that it is more likely than not that the carrying value of an intangible asset exceeds its fair value, the entity performs a valuation to determine the fair value of the asset and recognizes an impairment loss equal to the excess of the carrying amount of the intangible asset over its fair value. After an impairment loss is recognized, the adjusted carrying amount is the asset's new accounting basis and subsequent reversal of the impairment loss is prohibited.

In addition to evaluating the need for an interim impairment test, an entity should consider whether events and circumstances continue to support its conclusion that an asset has an indefinite useful life, which might occur if the entity's expected use of the asset changes in response to the effects of the war. If determined to have a finite life, the asset should be tested for impairment as described above and should then be amortized prospectively over its estimated remaining useful life.

Long-Lived Assets

As a result of an event such as the Russia-Ukraine war, an asset may become impaired because of (1) changes in cash flow expectations for an asset or a group of assets, (2) an entity's decision to abandon an asset or group of assets given the changing political and business environment in affected areas, or (3) direct damage to the asset. Regardless of the effects of the war on an entity's cash flows and on the susceptibility of its long-lived assets to impairment, the entity should document its considerations regarding the recoverability of its long-lived assets.

Entities are required by ASC 360-10-35-21 to test a long-lived asset (asset group) that is classified as held and used for recoverability "whenever events or changes in circumstances indicate that its carrying amount may not be recoverable" (e.g., a significant adverse change in the business climate that could affect the value of a long-lived asset [asset group]). Events or changes in circumstances that prompt a recoverability test are commonly referred to as "triggering events." In light of events such as the idling of manufacturing facilities because

of the evacuation of personnel or the unavailability of component parts or supplies, many entities with operations in areas affected by the war are likely to experience one or more of the triggering events listed in ASC 360-10-35-21. Such triggering events may include, but are not limited to, a “significant decrease in the market price of a long-lived asset (asset group),” a “significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition,” or a “current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.”

ASC 360-10-35-23 states, in part, that “a long-lived asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.” Such a combination is called an asset group. If an entity determines that the carrying amount of the long-lived asset (asset group) is not recoverable, the entity then performs a valuation to determine the fair value of the asset (asset group) and recognizes an impairment loss for the amount by which the carrying amount of the long-lived asset (asset group) exceeds its fair value.

If the entity determines that a long-lived asset (asset group) is recoverable, it does not recognize an impairment loss, even if the carrying value of that long-lived asset (asset group) exceeds its fair value. Regardless of whether the entity recognizes an impairment loss, it should still consider whether there has been a change in the remaining useful life or salvage (residual) value of its long-lived assets as a result of events and circumstances. If so, it should depreciate or amortize the long-lived asset prospectively over its revised remaining useful life to its salvage (residual) value.

Sometimes, an entity may conclude that long-lived assets either directly or indirectly affected by an event like the war will be sold, abandoned, or otherwise disposed of. Under ASC 360, if the held-for-sale criteria in ASC 360-10-45-9 are met, the entity is required to measure the asset (asset group) “at the lower of its carrying amount or [its] fair value less cost to sell” in accordance with ASC 360-10-35-43. A long-lived asset that will be abandoned will continue to be classified as held and used until it is disposed of. Such an asset is disposed of when it ceases to be used. For example, manufacturing equipment that an entity expects to cease using after fulfilling a backlog of orders is not considered abandoned while the entity is still using it. If, as a result of the war, an entity intends to idle an asset only temporarily, the asset should not be accounted for as if it were abandoned in accordance with ASC 360-10-35-49.

If an entity decides to abandon a long-lived asset (asset group) as a result of the war before the end of its previously estimated useful life, the entity should revise its depreciation estimates in accordance with the guidance on changes in estimates in ASC 250-20 to reflect the use of the asset group over its shortened useful life and a salvage value in a manner consistent with the decision to abandon. A decision to abandon an asset group is also an indicator of impairment. Therefore, the entity should also consider whether the asset group is recoverable by assessing it for impairment on a held-and-used basis.

An entity may determine that a specific asset has been destroyed as a result of the war. In such a case, the entity would need to write off the asset even if the group the asset is part of is determined to be recoverable as a whole.

An entity often maintains insurance to mitigate losses in the event of property damage or casualty losses. If an insured asset is damaged, the entity would recognize a loss to write it off and would separately recognize any recovery. The recognized loss to write off an asset and any associated recovery proceeds (through insurance proceeds or other sources of recovery) are treated as two separate events and therefore two separate units of account. The principle underlying this separation is derived from the involuntary conversion guidance in ASC 610-30-25-2. See the [Insurance Recoveries](#) section for more information.

Goodwill

An entity's estimates of future cash flows and earnings may be significantly affected by the Russia-Ukraine war. In addition, entities that do not have operations located in areas directly affected by the war may nevertheless be indirectly affected by sanctions, rising energy costs, or supply-chain issues. Under ASC 350-20-35-28 through 35-30, an entity is required to test goodwill for impairment at the reporting-unit level at least annually or "between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount." Such an event is often referred to as a "triggering event."

ASC 350-20-35-3C provides examples of triggering events, including "a deterioration in general economic conditions," "a deterioration in the environment in which an entity operates," "a change in the market for an entity's products or services," "[o]verall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods," and, "[i]f applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers)."

A reporting unit with only a small cushion (excess of fair value over carrying amount) at the time of its most recent quantitative test is generally more susceptible to impairment, which an entity may have noted in prior disclosures about goodwill associated with its reporting units at higher risk for impairment. If an entity determines that a reporting unit's goodwill is impaired, it should apply the guidance in ASC 350-20 on measuring and recognizing an impairment loss.

Asset Seizure — Lessor Considerations

[Section added March 31, 2022]

There have been recent reports of Russian companies or the Russian government seizing assets (e.g., real estate, manufacturing facilities, aircraft). It is unclear whether the seizures are intended to be permanent or temporary and whether the legal owners of the assets, domiciled outside Russia, will receive any consideration during the seizure period. Because of this change in circumstances, special accounting and reporting considerations may apply to the owners of these assets, which often include lessors. Lessors will need to evaluate their exposure to credit losses (see [Chapter 9](#) of Deloitte's Roadmap [Leases](#)) in arrangements subject to asset seizure. In addition, lessors will need to consider whether their loss of lease income and inability to retrieve and redeploy the assets have caused an asset impairment. There are likely to be maintenance deficiencies with the assets (e.g., aircraft) during the seizure period, which may affect the value and future utility of the assets. Lessors may also need to consider the accounting requirements related to involuntary conversions and insurance recoveries (see the [Insurance Recoveries](#) section) as they evaluate their options for seized assets, including claiming full loss under existing insurance policies. Moreover, in certain situations, lessors may continue to receive consideration from the lessee that changes form. Specifically, contracts denominated in U.S. dollars or euros may become subject to payment in Russian rubles for a period of time, either through a lease modification or on the basis of Russian law or customer imposition. In such cases, lease modification (see [Chapter 9](#) of Deloitte's Roadmap [Leases](#)), foreign currency accounting considerations (see Deloitte's Roadmap [Foreign Currency Matters](#) and the [Remeasurement of Foreign Currency Transactions](#) section below), or both may arise.

Because the nature, scale, and duration of asset seizure scenarios are expected to vary, the accounting and reporting implications will ultimately depend on the specific facts and circumstances. The above discussion constitutes an overview of potential accounting considerations and will be updated as circumstances evolve.

Leases (ASC 842) — Right-of-Use Assets

Impairments to right-of-use (ROU) assets could result from business closures in areas affected by the Russia-Ukraine war, supply-chain disruptions, or other consequences of the war that negatively affect the future cash flows expected to be derived from the use of the underlying PP&E.

ROU assets are subject to the impairment and disposal guidance in ASC 360; therefore, a lessee must test its ROU assets for impairment in a manner consistent with the treatment of other long-lived assets. In accordance with ASC 842-20-35-9, a “lessee shall determine whether a right-of-use asset is impaired and shall recognize any impairment loss in accordance with Section 360-10-35 on impairment or disposal of long-lived assets.” Therefore, the impairment analysis of ROU assets would be included as part of the analysis [discussed](#) above for long-lived assets that are held and used.

In accordance with ASC 842-20-35-10, an impaired ROU asset should be subsequently measured at its carrying amount (after the impairment) less any accumulated amortization. Subsequent amortization of the ROU asset (for both operating and finance leases) would be on a straight-line basis unless another systematic basis is more representative of the pattern over which the lessee expects to consume the remaining economic benefits of the right to use the underlying asset.

In connection with its reevaluation of leases or lease portfolios on a go-forward basis, an entity should consider whether a decision to no longer use a leased asset constitutes an abandonment of the asset from an accounting standpoint. The entity’s conclusion may represent a triggering event that prompts it to perform a recoverability test. For a leased asset to be deemed abandoned, an entity must not have the intent and ability to sublease the leased asset at any point during the remaining lease term. When determining whether it would have the intent and ability to sublease the asset, an entity should consider the economic environment and the expected demand in the sublease market. Consequently, it may be required to use more judgment when assessing longer remaining lease terms. An entity that has the intent and ability to sublease an asset at any point in the future would be precluded from considering an asset to be abandoned.

For additional considerations related to the impairment of an ROU asset, see [Section 8.4.4.2](#) of Deloitte’s Roadmap [Leases](#).



Disclosure Considerations

Entities may also be required to provide disclosures about an ROU asset (or asset group) that is impaired or abandoned. Accordingly, they should assess whether they have met all applicable disclosure requirements, including those in ASC 360. Under ASC 360-10-50-2, entities would disclose a description of the impaired asset (or asset group), the facts and circumstances leading to the impairment, the method(s) for determining fair value, the amount of impairment if not separately presented in the financial statements, and, for public entities required to make segment disclosures, the segment the impaired asset (asset group) is reported under.

ASC 360-10-50-3 provides disclosure requirements related to long-lived asset disposals in the period in which an entity ceases to use the rights conveyed under the lease and deems the ROU asset to be abandoned. Such disclosures would include a description of the facts and circumstances leading to the disposal, the disposal’s expected manner and timing, and any gain or loss recognized.

Financial Instruments and Contract Assets

Impairment and Valuation Considerations

As a result of the Russia-Ukraine war, entities may need to assess their investments and loans for impairment. Investments that may be affected include equity securities and private debt and, in certain instances, investments in sovereign debt. Moreover, the war may cause additional volatility in the global markets, which has affected the fair values of investments (e.g., credit spreads may widen or the creditworthiness of counterparties may be affected).

The following guidance applies to investments in equity securities that are not accounted for at fair value, with changes in fair value recognized in earnings:

- *Equity securities without readily determinable fair values* — ASC 321-10-35-3 and 35-4 address the subsequent measurement of equity securities without readily determinable fair values that are accounted for by using the measurement alternative described in ASC 321-10-35-2. ASC 321-10-35-3 states, in part, that “[a]n equity security . . . measured in accordance with paragraph 321-10-35-2 shall be written down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value.”

ASC 321-10-35-4 further states that for such an impaired equity security, “an entity shall include an impairment loss in net income equal to the difference between the fair value of the investment and its carrying amount.” Because the fair value of this type of investment is not readily determinable, the entity will need to estimate that amount under ASC 820 to measure the amount of the impairment loss. Once an investment in an equity security that is measured under ASC 321-10-35-2 is impaired, the entity cannot recognize a recovery in the investment’s fair value in the absence of an observable price change for an identical or a similar security, as discussed in ASC 321-10-35-2.

ASC 321-10-35-3 requires entities to perform a qualitative assessment in each financial reporting period to evaluate whether equity securities accounted for under the measurement alternative in ASC 321-10-35-2 are impaired. That qualitative assessment is performed on the basis of the impairment indicators in ASC 321-10-35-3. Entities should note that ASC 321-10-35-3(c) applies directly to the impacts of the war given that it states, in part, that one indicator of impairment is “[a] significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates.”

In the evaluation of an equity security for impairment, neither the significance of the impairment amount nor the impairment’s duration is relevant. Although the fair value of nonmarketable equity securities may be difficult to measure because of the unobservability of inputs, entities that have investments whose fair values have been affected by the war must make a reasonable estimate of fair value when recognizing impairment losses. Such impairment losses must be recognized for declines in fair value below the carrying amount even if the investor believes that the declines are temporary in nature. In addition to evaluating and recognizing an impairment, an entity would write down the carrying amount of an equity security that is accounted for by using the measurement alternative in ASC 321-10-35-2 if an observable price change in an identical or a similar security reflects a fair value that is below the investment’s previously recorded carrying amount.

To assess and measure impairment losses, entities that have a significant number of equity securities that are accounted for by using the measurement alternative described in ASC 321-10-35-2 will need to stratify (or group) investments into those that share similar attributes. Factors to consider include, but are not limited to:

- *Any appreciation in fair value since the original acquisition of the investment that has not been recognized as a remeasurement event (i.e., the investment must be remeasured at fair value if the entity observes a transaction in the same or similar security)* — For example, some investments may represent “seed money” investments that were made when the fair value of the investee’s equity was relatively low. In these situations, there may have been a significant increase in fair value since the original investment. Thus, investors may be able to determine, without having to apply significant judgment, that although the fair value of such investments has declined recently as a result of the war’s impact on certain stocks, there is still enough of a “cushion” between the fair value and the carrying amount that an impairment loss has not been incurred.
- *The industry in which the investee entity operates* — The war has affected some industries more than others.
- *The geographic location of the investee entity* — If an entity has investments in nonmarketable equity securities in geographic locations that are affected by the war, those investments may be more susceptible to impairment losses.
- *The quantitative significance of the investee entity* — Entities that have numerous investments may narrow the evaluation so that it focuses on investments that are of a such a magnitude that impairment losses could be material. For example, an entity may determine that there is a population of investee entities whose carrying amount, in the aggregate, is inconsequential. Since the maximum potential impairment loss cannot exceed the carrying amount, the entity may decide to focus only on investments that individually or in the aggregate could have material impairment losses.
- *Other factors specific to the investee entity* — An investor may be aware of specific information that positively or negatively affects an individual investee. For example, an investee with nonpublicly traded equity securities may have issued announcements to the public that reflect either the positive or negative impacts of the war. In addition, some investees may have other publicly traded securities such as bonds or convertible instruments. Entities may find observable pricing information pertaining to such other investments to be useful in evaluating impairment losses.
- *Liquidity risk premiums* — Entities should keep in mind that the fair value of an illiquid equity investment could be more significantly affected by the Russia-Ukraine war than a readily tradable equity security. Thus, in determining fair value, entities should take into account the need to reconsider any nonmarketability discount applied in the estimation of fair value.



Disclosure Considerations

ASC 321-10-50-3 contains specific disclosure requirements that apply in any financial reporting period for which an entity adjusts the carrying amount of an equity security that it accounts for by using the measurement alternative in ASC 321-10-35-2. (Note that the disclosure requirements in ASC 820 related to nonrecurring fair value measurements also apply.) In addition, entities should consider disclosing the significant judgments they applied in estimating impairment losses on equity investments that are accounted for by using the measurement alternative in ASC 321-10-35-2.

- *Investments in equity method investments and joint ventures* — Entities with equity method investments or joint ventures that are adversely affected by the economic uncertainty in the affected regions may need to evaluate whether decreases in an investment's value are other than temporary. For these investments, ASC 323-10-35-31 requires the recognition of a loss that is other than temporary even if such a decrease in value is greater than what would otherwise be recognized if the equity method were applied. As indicated in ASC 323-10-35-32, "[e]vidence of a loss in value might include [a lack of] ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment." Further, ASC 323-10-35-32 states, in part, that a "current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment."

Note that in the determination of whether there is an impairment loss that should be recognized, many of the considerations relevant to nonmarketable equity securities that are accounted for by using the measurement alternative in ASC 321-10-35-2 may be relevant. However, unlike the impairment guidance applicable to investments accounted for under ASC 321-10-35-2, an impairment loss on an equity method investee is recognized only if it is other than temporary in nature. Therefore, equity method investors must apply judgment regarding the severity and duration of any decline in fair value before recognizing impairment losses on equity method investees. Entities should consider disclosing the significant judgment they used in the evaluation of other-than-temporary impairment of equity method investees. See [Section 5.5](#) of Deloitte's Roadmap *Equity Method Investments and Joint Ventures* for further discussion of the assessment of equity method investments for other-than-temporary impairments.

If an entity (1) accounts for its share of equity method investment earnings and losses by using a time lag on the basis of the guidance in ASC 323-10-35-6 and (2) determines that it should recognize an impairment loss for its equity method investment, the entity should measure and recognize the fair value of the equity method investment as of the date of the other-than-temporary impairment and not use a lag (i.e., to recognize and measure an impairment for its equity method investment, the entity should not use a lag in a manner consistent with how it records its share of earnings and losses).



Disclosure Considerations

If an equity method investment is other than temporarily impaired (resulting in a write-down to fair value), the entity must provide all relevant ASC 820 fair value disclosures pertaining to items measured at fair value on a nonrecurring basis. In addition, while the ASC 820 and ASC 825 fair value disclosures are not required for equity method investments that have not been written down to fair value as a result of an other-than-temporary impairment, an entity can voluntarily provide these disclosures. If an entity decides to disclose such information, it should adopt a rational and consistent policy for doing so (e.g., for all reporting periods and investment types). See [Section 2.3.2.2.4](#) of Deloitte's Roadmap *Fair Value Measurements and Disclosures (Including the Fair Value Option)* for further discussion of the applicability of the disclosure requirements in ASC 820 and ASC 825 to equity method investments.

The impairment model applied under U.S. GAAP to financial assets other than equity investments depends on the investment's classification and whether the entity has adopted ASC 326. The following guidance applies to entities that have not yet adopted ASC 326:

- *Available-for-sale (AFS) and held-to-maturity (HTM) debt securities* — Under ASC 320-10-35, the impairment of a debt security is considered other than temporary if the entity intends to sell the security as of the measurement date or has determined that it is more likely than not that it will be required to sell the security before the recovery of its amortized cost basis. Further, an other-than-temporary impairment is considered to have occurred if (1) the entity does not intend to sell the security, (2) it is not more likely than not that the entity will be required to sell the security before recovering its amortized cost basis, and (3) the entity does not expect to recover the entire amortized cost basis of the debt security (i.e., a credit loss is considered to have occurred).

In determining the amount of impairment loss to recognize, entities should refer to the guidance in ASC 320-10-35-34B through 35-34D and ASC 320-10-35-33D. As a result of the Russia-Ukraine war, an entity may need to recognize an impairment loss if it (1) has determined that sales of AFS debt securities are inevitable because it must replenish cash and other capital resources that have been expended and (2) has not generated sufficient replacement cash flows (e.g., an entity could determine that it is more likely than not that it would be required to sell AFS debt securities). In addition, entities should be mindful that, in determining credit losses, credit rating agencies are often slow to reflect credit rating downgrades (e.g., a large number of investment-grade debt securities may already reflect negative attributes that suggest they are no longer of investment grade). Entities therefore should consider credit losses that exist as of the balance sheet date that are not yet reflected in credit ratings. An entity may evaluate bond credit spreads and other fixed-income market indicators in making such assessments.



Disclosure Considerations

- ASC 320-10-50 contains numerous disclosure requirements related to other-than-temporary impairments of AFS and HTM debt securities. For example, specific disclosure requirements apply (1) when an other-than-temporary impairment has been recognized and (2) for securities in an unrealized loss position for which an impairment has not been recognized. In complying with the requirements in ASC 320-10-50-6, an entity should consider whether the impact of the Russia-Ukraine war represents “other information that the investor considers relevant” in the disclosure of the “evidence considered by the investor in reaching its conclusion that the investment is not other-than-temporarily impaired” (see ASC 320-10-50-6(b)(5)(x)).
- *Loans* — Creditors that lend to entities that may be adversely affected by economic instability resulting from the war will need to assess whether certain events (such as downgrades in borrower credit ratings or declines in cash flows and liquidity) indicate that an impairment evaluation is required. The economic uncertainty could also result in loan modifications that must be accounted for as a troubled debt restructuring (TDR) in accordance with ASC 310-40. For entities that have not yet adopted ASC 326, a modification is not accounted for as a TDR before the date the modification has occurred (i.e., a legally binding agreement is in place). Nevertheless, even before the occurrence of such a modification, entities should consider the impact on incurred losses that results from changes in credit risk related to borrowers for which modifications may occur.

- *Receivables* — Receivables from entities may need to be evaluated for collectibility in accordance with ASC 310. Entities should pay particular attention to the assessment of recoverability when receivables are overdue, even if the entities have the right to charge interest for late payment. Entities should also evaluate receivables from customers in geographic regions that are most affected by the war even if those receivables are not yet past due. Entities may incur additional write-offs of receivables deemed uncollectible or may be required to establish additional reserves on receivables due from entities that are affected (or expected to be affected) by the impacts of the war.



Disclosure Considerations

Entities should consider how the Russia-Ukraine war may affect their disclosure requirements under ASC 310-10-50. Entities should also be mindful that ASC 310-10-50-11B(a)(1) requires disclosure of “the factors that influenced management’s judgment” related to the estimation of credit losses and, as stated in ASC 310-10-50-11B(a)(1)(ii), that “[e]xisting economic conditions” must be considered. In addition, the credit-quality disclosures required by ASC 310-10-50 must include discussion of the qualitative risks arising from an entity’s financing receivables and how management monitors those risks.

- *Contract assets* — As is the case with receivables, entities that have contract assets will need to evaluate recorded amounts for impairment in accordance with ASC 310 by assessing the customer’s ability to pay amounts when due. The customer’s ability to pay may be adversely affected by the economic instability resulting from the impacts of the war.
- *Net investments in sales-type or direct financing leases* — Lessors that have entered into sales-type or direct financing leases should evaluate their net investments in leases in accordance with ASC 842-30-35-3 (which requires any loss allowance to be recorded as indicated in ASC 310). This evaluation should take into consideration changes in both (1) the credit risk of the lessee and (2) the cash flows expected to be derived from the underlying leased property at the end of the lease. Such changes include, for example, potential cash flows from the sale of the property at the end of the lease or from renewals with the same lessee. Therefore, a deterioration in market conditions may lead to a decline in the leased asset’s value, resulting in an impairment of the net investment in the lease even if the lessee’s credit quality has not deteriorated.

Entities that have adopted ASC 326 must apply the current expected credit losses (CECL) impairment model to recognize credit losses on financial assets with contractual cash flows that are carried at amortized cost (including HTM debt securities), net investments in leases (except for operating lease receivables), reinsurance receivables, and off-balance-sheet credit exposures. Since the CECL model is based on expected losses rather than incurred losses, an allowance for credit losses under ASC 326-20 reflects (1) a risk of loss (even if remote) and (2) losses that are expected over the contractual life of the asset.



Connecting the Dots

As the FASB clarified in [ASU 2018-19](#),⁵ operating lease receivables are not within the scope of CECL, although net investments in sales-type and direct financing leases are within the scope of ASC 326. An entity would need to apply other guidance — namely ASC 842 — to evaluate the impairment implications associated with operating lease receivables. For more information, see Deloitte’s July 1, 2019, [Financial Reporting Alert](#).

⁵ FASB Accounting Standards Update (ASU) No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses*.

The allowance takes into account historical loss experience, current conditions, and reasonable and supportable forecasts. Because the CECL model does not specify a threshold for recognizing an impairment allowance, entities should assess the current and expected future adverse effects of the war and incorporate such effects into their estimate of expected credit losses on each reporting date. They should also “evaluate whether a financial asset in a pool continues to exhibit similar risk characteristics with other financial assets in the pool” in accordance with ASC 326-20-35-2 or whether the risk characteristics of the financial asset have been affected by the Russia-Ukraine war so that the asset should be removed from its current pool and either (1) moved into a different pool or (2) evaluated individually if it no longer shares risk characteristics with any other financial assets.

In some cases, entities that have adopted ASC 326 may decide to shorten the reasonable and supportable forecast period for certain portfolios because of the forecast uncertainty that results from the war. In these situations, entities should also reevaluate both the reversion period and the historical loss data used for reversion purposes. For example, when an entity shortens the reasonable and supportable forecast period, it would most likely also increase the reversion period. Furthermore, depending on the remaining contractual maturity of the portfolio, it may further determine that the historical loss information used in the postreversion period should reflect losses incurred during a volatile economic environment (as opposed to long-term loss data over an entire economic cycle).



Disclosure Considerations

ASC 326-20-50-11 requires entities to disclose the method they used to estimate credit losses, including a discussion of the factors that influenced management’s current estimate of expected credit losses and how changes in those factors affected the allowance for credit losses. In circumstances in which an entity shortens its reasonable and supportable forecast period or changes its reversion approach, it would need to disclose these facts if such changes materially affect the allowance for credit losses. Entities should also consider disclosing the quantitative effect of the Russia-Ukraine war on the allowance for credit losses (and credit loss expense during the period), if material.

Under ASC 326-30, an entity also uses an allowance approach when recognizing expected credit losses on an AFS debt security. ASC 326-30-35-3 requires an entity to recognize as an allowance an AFS debt security’s expected credit losses, limited by the difference between the security’s fair value and its amortized cost basis. Any changes in the allowance for expected credit losses on an AFS debt security would be recognized as an adjustment to the entity’s credit loss expense. ASC 326-30-55-1 lists numerous factors that an entity should consider in determining whether a credit loss exists, including adverse financial conditions. While an allowance model is applied for entities that have adopted ASC 326-30, the factors and approach used to measure credit losses are generally unchanged (see the [discussion](#) above of AFS and HTM debt securities).



Disclosure Considerations

Although [ASU 2016-13](#)⁶ made targeted changes to the impairment model for AFS debt securities (e.g., it introduced an allowance model), the disclosure requirements are largely unchanged. However, entities that adopted ASU 2016-13 must apply the disclosure requirements in ASC 326-20 for HTM debt securities. Entities with AFS debt securities should see the disclosure considerations discussed above, which apply before and after the adoption of ASU 2016-13.

The sections below discuss fair value measurement and disclosure considerations that may be relevant in the assessment of impairment.

⁶ FASB Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*.

Transfers/Sales of HTM Investments

An entity holding HTM investments issued by entities that may be adversely affected by the economic uncertainty associated with the Russia-Ukraine war may choose to transfer such investments out of the HTM classification or sell them. A decision to transfer or sell an HTM investment could call into question or “taint” the entity’s intent to hold other investments in its HTM portfolios in the future unless the sale or transfer qualifies for one of the limited exceptions in ASC 320-10-25. Therefore, an entity will need to carefully evaluate whether its sales or transfers of HTM investments meet one of those exceptions.

For example, ASC 320-10-25-6(a) states that if there is “[e]vidence of a significant deterioration in the issuer’s creditworthiness,” an investor’s decision to change its intent to hold that security would not be inconsistent with its original classification decision (i.e., it would not taint the remaining HTM portfolio). In addition, ASC 320-10-25-8 and 25-9 specify that events that are “isolated, nonrecurring, and unusual” for the entity and that could not be reasonably anticipated “may cause the entity to sell or transfer a held-to-maturity security without necessarily calling into question (tainting) its intent to hold other debt securities to maturity.” An entity’s belief that it meets the conditions in ASC 320-10-35-9 because of the impacts of the war, along with its decision to transfer or sell HTM securities on more than one occasion, would be inconsistent with the notion that the events are isolated and nonrecurring. For example, an entity cannot transfer some securities out of HTM in March and then also decide to transfer more securities out of HTM in June without calling into question its intent to hold its remaining HTM portfolio.



Disclosure Considerations

ASC 320-10-50-10 requires entities to disclose all of the following for any transfers or sales of HTM debt securities during a financial reporting period:

- a. The net carrying amount of the sold or transferred security
- b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security
- c. The related realized or unrealized gain or loss
- d. The circumstances leading to the decision to sell or transfer the security.

Transfers of Investments Into or Out of the Trading Classification

As a result of the economic uncertainty associated with the Russia-Ukraine war, an entity holding debt securities classified as trading may change the way it manages those securities. For example, a financial institution may decide that it needs to use certain debt securities in its trading portfolio as collateral for borrowing under various programs, including federal lending programs. ASC 320-10-35-12 states that “given the nature of a trading security, transfers into or from the trading category . . . should be rare.” We believe that in a manner similar to transfers or sales out of the HTM portfolio ([discussed](#) above), the current economic environment may result in a rare circumstance in which an entity may reclassify securities out of the trading portfolio. However, we believe that transfers of securities out of the trading portfolio on more than one occasion for the same reason (e.g., because of the impacts of the war) would not be consistent with the notion that such transfers are “rare.”

Further, we believe that transfers of securities into the trading category would not be allowed because a transfer into that category would result in immediate recognition of any previously unrealized gain or loss at the time of transfer, and securities that an entity intends to sell in the short term can be classified as AFS.



Disclosure Considerations

Although ASC 320-10-50 does not require the disclosure of transfers of debt securities from the trading category to AFS, entities should nevertheless consider whether providing relevant information regarding such transfers would be useful to stakeholders.

Classification of Current and Noncurrent Financial Liabilities

Liabilities are generally classified as current in an entity's balance sheet if they are reasonably expected to be settled by the entity within 12 months of the end of the reporting period (see ASC 210-10-45-5 through 45-12 for additional discussion). Unstable trading conditions in affected regions may increase the risk that entities breach financial covenants (e.g., fail to achieve a specified level of profits or interest coverage). If such a breach occurs on or before the end of the reporting period and gives the lender the right to demand repayment within 12 months of the end of the reporting period, the liability would generally be classified as current in the borrower's financial statements.



Disclosure Considerations

ASC 470-10 does not require an entity to disclose information about short-term obligations that remain classified as long-term debt because the debtor obtains a waiver of a violation of a covenant. However, ASC 470-10-50-2 requires the disclosure of obligations classified as long-term because the debtor expects to cure a covenant violation within a specified grace period. Further, Regulation S-X, Rule 4-08(c), requires SEC registrants to disclose waivers of covenant violations, including "the amount of the obligation and the period of the waiver."

Renegotiation of Financial Liabilities

The Russia-Ukraine war may lead to a greater number of debt restructurings (e.g., to extend a maturity, reduce a coupon rate, or ease covenant terms). Under ASC 470-50-40, a borrower must assess whether such a restructuring results in a substantially different instrument, in which case the modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. ASC 470-60 provides guidance on whether a debtor should account for a debt restructuring as a TDR.



Disclosure Considerations

ASC 470-60 contains several disclosure requirements related to a debt restructuring that is a TDR. Although no specific disclosures are required under ASC 470-50 for modifications or exchanges that are not accounted for as extinguishments, an entity should consider disclosing the significant terms of any transaction involving the modification or exchange of debt, including the fact that it recognized no extinguishment gain or loss, as well as the pertinent terms of the new debt instrument involved in the transaction.

Impact on Hedge Accounting

The Russia-Ukraine war could affect both (1) the ability of entities to apply hedge accounting under ASC 815 and (2) the earnings impact of hedge accounting. Entities should consider the following:

- *Whether the occurrence of forecasted transactions remains probable within the period specified in the hedge designation documentation* — For example, an entity could change its intent to make purchases or sales or may no longer have the intent or ability to roll over debt given its financial difficulties or general economic difficulties associated with the war. Also, the ability of counterparties and customers to buy from or lend to the reporting entity may be adversely affected, which could limit the entity's ability

to hedge certain transactions. For instance, an entity's ability to hedge probable sales to customers or probable interest payments on a loan issued by a bank may be questionable if those counterparties might be unable to perform in the current economic environment. As a result of these changes in facts and circumstances, an entity may be required to discontinue cash flow hedging. A delay in the occurrence of a forecasted transaction beyond the period identified in the hedge designation documentation would also require discontinuance of cash flow hedging. ASC 815-30-40-4 requires an entity to reclassify into earnings any amounts that were previously accumulated as other comprehensive income if it is probable that the forecasted transactions will not occur within two months of the period identified in the hedge designation documentation. However, that requirement does not apply in situations in which it is probable that the transaction will still occur with a delay of more than two months after the period identified in the hedge designation documentation if the delay is caused by "the existence of extenuating circumstances that are related to the nature of the forecasted transaction and are outside the control or influence of the reporting entity."

An entity that determines that it is no longer probable that the forecasted transaction will occur within the "reasonable time period beyond the additional two-month period" would immediately reclassify all accumulated other comprehensive income amounts related to the discontinued hedge into earnings and provide appropriate disclosures in its interim and annual financial statements.



Disclosure Considerations

ASC 815-10-50-4C(f) requires an entity to disclose the amounts of gains and losses reclassified into earnings as a result of the discontinuance of cash flow hedges if it is probable that the forecasted transaction will not occur by the end of the originally specified period or within the additional period discussed in ASC 815-30-40-4 and 40-5.

- *The effect of any impairment on the assessment of hedge effectiveness* — For example, the cash flows of a receivable or debt security that is hedged for interest rate risk or foreign currency risk should not be included in the hedge effectiveness assessment if they are not expected to be recovered. Entities should also carefully consider the impact of credit risk and liquidity risk on hedge effectiveness since both can be a source of hedge ineffectiveness that can cause a hedge to not be highly effective. The impact could be particularly significant on entities that have uncollateralized hedging instruments with financial institutions domiciled in affected countries (since the instruments' fair values could be significantly influenced by changes in the institutions' credit risk).
- *The risk of counterparty default with respect to their derivative and hedging portfolios* — In accordance with ASC 815-20-35-15, if it is no longer probable that the counterparty will not default, the hedging relationship ceases to qualify for hedge accounting because it is no longer expected to be highly effective.

NPNS Election for Contracts That Meet the Definition of a Derivative

Among other criteria, for an entity to apply the normal purchases and normal sales (NPNS) scope exception in ASC 815 to a contract, the entity must be able to assert that it is probable that the contract will not net settle and will result in physical delivery both (1) at inception and (2) throughout the contract's term. Since the impacts of the Russia-Ukraine war may call into question whether contracts with affected entities will physically settle, it might become more difficult for an entity to assert that such contracts meet the criteria for the NPNS election in some cases.



Disclosure Considerations

If a contract that meets the definition of a derivative no longer qualifies for the NPNS election, it must be accounted for as a derivative and, accordingly, recognized at fair value on the balance sheet. In addition, the disclosure requirements in ASC 815-10-50 for derivative instruments would apply.

Fair Value Measurement and Disclosures

ASC 820 emphasizes that fair value is a market-based measurement based on an exit price notion and is not entity-specific. Therefore, a fair value measurement must be determined on the basis of the assumptions that market participants would use in pricing an asset or liability, whether those assumptions are observable or unobservable. The fair value hierarchy in ASC 820 serves as a basis for considering market-participant assumptions and distinguishes between (1) market-participant assumptions developed on the basis of market data that are independent of the entity (observable inputs) and (2) an entity's own assumptions about market-participant assumptions developed on the basis of the best information available in the particular circumstances, including assumptions about risk inherent in inputs or valuation techniques (unobservable inputs). In accordance with the fair value hierarchy, entities are required to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. This focus on the observability of inputs also often affects the valuation technique used to measure fair value.

Even in times of extreme market volatility, entities cannot ignore observable market prices on the measurement date unless they are able to determine that the transactions underlying those prices are not orderly. In accordance with ASC 820-10-35-54I, in determining whether a transaction is orderly (and thus whether it meets the fair value objective described in ASC 820-10-35-54G), an entity cannot assume that an entire market is "distressed" (i.e., that all transactions in the market are forced or distressed transactions) and place less weight on observable transaction prices in measuring fair value. See [Section 10.7](#) of Deloitte's Roadmap *Fair Value Measurements and Disclosures (Including the Fair Value Option)* for more information about identifying transactions that are not orderly.

In addition to considering whether observable transactions are orderly, entities should take into account the following valuation matters that could be significantly affected by the Russia-Ukraine war:

- An evaluation of the inputs used in a valuation technique and, in particular, the need to include the current market assessment of credit risk (both counterparty and own credit risk) and liquidity risk, both for derivative and nonderivative instruments. This may also involve the need to change valuation techniques or to calibrate valuation techniques to relevant transactions.
- An assessment of whether an entity can rely on data from brokers and independent pricing services when determining fair value.



Disclosure Considerations

The disclosures required under ASC 820 are extensive, particularly those about fair value measurements involving significant unobservable inputs (i.e., Level 3). An entity may need to consider whether the impacts of the Russia-Ukraine war would affect a financial instrument's level in the fair value hierarchy (e.g., a financial instrument previously classified in Level 2 would need to be transferred to Level 3 if the fair value consists of significant unobservable inputs). ASC 820 also requires an entity to (1) describe the valuation techniques and inputs used to determine fair values (by class of financial assets and liabilities) and (2) disclose a change in a valuation technique and the reason for that change.

Consolidation and Equity Method Accounting

The Russia-Ukraine war may give rise to specific transactions or events that could affect a reporting entity's accounting conclusions and disclosures related to consolidation as well as its equity method accounting. Such transactions or events may include the following and are discussed in greater detail in the succeeding sections:

- *Operating losses* — During the economic downturn associated with the war, a legal entity may incur substantial operating losses that reduce the level of its equity investment at risk. If the legal entity defaults on covenants as a result of operating losses, a lender may obtain rights to participate in or make decisions of the legal entity, which a reporting entity should consider in determining whether consolidation remains appropriate. The reporting entity may also be required to reconsider whether the legal entity is a variable interest entity (VIE). That is, while operating losses incurred by the legal entity do not, in isolation, cause the legal entity to become subject to the VIE guidance, a "VIE reconsideration event" may have occurred because of a change in governance rights that causes the equity holders, as a group, to lose the power to direct the activities of a VIE that most significantly affect the VIE's economic performance.
- *An other-than-temporary lack of currency exchangeability or the existence of government limitations affecting the party (or parties) with power to direct the activities of a VIE that most significantly affect the VIE's economic performance* — If, as a result of the war, a legal entity that was not previously a VIE is unable to exchange currency, access cash, or both, or if government limitations otherwise change a reporting entity's ability to exercise rights or governance provisions of a legal entity, a VIE reconsideration event would be triggered. Further, the reporting entity may need to consider whether it has the power to direct the activities of the VIE that most significantly affect the VIE's economic performance.
- *Ability to exercise significant influence over an equity method investee* — For the same reasons as those noted above, if currency exchangeability or government limitations change a reporting entity's ability to exercise rights or change the governance provisions of a legal entity, an investor may need to consider whether it has the ability to exercise significant influence over the financial and operating policies of an equity method investee.
- *Time lag* — If a parent reports a subsidiary's financial results on a time lag, or if an equity method investor reports an equity method investee's financial results on a time lag, there may be material intervening events arising from the war during the period between the subsidiary's or investee's year-end reporting date and the reporting entity's balance sheet date that the reporting entity may be required to either disclose or both recognize and disclose.
- *Equity method basis differences* — The recognition of an other-than-temporary impairment charge for an equity method investment related to the war may affect existing equity method basis differences or give rise to new ones.

Note that the initial assessment of whether a reporting entity has a controlling financial interest in a legal entity should be performed on the date on which the reporting entity first becomes involved with the legal entity. Although a reporting entity is required to reconsider whether a legal entity is a VIE upon the occurrence of a VIE reconsideration event, the reporting entity should not do so on a continual basis or because of circumstances other than the specific events outlined in ASC 810-10-35-4. See [Chapter 9](#) of Deloitte's Roadmap *Consolidation — Identifying a Controlling Financial Interest* for further discussion of VIE reconsideration events.

A reporting entity must continually reassess whether it is the primary beneficiary of a VIE throughout the entire period in which the reporting entity is involved with the VIE.⁷ However, because consolidation of a VIE is based on the power to direct the activities of a VIE that most significantly affect the VIE's economic performance, it is unlikely that the primary-beneficiary conclusion will change periodically in the absence of specific transactions or events that affect the power over a VIE. See [Chapter 7](#) of Deloitte's Roadmap *Consolidation — Identifying a Controlling Financial Interest* for further discussion of the identification of the primary beneficiary of a VIE.

Operating Losses of a Legal Entity

As noted above, while operating losses incurred by a legal entity generally do not, in isolation, trigger a VIE reconsideration event, reporting entities should consider whether, as an indirect result of such losses, there is a change in governance rights that could affect whether a reporting entity is the primary beneficiary of a VIE and cause a VIE reconsideration event (i.e., one of the reconsideration events addressed in ASC 810-10-35-4). For more information, see [Chapters 7 and 9](#) of Deloitte's Roadmap *Consolidation — Identifying a Controlling Financial Interest*.

An example of how operating losses attributable to a period of economic downturn associated with the war could affect whether a reporting entity is the primary beneficiary of a VIE (and cause a VIE reconsideration event) is a default by the legal entity on certain provisions in its debt agreements (e.g., debt covenants or a decline in the fair value of collateral below preapproved levels). Some agreements may contain provisions that, in the event of such a default, give the lender the right to participate in or make decisions that affect the legal entity's economic performance. Upon default, and provided that there are no substantive barriers to the lender's exercise of such rights, a reporting entity may lose its controlling financial interest in the legal entity. In such instances, other entities involved with the VIE (e.g., a lender) should also reconsider whether the legal entity is a VIE and whether they have obtained a controlling financial interest in the legal entity on the basis of specific transactions or events.

An Other-Than-Temporary Lack of Currency Exchangeability or the Existence of Government Limitations Affecting the Party (or Parties) With Power to Direct the Activities of a VIE That Most Significantly Affect the VIE's Economic Performance

As noted above, a reporting entity must continually reassess whether it is the primary beneficiary of a VIE throughout the entire period in which the reporting entity is involved with the VIE. We understand that in geopolitical situations such as the Russia-Ukraine war, certain changes to the economic environment or local government policy may result in a change of the party (or parties) with power to direct the activities of a legal entity that most significantly affect the legal entity's economic performance.

For example, the war could cause an other-than-temporary lack of currency exchangeability as a result of a foreign subsidiary's inability to exchange local currency for U.S. dollars because of a foreign government's decreased supply of U.S. dollars or because of foreign government restrictions on currency exchanges. In addition, governments may seek to enforce restrictions on certain operational decisions, including, for example, labor force reductions, decisions about product mix or pricing, or sourcing of raw materials or other inputs into the production process.

⁷ Similarly, the determination of whether a reporting entity should consolidate a voting interest entity (i.e., a legal entity that is not a VIE) is also a continual process. That is, the reporting entity should monitor specific transactions or events that affect whether it holds a controlling financial interest. See [Appendix D](#) of Deloitte's Roadmap *Consolidation — Identifying a Controlling Financial Interest*.

A change in the party (or parties) with power to direct the activities of a legal entity that most significantly affect the legal entity's economic performance could also lead to a VIE reconsideration event if the equity holders, as a group, lose the power to direct the activities of a legal entity that most significantly affect the legal entity's economic performance. Such an event would be considered a VIE reconsideration event in accordance with ASC 810-10-35-4 and the legal entity would become a VIE even if a determination was made previously that the legal entity was not a VIE. For example, a legal entity that was controlled by its equity holders may become subject to government restrictions or limitations that could call into question whether the power to direct the most significant activities of the legal entity still rests with the holders of the equity investment at risk. Such a scenario would be deemed a VIE reconsideration event.

Regarding the lack of currency exchangeability, ASC 830-20-30-2 notes, in part:

If the lack of exchangeability is other than temporary, the propriety of consolidating, combining, or accounting for the foreign operation by the equity method in the financial statements of the reporting entity shall be carefully considered.

Further, ASC 810-10-15-10 notes, in part:

A majority-owned subsidiary shall not be consolidated if control does not rest with the majority owner — for instance, if [the] subsidiary operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the subsidiary.

A reporting entity's evaluation of whether deconsolidation of a foreign subsidiary is appropriate should be based on the reporting entity's and foreign subsidiary's specific facts and circumstances. The mere fact that currency exchangeability is lacking or that government controls exist may not by itself create a presumption that a reporting entity should deconsolidate its foreign operations, nor does the ability to exchange some volume of currency create a presumption that continued consolidation of foreign operations is appropriate. However, the existence of the above factors represents negative evidence that a reporting entity should consider in determining whether deconsolidation is appropriate on the basis of the reporting entity's specific facts and circumstances.

If a reporting entity ultimately concludes that deconsolidation is appropriate, it still must determine the right date for deconsolidation, including the suitable currency exchange rate to use for remeasuring its deconsolidated investment and any other outstanding monetary balances that are no longer eliminated in consolidation (provided that they are not considered fully impaired). In addition, if a reporting entity deconsolidates a foreign operation because of a loss of control or a transaction that represents a complete or substantially complete liquidation of the foreign entity's net assets, the reporting entity should release to earnings, as of the deconsolidation date, the cumulative translation adjustment related to that foreign operation, even when a noncontrolling investment is retained. **[Paragraph amended March 31, 2022]**



Disclosure Considerations

Reporting entities should consider the effect of a change in governance rights on applicable disclosures, including those related to significant judgments and assumptions made in determining the primary beneficiary of a VIE. See [Section 11.2](#) of Deloitte's Roadmap *Consolidation — Identifying a Controlling Financial Interest*.

A reporting entity affected by the Russia-Ukraine war should clearly disclose the basis for its consolidation/deconsolidation conclusion regarding any investments with operations in those countries. If a reporting entity continues to consolidate, it may consider disclosing its intention to continue monitoring developments in coming quarters, along with a description of the possible financial statement impact, if estimable, of deconsolidation were that to occur.

Ability to Exercise Significant Influence Over an Equity Method Investee

As noted above, the Russia-Ukraine war may result in various changes to the governance of a legal entity with operations in those countries. Such changes may, for example, result from a legal entity's default on a loan obligation because of operating losses, an other-than-temporary lack of currency exchangeability, or the existence of government limitations.

The determination of whether an investor has the ability to exercise significant influence over an investee's reporting and financial policies is a continual process. Therefore, reporting entities that apply the equity method to account for investments in common stock or in-substance common stock on the basis of their ability to exercise significant influence over operating and financial policies of the investee may need to assess the specific facts and circumstances associated with the war to determine whether they continue to meet the criteria for applying the equity method to an investee with operations in Ukraine or Russia (i.e., whether they continue to have significant influence over an investee as a result of the war).

Accordingly, upon a change in facts and circumstances, the investor should determine whether its conclusion regarding the ability to exercise significant influence has changed. ASC 323-10-15-6 and ASC 323-10-15-10 provide nonexhaustive lists of positive and negative indicators, respectively, that a reporting entity may consider when determining whether it has the ability to exercise significant influence over an investee's operating and financial policies. Therefore, the investor should continually assess the specific facts and circumstances relative to the investor's ability to exercise significant influence over an investee with operations in Ukraine or Russia. See [Sections 3.3](#) and [3.3.1](#) of Deloitte's Roadmap [Equity Method Investments and Joint Ventures](#).

Reporting Subsidiary or Equity Method Investee Results on a Time Lag — Material Intervening Events

If a parent reports a subsidiary's or equity method investee's financial results on a time lag on the basis of the guidance in ASC 810-10-45-12 and (if applicable) Regulation S-X, Rule 3A-02, or ASC 323-10-35-6, respectively, and material intervening events occur as a result of the Russia-Ukraine war during the reporting time lag, the reporting entity may be required to either disclose or both recognize and disclose those events.

Reporting entities must use judgment to identify, as appropriate, any material intervening events related to the war and, if the reporting entity's policy is to only disclose material intervening events, evaluate whether any such events are so significant that their recognition would be required notwithstanding a disclosure-only policy election. See [Section 5.1.4](#) of Deloitte's Roadmap [Equity Method Investments and Joint Ventures](#) and [Section 11.1.3](#) of Deloitte's Roadmap [Consolidation — Identifying a Controlling Financial Interest](#) for further discussion of when recognition or disclosure is acceptable or when both are required for material intervening events.

Equity Method Basis Differences

As discussed in the [Impairment and Valuation Considerations](#) section, impairment is recognized for a loss in value of an equity method investment that is due to an other-than-temporary decline in value. The recognition of such an other-than-temporary impairment charge will often affect existing equity method basis differences⁸ or give rise to new ones. For example, if an investor has a positive basis difference allocated to various assets and equity method goodwill greater than an impairment, the impairment would most likely reduce the existing positive basis differences and affect their subsequent amortization. Conversely, if an

⁸ An equity method basis difference is the difference between the cost of an equity method investment and the investor's proportionate share of the carrying value of the investee's underlying assets and liabilities. The investor is required to account for this basis difference as if the investee were a consolidated subsidiary. See [Section 4.5](#) of Deloitte's Roadmap [Equity Method Investments and Joint Ventures](#) for further discussion of equity method basis differences.

investor does not have any positive basis differences or the other-than-temporary impairment charge exceeds the existing basis differences, the recognition of an impairment charge will result in the creation of a negative basis difference. ASC 323 does not provide guidance on how the impact of an impairment charge should be allocated to basis differences. Therefore, an investor should select an accounting policy for allocating impairment charges to basis differences and apply it consistently. See [Section 5.5.2.1](#) of Deloitte's Roadmap *Equity Method Investments and Joint Ventures* for examples of approaches to allocating impairment charges to basis differences.

Foreign Currency Matters

Long-Term Intra-Entity Foreign Investments

Under ASC 830-20-35-3(b), gains and losses on certain intra-entity foreign currency transactions “of a long-term-investment nature” may be treated as translation adjustments rather than recognized in net income. A transaction qualifies as a long-term investment if an entity is able to assert that “settlement is not planned or anticipated in the foreseeable future.” An entity that has characterized intra-entity transactions as part of its net investment in the entity may need to reassess whether that designation is still appropriate as a result of the Russia-Ukraine war. For example, an entity that plans to exit or has abandoned any country affected by the war may need to reassess whether certain intercompany loans that had previously been determined to be of a “long-term-investment nature” should continue to be accounted for as such if the loans could now be settled in the “foreseeable future” in connection with the exit events.

Highly Inflationary Economies

ASC 830 requires entities to assess whether they are operating in an economy that has become highly inflationary. This assessment is based on whether the three-year cumulative inflation rate (generally in accordance with the consumer price index) within a country exceeds 100 percent. Historically, when there have been significant trade disruptions as a result of political or economic events, inflation rapidly increases in affected countries. The three-year cumulative inflation rate in Russia and Ukraine at the end of 2021 was approximately 18 percent and 20 percent, respectively. Therefore, Russia and Ukraine, which had relatively low inflation levels before 2022 may see large and rapid inflation spikes. Although not directly related to the Russia-Ukraine war, such spikes in Turkey have resulted in its current highly inflationary status, which it achieved by going from a three-year cumulative rate of 53 percent in November 2021 to over 100 percent in February 2022. Foreign operations in countries that have experienced these levels of inflation may be required to change their functional currency.

Note that the war's duration as well as its ultimate outcome could have a significant impact on whether countries that are not directly involved may also see a spike in inflation.

Remeasurement of Foreign Currency Transactions

ASC 830-20-30-3 indicates that entities should use the applicable rate at which a transaction could settle as of the transaction date to translate and record transactions. Before the Russia-Ukraine war, regions currently affected by it generally published a single official exchange rate that was used in remeasurement and translation accounting. However, in other situations in which a war between countries has arisen that has affected those countries' economies, it has been common for more than one exchange rate to develop or to be approved by governments. Under ASC 830, since entities are required to use a legal exchange rate, those that can access an unofficial exchange rate should, in consultation with legal counsel (if necessary), assess whether accessing that rate is lawful. In other words, we believe that if an entity determines that an unofficial exchange is readily available for legally settling foreign currency transactions, the rate used for remeasuring foreign-currency-denominated transactions into the functional currency would depend on the type of transaction being

remeasured, because when multiple exchanges exist, governments commonly restrict the type of transactions that certain exchange rates can be used for. However, the official rate should be used if an entity determines that an unofficial exchange rate is not a readily available means by which foreign-currency-denominated transactions can be settled.

Given the possibility of further changes to the sanctions against Russia and the legal interpretation of such sanctions, it may be unclear whether an entity could be legally precluded from accessing certain currencies, which may therefore affect the assessment of the functional currency of a foreign operation that may have historically operated in those currencies. As a result, a reporting entity may have to reassess the functional currency for those foreign operations. Entities in this situation should keep in mind that the determination of functional currency should be based on the long-term expectations of how the foreign operation may operate. Thus, if the restrictions are temporary, a change in functional currency may not be permissible.

Further, it has been reported that the Russian government intends to establish policies requiring Russian entities that transact in international commerce with certain non-Russian counterparties to renegotiate or convert the currency of those contracts (e.g., U.S. dollar or euro) into the Russian ruble. Given the possibility of further changes and the legal interpretation of contract law, it may be unclear whether an entity's contract with a Russian counterparty has been modified. Accordingly, in such situations, an entity may be required to remeasure its newly denominated ruble monetary balances, transactions, or both into its functional currency, resulting in the recognition of foreign currency remeasurement gains and losses in the income statement. There could also be other accounting implications, including, but not limited to, the need to discontinue hedge accounting. (For more information, see the [Impact on Hedge Accounting](#) section.) **[Paragraph added March 31, 2022]**

Translation of Foreign Currency Financial Statements

ASC 830-30-45-6 indicates that “[i]n the absence of unusual circumstances, **the exchange rate applicable to conversion of a currency for purposes of dividend remittances shall be used to translate** foreign currency statements” (emphasis added). However, when events such as the Russia-Ukraine war have arisen in the past, an entity has often had difficulty using an official exchange rate to repatriate dividends. Therefore, if more than one exchange rate exists, the entity must use judgment in determining the relevant dividend remittance rate. This determination should be based on individual facts and circumstances, and an entity should be prepared to support its conclusion to auditors and regulators. We believe that such support may include, but is not limited to:

- Sufficient evidence that the entity's use of the unofficial market rate for dividend remittance purposes is legal.
- Sufficient evidence to support the entity's assertion that it will be able to obtain the requisite volume of qualifying securities in the future and therefore is able to use the unofficial market rate for dividend remittances.

Other considerations in the determination of the dividend remittance rate to use for foreign currency translation include, but are not limited to:

- The entity's intent and ability to use a particular rate for dividend remittances, including a retrospective assessment of its ability to use a particular rate.
- The positive or negative impact of the entity's industry on its ability to access different exchange rates.
- The volume of potential or anticipated dividend remittances based on an assessment of accumulated unremitted earnings and the positive or negative impact that such volume may have on the entity's ability to use a particular rate for dividend remittances.



Disclosure Considerations

Because of the circumstances associated with exchange controls and sanctions, additional disclosures may be necessary when an entity has material operations or economic exposures in regions affected by the Russia-Ukraine war. Financial reporting considerations related to an entity's use of a particular rate for remeasurement of foreign currency transactions and translation of foreign currency statements include, but are not limited to:

- Disclosure of (1) the exchange rate used for remeasurement and translation and (2) the effect or potential effect on the financial statements.
- Disclosure of the net monetary assets and liabilities in regions affected by the war, disaggregated by the currency in the affected regions.
- Disclosure of summarized financial information about the entity's operations in affected regions.
- MD&A discussion of the potential impact that a change in the exchange rates used for remeasurement or translation would have on the entity's financial statements.

Exit or Disposal Cost Obligations

As a result of the Russia-Ukraine war, entities may incur costs associated with exit or disposal activities (e.g., involuntary employee termination benefits in accordance with a one-time benefit arrangement or costs to terminate a contract or consolidate or close facilities and relocate employees). ASC 420 provides guidance on determining when to recognize these costs and the accompanying information that must be disclosed in the financial statement footnotes that include (1) the period in which an exit or disposal activity is initiated and (2) any subsequent periods until the activity is completed. See the [Employee Termination Benefits](#) section for further discussion of the accounting for involuntary termination benefits associated with ongoing employee benefit plans.

Revenue Contracts With Customers

As a result of the Russia-Ukraine war, an entity may need to cancel its contracts with certain customers (e.g., because of the shutdown of its operations in, or its exit from, certain markets affected by the war) or may otherwise be precluded from entering into contracts with certain counterparties (e.g., counterparties subject to sanctions). Business disruptions associated with the war may also prevent an entity from entering into customer agreements through its normal business practices, which may present challenges related to its determination of whether it has enforceable rights and obligations.

In addition, because customers affected by the war may be experiencing financial difficulties or liquidity issues, an entity may need to establish procedures to properly assess the collectibility of its arrangements with them and consider changes in estimates related to variable consideration (e.g., as a result of increased product returns, reduced usage of the entity's products or services, or decreased royalties). The entity may seek to help some of these customers by (1) revising its agreements to reduce any purchase commitments; (2) allowing customers to terminate agreements without penalty; or (3) providing price concessions, discounts on the purchase of future goods or services, free goods or services, extended payment terms, or extensions of loyalty programs.

Further, because an entity with operations in areas affected by the war may also be experiencing financial difficulties and supply-chain disruptions, it may (1) request up-front payments from its customers, (2) delay the delivery of goods or services, (3) pay penalties or refunds for failing to perform or meet service-level agreements or for terminating agreements, or (4) incur unexpected costs to fulfill its performance obligations. Therefore, as a result of the

changes in circumstances experienced by both an entity and its customers due to the war, an entity may need to consider the following when assessing revenue from contracts with customers:

- *Contract termination* — An entity may terminate its contract with a customer. For example, it may be unable to sell its goods or services as a result of sanctions or because of a shutdown of its operations. The entity may therefore need to consider whether any (1) consideration due is collectible, (2) termination penalties or refund liabilities are triggered (after carefully assessing any force majeure clauses; see the [variable consideration](#) discussion below), (3) revenue should be reversed, or (4) contract-related assets are impaired or should otherwise be written off.
- *Contract modification* — An entity may modify its enforceable rights or obligations under a contract with a customer. For example, the entity may grant a price concession to a customer, in which case the entity should consider whether the concession is due to the resolution of variability that existed at contract inception (i.e., a change in transaction price associated with variable consideration) or a modification that changes the parties' rights and obligations. A price concession provided solely as a result of the war most likely represents a modification that changes the parties' rights and obligations. However, if a customer has a valid expectation that it will be granted a price concession (e.g., because of past business practices or statements made by an entity), the entity should consider whether its expectation of such a concession would give rise to variable consideration that should be estimated and accounted for as a change in transaction price under ASC 606-10-32-42 through 32-45. In addition, if all performance obligations have been satisfied, any price concession would be treated as a change in transaction price.

An entity may also modify the scope of a contract (e.g., by reducing minimum purchase commitments). If the modification adds only goods or services to the contract for an incremental fee, the entity should first evaluate whether to account for it as a separate contract under ASC 606-10-25-12. Such a modification is a separate contract if the added goods or services are distinct and priced at their stand-alone selling prices (SSPs), which may be adjusted to reflect the circumstances of the contract (e.g., a discount due to the lack of additional selling costs). In making this determination, an entity should consider whether the SSPs of its goods or services for certain classes of customers have changed in light of the current environment. Any changes in the SSPs of goods or services do not affect prior contracts unless those contracts have been modified.

If the only change to a contract is a reduction of the transaction price, or if the modification is not otherwise a separate contract, the entity should evaluate the guidance in ASC 606-10-25-13 to determine whether to account for the modification as (1) a termination of the old contract and the creation of a new contract because the remaining goods or services are distinct (which would result in prospective treatment), (2) a cumulative catch-up adjustment to the original contract because the remaining goods or services are not distinct, or (3) a combination of these methods.

- *Contract enforceability* — ASC 606-10-25-1 provides criteria that must be met before an entity may account for a contract with a customer, including the approval of the parties to the contract and a commitment to perform their respective obligations. If the criteria are not met, no revenue can be recognized until one of the following occurs: (1) the criteria are met; (2) no obligations to transfer goods or services remain and substantially all the consideration promised by the customer has been received and is nonrefundable; (3) the contract has been terminated and the consideration received is nonrefundable; or (4) the entity receives nonrefundable consideration, has provided the goods or services related to such consideration, has stopped providing goods or services, and has no obligation to transfer additional goods or services.

In certain circumstances, the parties may not be able to approve a contract under an entity's normal and customary business practices. For example, the entity may not be able to obtain the signatures it usually obtains when entering into a contract because personnel from the entity or customer are unavailable or otherwise unable to provide signatures. Therefore, it is important to carefully evaluate whether the approval process creates a contract with enforceable rights and obligations between the entity and its customer. In making this determination, an entity may consider consulting with its legal counsel. If enforceable rights and obligations do not exist, revenue cannot be recognized until any of the criteria discussed in the previous paragraph are met.

- *Collectibility* — A contract with a customer under ASC 606-10-25-1 does not exist unless “[i]t is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the [promised] goods or services that will be transferred.” That consideration should not include expected price concessions (including implied concessions), which are evaluated as variable consideration, even if those concessions are provided as a result of credit risk. In addition, while the collectibility analysis is performed at the individual contract level, an entity may look to a portfolio of similar contracts (e.g., by risk profile, size of customer, industry, geography) in its assessment. For example, if it is probable that an entity will collect substantially all the consideration for 90 percent of a portfolio of similar contracts, the entity may conclude that it has met the collectibility threshold for all the contracts in the portfolio. However, an entity should not ignore evidence related to specific contracts that do not meet the collectibility criterion; rather, it should evaluate those specific contracts separately. Further, in determining whether contracts are similar under a portfolio approach, an entity could consider disaggregating its contracts at a more granular level than it has in the past. For example, while historically the entity may not have disaggregated its contracts by geography, it may reconsider its disaggregation given that some areas may be more heavily affected by the war than others.

An entity should not reassess whether a contract meets the criteria in ASC 606-10-25-1 after contract inception unless there has been a significant change in facts and circumstances. If the war results in a significant deterioration of a customer's or portfolio of customers' ability to pay, the entity should reassess collectibility. For example, if a customer experiences liquidity issues or a downgrade in its credit rating, the entity would need to carefully evaluate whether those circumstances are short-term in nature or result in a determination that it is no longer probable that the customer has the ability to pay. Because of the significant uncertainty associated with the effects of the war, it is important for the entity to document the judgments it made and the data or factors it considered. If the entity concludes that collectibility is not probable, a customer contract no longer exists and the entity can therefore no longer prospectively recognize revenue, receivables, or contract assets. If collectibility becomes probable in a subsequent period and the other criteria in ASC 606-10-25-1 are met, the entity can begin to recognize revenue again. See the [contract enforceability](#) discussion above, which addresses the criteria that need to be met before an entity can recognize revenue when an enforceable contract does not exist.

- *Variable consideration* — Variable consideration includes, among other things, rebates, discounts, refunds (including for product returns), and price concessions. Under ASC 606-10-32-11, an entity should only include amounts of variable consideration in the transaction price if it is not probable that doing so would result in a significant reversal of cumulative revenue recognized when the uncertainty related to the variable consideration is resolved. Further, an entity must update its estimated transaction price in each reporting period. The entity may need to consider any expected changes in (1) its ability to perform and (2) customer behavior as a result of the war. For example, an entity may need to consider updating its estimated transaction price if it

expects an increase in product returns, decreased usage of its goods or services or decreased royalties, increased invocation of retrospective price protection clauses, changes in redemption rates of coupons or volume rebates, or to potentially pay contractual penalties or liquidated damages associated with its inability to perform (e.g., the inability to deliver goods or services on a timely basis or to meet service-level agreements). In certain circumstances, an entity's estimate of penalties or liquidated damages could be limited by force majeure clauses. If such a clause exists, the entity should carefully consider whether, on the basis of its facts and circumstance, it can or will legally invoke it. Further, an entity may need to reconsider whether it will be able to achieve milestone payments, performance bonuses, trailing commissions based on renewals, or other performance-related fees.

If there is a reduction in the estimated transaction price, a change in estimate may result in the reversal of revenue for amounts previously recognized as variable consideration (e.g., as a result of an increase in return reserves). An entity may also need to allocate a reduction in the estimated transaction price to all performance obligations in a contract unless the change in estimated variable consideration is related to only one or more (but not all) performance obligations (or distinct goods or services) in accordance with ASC 606-10-32-40 and 32-41 and ASC 606-10-32-44 (e.g., penalties for late deliveries may be associated with only some of the goods or services in a contract). In addition, an entity may not need to recognize a reduction in the estimated transaction price when applying the variable consideration constraint if the reduction is too small to result in a significant reversal of cumulative revenue recognized. Because of the significant uncertainty associated with the war's effects on an entity and its customers, it may be challenging for the entity to make appropriate estimates of variable consideration. Therefore, in a manner similar to its assessment of contract collectibility, an entity must document the judgment it applied and the data or factors it considered.

Further, an entity may have a right to receive noncash consideration (e.g., shares of stock) from a customer that has declined in value. Because noncash consideration is measured at its estimated fair value at contract inception, any changes in the fair value of noncash consideration after contract inception that are solely due to a decrease in value are not variable consideration and would not be reflected in the transaction price under ASC 606-10-32-23. Rather, the noncash consideration should be accounted for under other GAAP.

- *Material right* — To mitigate declines in sales or to help certain customers affected by the war, an entity may offer sales incentives, including discounts on future goods or services. If it does so, the entity should evaluate whether a sales incentive on the purchase of future goods or services represents (1) a material right under ASC 606-10-55-42 that is associated with a current revenue contract (whether explicit or implicit because there is a reasonable expectation on the part of a customer that it will receive a sales incentive at contract inception) or (2) a discount that is recognized in the future upon redemption (i.e., when revenue is recognized for the related goods or services) in a manner consistent with ASC 606-10-32-27.

In addition, for new or modified contracts, an entity may need to update its estimate of the SSP of a material right (e.g., because the entity extended the periods for use or provided additional incentives to a customer) or to reassess its breakage assumptions (e.g., because of extensions or changes in expected usage patterns). For example, if an entity modifies its loyalty program by extending its customers' ability to use points, the entity may be required to reassess the breakage assumptions it uses.

- *Significant financing component* — To assist customers that are experiencing liquidity issues related to purchasing goods and services, an entity may provide extended payment terms. Similarly, to fulfill its promises related to goods or services, an entity with liquidity issues may require its customers to make up-front payments. The entity

should also evaluate whether a significant financing component exists under ASC 606-10-32-15 through 32-20. If the entity modifies payment terms for an existing customer contract, it should consider the same guidance on price concessions as that discussed above in the [contract modification](#) and [variable consideration](#) discussions. In addition, while the extension of payment terms does not by itself indicate that a contract is not collectible, an entity may need to consider its procedures for assessing collectibility (see the [collectibility](#) discussion above).

- *Implied performance obligations* — An entity may help customers affected by the war by giving them free goods or services that are not explicitly promised in the contract. In a manner consistent with ASC 606-10-25-16, an entity should determine whether its contracts with customers contain promises to provide goods or services that are implied by its customary business practices or published policies or by specific statements that create a reasonable expectation of the customer that the entity will transfer those goods or services.

There may also be instances in which an entity provides free goods or services to its customer that are not part of a prior contract with that customer (i.e., at the time the prior contract was entered into, there were no explicit or implicit obligations to provide those goods or services). An entity must carefully evaluate whether the additional promised goods or services are a modification of a preexisting customer contract or an incurred cost that is separate from any preexisting contracts. We believe that in these situations, it may be helpful for an entity to consider the contract combination guidance in ASC 606-10-25-9, which specifies that contracts with the same customer (or a related party of the customer) are combined if (1) they “are negotiated as a package with a single commercial objective,” (2) “consideration to be paid in one contract depends on the price or performance of the other contract,” or (3) there are goods or services in one contract that would be a single performance obligation when combined with the goods or services in another contract. In addition, an entity should consider the substance of the arrangement to provide the free goods or services and whether accounting for the arrangement as a separate transaction or as a contract modification would faithfully depict the recognition of revenue related to the goods or services promised to the customer in a preexisting contract. In many cases, free goods or services provided to a customer solely as a result of the war (that are not part of another newly entered contract with that customer) will not be considered a contract modification, particularly if they are broad-based (e.g., not limited to a specific customer) and not negotiated with the customer. However, an entity may need to determine whether it has developed a practice that creates an implied promise in future contracts.

- *Recognition of revenue* — Because of the war, an entity may need to reconsider the timing of revenue recognition if it is unable to satisfy its performance obligations on a timely basis. Revenue cannot be recognized until control of the goods or services transfers to the customer (i.e., when the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the goods or services). For example, as a result of operating facility shutdowns, an entity may be unable to fulfill its performance obligations and therefore recognize revenue until its ability to perform is restored. In addition, the entity must determine whether any contractual penalties would affect the transaction price. In some cases, the entity may be completely unable to satisfy its performance obligation, which could result in (1) the termination of the contract, (2) a reversal of any revenue it previously recognized for a performance obligation that was not fully satisfied, and (3) the recognition of a refund liability (or additional liability due to a payment of penalties) instead of deferred revenue.

Sometimes, delays in the transfer of goods or services may be caused by the customer or other external factors. For example, a customer may not be able to

obtain physical possession of a product because of shipping delays or because it cannot receive the product (e.g., warehouse personnel may be unavailable, shipping routes or ports may be closed, facilities may be shut down). In such cases, an entity should carefully consider when control of the product transfers (e.g., before or after shipment). Further, if a customer is unable to take physical possession of the product, it may request that the entity retain the product on a bill-and-hold basis. In this circumstance, the entity would need to consider the bill-and-hold guidance in ASC 606-10-55-81 through 55-84.

Because of supply-chain disruptions, an entity may also incur unexpected costs associated with fulfilling a performance obligation that is satisfied over time. If it uses a cost-based input method to measure its progress toward complete satisfaction of the performance obligation, the entity should carefully consider whether the incremental costs (1) affect its measure of progress or (2) do not depict its performance in transferring control of the goods or services (e.g., because the costs are due to unexpected amounts of wasted materials, labor, or other resources). Consequently, the entity may also need to reevaluate the expected costs to complete its contracts and consider future material, labor, and the allocation of overhead rates.

- *Warranty reserves* — As a result of supply-chain constraints, an entity that provides assurance-type warranties may incur increased costs to fulfill those warranties. The entity may need to reassess whether its accrual for warranty reserves should be increased under ASC 460-10 and ASC 450-20.
- *Loss contracts* — An entity would not recognize a loss on a revenue contract unless it is within the scope of certain authoritative guidance, including ASC 985-605 for software arrangements, ASC 605-20 for separately priced extended warranty and product maintenance contracts, and ASC 605-35 for construction-type and production-type contracts. For example, an entity whose construction-type or production-type contracts are within the scope of ASC 605-35 may need to consider whether a reduction in revenue due to price concessions or an increase in its estimated costs due to supply-chain disruptions would result in a contract loss that would need to be recognized immediately. See the [Recognition of Losses on Firmly Committed Executory Contracts](#) section for more information.



Disclosure Considerations

Many of the circumstances described above could affect an entity's disclosures. These include (but are not limited to) disclosures of significant contract terminations or modifications, significant changes in a contract asset due to an impairment, significant payment terms (including any significant financing component), and an entity's expected timing of revenue recognition for its remaining performance obligations (which would exclude terminated contracts or transactions that do not meet the criteria in ASC 606-10-25-1 to be accounted for as a customer contract). Given the level of uncertainty caused by the Russia-Ukraine war, an entity may find it challenging to make certain critical estimates. The entity may therefore conclude that it is appropriate to disclose any significant judgments it made in accounting for its revenue contracts (e.g., assessing collectibility; estimating and constraining variable consideration; measuring obligations for returns, refunds, and other similar obligations; measuring progress toward completion of a performance obligation recognized over time; and determining the SSP and breakage assumptions for material rights).

Contingency and Loss Recovery Matters

Loss Contingencies

ASC 450 defines a loss contingency as “[a]n existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur.” The geopolitical instability stemming from the war may cause entities to incur losses that should be recognized, disclosed, or both.

All loss contingencies (including incurred but not reported claims) should be evaluated under ASC 450-20 unless they are within the scope of other authoritative literature that specifically prescribes an alternate accounting model. ASC 450-20 requires accrual of a loss contingency when (1) it is probable that a loss has been incurred and (2) the amount can be reasonably estimated. To accrue a loss contingency, an entity must determine the probability of the uncertain event and demonstrate that it has the ability to reasonably estimate the loss associated with it. Loss contingencies that do not meet both recognition criteria may need to be disclosed in the financial statements. Given the general uncertainty associated with the Russia-Ukraine war, affected entities may find it challenging to develop estimates for loss contingencies.



Disclosure Considerations

Under ASC 450-20-50, entities must disclose both recognized and unrecognized contingencies if certain criteria are met. In some situations, disclosure of the nature of the accrual and amount accrued may be necessary to prevent the financial statements from being misleading. For unrecognized contingencies, an entity may in certain situations be required to disclose the nature of the contingency and an estimate of the possible loss or range of loss (or a statement that an estimate cannot be made). Specifically, disclosure must be provided if there is a reasonable possibility that a loss may be incurred but has not been accrued in the financial statements because the amount is not probable or reasonably estimable. Disclosure is also required if there is a reasonable possibility of unrecorded losses in excess of the amount accrued in the financial statements.

Recognition of Losses on Firmly Committed Executory Contracts

Upon the inception of a firmly committed executory contract, both parties to the contract expect to receive benefits that are equal to or greater than the costs to be incurred under the contract. Because of government sanctions, the fair value of the remaining contractual rights of a firmly committed executory contract may unexpectedly decline below the remaining costs, resulting in a firmly committed executory loss contract. For example, an entity engaged to provide services to its customers in accordance with a firmly committed executory contract may experience a significant increase in the cost of providing the services (e.g., lack of availability of personnel to provide services resulting in the use of higher outsourced labor cost), which could give rise to an overall loss on the contract. We generally believe that in the absence of specific guidance to the contrary (e.g., a firm purchase commitment for goods or inventory under ASC 330, certain revenue contracts subject to ASC 605-35, or certain executory contracts subject to ASC 420 related to exit or disposal activities), it is inappropriate to accrue for a loss related to a firmly committed executory contract.

Future Operating Losses

As a result of the Russia-Ukraine war, an entity may forecast operating losses for a certain period. Such losses may result from declines in customer demand or disruptions in the supply chain. Future operating losses do not meet the definition of a liability nor do they qualify for accrual under ASC 450-20. Instead, they should be reflected in the period in which the related costs are incurred.

Contractual Penalties

Disruption to operations as a result of the Russia-Ukraine war may contribute to an entity's breach of contractual arrangements, such as revenue and supply contracts, and potentially trigger penalties owed to the counterparty (e.g., a liquidated damage provision). The obligation to pay a penalty in such a scenario does not represent a contingent loss under ASC 450-20 but rather should be accounted for as a contractual liability unless contracts include force majeure conditions that may be subject to legal interpretation that may make those penalties void. The probability of payment is irrelevant if settlement of the liability is required by law or contract. That is, other than deferred revenues, liabilities established by law or contract should be recorded at their stated amounts unless the guidance in U.S. GAAP (e.g., ASC 420) requires otherwise. If an entity is required by current laws, regulations, or contracts to make a future payment associated with an event that has already occurred, that event imposes a present duty upon the entity. An entity's uncertainty about whether a counterparty will require performance does not (1) allow the entity to choose to avoid the future sacrifice or (2) relieve the entity of the obligation. Once recognized, a contractual or legal liability that is not deferred revenue (i.e., a contract liability under ASC 606) should be derecognized only if the conditions for liability derecognition in ASC 405-20-40-1 have been met (i.e., relief through repayment or through a legal release either judicially or by the creditor). Affected entities should consider engaging legal counsel for assistance in determining whether certain contractual provisions may be subject to interpretation or are vague with respect to the applicability of force majeure clauses.

Insurance Recoveries

Entities that incur losses stemming from the Russia-Ukraine war may be entitled to insurance recoveries. For example, the following may be considered insured losses under an entity's insurance policies: losses associated with assets seized by a government or destroyed in the affected regions, asset impairments for factories that are closed down, and penalties for contract terminations. Furthermore, some entities may have business interruption insurance that provides coverage for lost profits attributable to certain of those events.

Insured Losses

If an entity incurs a loss that stems from the impairment of an asset or the incurrence of a liability and it expects to recover all or a portion of that loss through an insurance claim, the entity should record an asset for the amount for which recovery from the insurance claim is considered probable (not to exceed the amount of the total losses recognized). The entity should subsequently recognize amounts greater than those for which recovery from an insurance claim was initially deemed probable only if those amounts do not exceed actual additional covered losses or direct, incremental costs incurred to obtain the insurance recovery. A conclusion that a potential insurance recovery is probable may involve significant judgment and should be based on all relevant facts and circumstances. In determining whether it is probable that an insurance recovery will be received, an entity will most likely need, among other factors, to understand the solvency of the insurance carrier and have had enough dialogue and historical experience with the insurer related to the type of claim in question to assess the likelihood of payment.

Other potential challenges associated with the evaluation of whether a loss is considered recoverable through insurance include, but are not limited to, (1) the need to consider whether losses stemming from the Russia-Ukraine war are specifically or implicitly excluded as a covered event (e.g., force majeure clauses); (2) the extent of coverage and limits, including multiple layers of insurance from different carriers; and (3) the extent, if any, to which an insurance carrier disputes coverage. Consultation with legal counsel may also be necessary.



Connecting the Dots

Footnote 49 of SAB Topic 5.Y⁹ contains the following guidance for SEC registrants that we believe applies to *any* entity that evaluates an insured loss that is contested by the insurance carrier:

The staff believes there is a rebuttable presumption that no asset should be recognized for a claim for recovery from a party that is asserting that it is not liable to indemnify the registrant. Registrants that overcome that presumption should disclose the amount of recorded recoveries that are being contested and discuss the reasons for concluding that the amounts are probable of recovery.

Any expected recovery that is greater than covered losses or direct, incremental costs incurred represents a gain contingency and therefore has a higher recognition threshold. An entity should generally recognize insurance proceeds that will result in a gain when the proceeds are realized or realizable, whichever is earlier. Such insurance proceeds are realized when the insurance carrier settles the claim and no longer contests payment. Payment alone does not mean that realization has occurred if such payment is made under protest or is subject to refund.

Business Interruption

Entities operating in regions affected by the Russia-Ukraine war may have been forced to temporarily suspend operations for reasons ranging from supply chain disruption to, on a broader scale, sanctions against Russia that limit or preclude trade. Business interruption insurance differs from other types of insurance coverage in that it is designed to protect the prospective earnings or profits of the insured entity. That is, business interruption insurance provides coverage if business operations are suspended because of the loss of use of property or equipment resulting from a covered loss. Such insurance also generally provides for reimbursement of certain costs and losses incurred during the interruption period. Those costs may be analogous to losses from property damage and, accordingly, it may be appropriate to record a receivable for amounts whose recovery is considered probable. We encourage entities to consult with their advisers in connection with their evaluation of whether a receivable may be recorded for expected insurance recoveries associated with fixed costs incurred during an interruption period.

The loss of profit margin is considered a gain contingency and should be recognized when the gain contingency is resolved (i.e., the proceeds are realized or realizable). Because of the complex and uncertain nature of the settlement negotiation process, such recognition generally occurs at the time of final settlement or when nonrefundable cash advances are made.

Classification of Insurance Recoveries

ASC 220-30-45-1 addresses other income statement presentation matters related to business interruption insurance from the perspective of classification and allows an entity to “choose how to classify business interruption insurance recoveries in the statement of operations, as long as that classification is not contrary to existing [U.S. GAAP].”

With respect to presentation within the statement of cash flows, ASC 230-10-45-21B indicates that “[c]ash receipts resulting from the settlement of insurance claims, excluding proceeds received from corporate-owned life insurance policies and bank-owned life insurance policies, shall be classified on the basis of the related insurance coverage (that is, the nature of the loss).” For example, insurance settlement proceeds received as a result of claims related to a business interruption should be classified as operating activities.

⁹ SEC Staff Accounting Bulletin (SAB) Topic 5.Y, “Accounting and Disclosures Related to Loss Contingencies.”

Employee Termination Benefits

In addition to disrupting operations, supply chains and causing damage to facilities and equipment, the Russia-Ukraine war has resulted in the imposition of various sanctions on Russia that could adversely affect entities doing business within (or with entities in) the affected region. Examples of such impacts include restrictions on trading, shortages of critical parts, and significant increases in the cost of materials. As a result, entities may need to reduce their workforce through temporary employee furloughs, close facilities, or halt sales temporarily, and some have reportedly already done so. Consequently, entities may need to reallocate employees to other locations or permanently terminate or temporarily furlough them. They may also be forced to consider subsequent restructuring actions as information becomes available on the long-term effects of the war on the entities' operations.

In addition to or in conjunction with these actions, certain employers may offer benefits to their employees. Because there are multiple accounting frameworks for the accounting for such benefits, entities should understand the legal requirements in affected jurisdictions as they identify the nature and characteristics of each proposed action under consideration. Application of the appropriate framework may affect the timing of the recognition of benefits provided to employees.

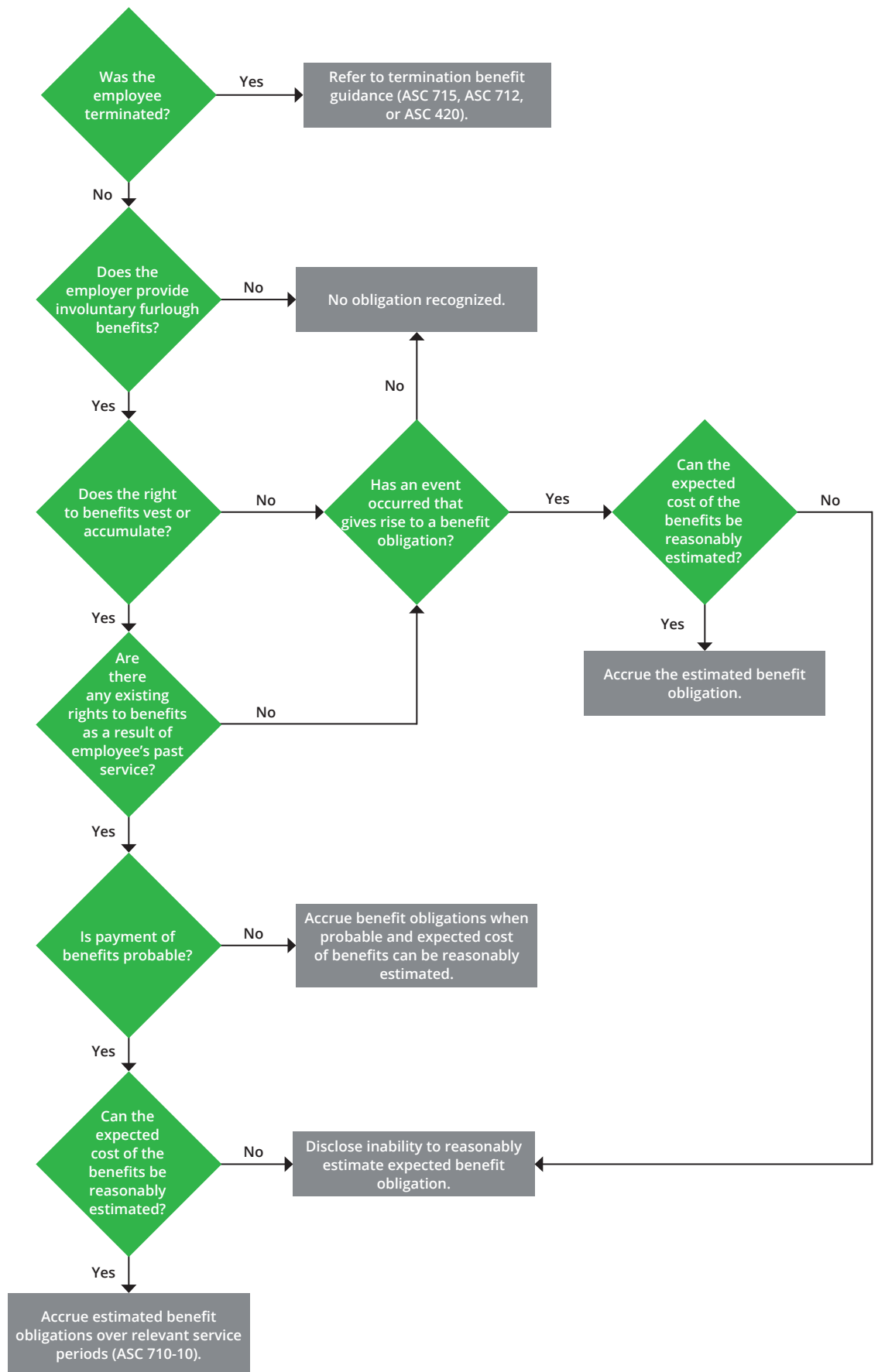
Salary Continuation, Temporary Suspension of Employment (Voluntary and Involuntary Furloughs)

Some entities may offer to continue to pay employees full salaries and provide regular benefits without requiring them to provide direct services over a certain period. Other entities may initiate voluntary or involuntary furloughs under which employees are put on temporary unpaid leave and local country labor laws provide health and salary benefits. Both the employer and the furloughed employees may expect that employees will return to provide direct services to the employer after a temporary suspension. Some employers may implement arrangements to lay off employees on a temporary or permanent basis. The guidance in U.S. GAAP does not specifically address these types of temporary arrangements. Therefore, in considering a relevant accounting framework, entities should assess the substance of the benefit(s) offered.

For arrangements in which employees are terminated or in which the substance of a benefit is more consistent with one of the forms of termination benefits described below, it may be appropriate for an entity to apply that guidance in determining the timing of the recognition of the benefits offered.

Arrangements in which employees are not terminated may be within the scope of ASC 710 or ASC 712. The application of the appropriate accounting framework, which affects timing of recognition as well as measurement, depends on (1) individual facts and circumstances and, in some affected jurisdictions, the labor laws that may provide for minimum statutory employee benefits at the time of separation (which may be voluntarily enhanced by employers) and (2) how the benefit is communicated to employees. If the benefit is more consistent with a compensated absence (i.e., the employer expects the employee to return to work after a temporary allowed absence), it may be appropriate to apply the guidance in ASC 710. If the benefit is more consistent with a postemployment benefit (i.e., provided to former or inactive employees), it may be appropriate to apply the guidance in ASC 712. Under both ASC 710 and ASC 712, key factors to consider are whether the benefit (1) is provided to compensate for past or future services and (2) vests or accumulates.

The decision tree below describes an entity's key considerations in determining whether or when benefits to furloughed employees should be accrued or expensed as incurred, and the appropriate model to apply.



The above framework applies to involuntary termination benefits. In the case of voluntary furlough benefits, an entity should recognize the accrual when the employee accepts the benefit.

One-Time Involuntary Termination Benefits

Under ASC 715-30-60-3, “one-time termination benefits provided to current employees that are involuntarily terminated under the terms of a one-time benefit arrangement” that, in substance, is not an ongoing benefit arrangement would be accounted for in accordance with ASC 420. In general, the obligation associated with the one-time termination benefit should be measured at fair value in accordance with ASC 420-10-30-5 and should be recognized in either of the following ways:

- If the employees do not have to provide services beyond the minimum retention period, the obligation should be recognized as of the “communication date,” as detailed in ASC 420-10-25-8.
- If, to receive termination benefits, the employees are required to render service until they are terminated and will be retained to render service beyond the minimum retention period, the liability should be recognized ratably over the future service period (e.g., communication date to date of termination).

Further, ASC 420-10-20 defines the communication date as “[t]he date the plan of termination . . . meets all of the criteria in paragraph 420-10-25-4 and has been communicated to employees.”

Involuntary Termination Benefits as Part of an Ongoing Plan

ASC 420 does not apply if termination benefits to be paid to terminated employees are part of a substantive preexisting ongoing employee benefit plan (e.g., legal minimum indemnity benefits in certain countries or established severance policies). Rather, such benefits should be accounted for in accordance with other guidance, such as ASC 715-30, ASC 715-60, ASC 712, or ASC 710. Contractual termination benefits paid only upon the occurrence of a plan-specified event are within the scope of ASC 712, while termination benefits paid through a pension or postretirement plan are within the scope of ASC 715. All other involuntary termination benefits provided as part of an ongoing plan may be within the scope of ASC 712 or ASC 710, depending on the specific terms of the plan, as described above. If involuntary benefits are within the scope of ASC 715, ASC 712, or ASC 710, an entity must generally recognize a liability when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. That is, it is possible that the conditions for accruing the obligation may be met before the date on which communication is required under ASC 420.

Because the accounting for involuntary termination benefits discussed above depends on the type of benefits and the circumstances in which they are provided, an entity that intends to offer enhanced involuntary benefits to individual employees over and above the benefits of an ongoing employee benefit plan would find itself having to apply both (1) the guidance on involuntary termination benefits of an ongoing plan and (2) ASC 420 to the enhanced benefits.



Disclosure Considerations

ASC 420-10-50 provides disclosure requirements for an entity that incurs costs associated with exit activities, including termination benefits. In addition, entities that incur liabilities associated with special or voluntary termination plans should provide the disclosures required by ASC 715-20-50 that apply to defined-benefit-type obligations.

Risks and Uncertainties

Entities that apply accrual accounting must make estimates in current-period financial statements on the basis of current events and transactions, the effects of which may not be precisely determinable until some future period. The outcome of such events and transactions may not match original expectations. Uncertainty about the outcome of future events is inherent in economics, and that fact should be understood when reading reports on economic activities, such as published financial statements. A business, to a great extent, is a function of the environment in which it operates. Thus, it can be affected by changing social, political, and economic factors. Further, any entity (or the industry it operates in) may be affected by uncertainties associated with future events.



Disclosure Considerations

Uncertainties associated with the Russia-Ukraine war may or may not be considered contingencies under ASC 450-10-20; accordingly, the disclosures required by ASC 275-10-50 supplement and, in many cases, overlap those required by ASC 450-20-50. Although acts of war and impacts of changes in regulations are not directly within the scope of ASC 275, an entity should consider whether to disclose certain significant estimates and current vulnerabilities that may be attributable to concentrations associated with (1) its operations in regions affected by the war or (2) its holding of investments with exposures to those regions.

Entities with concentrated exposures in the affected regions are vulnerable to greater risk of loss relative to other entities. Examples of concentrations include those associated with:

- The volume of business with a particular customer in an affected jurisdiction.
- Revenue from particular products or services.
- The sources of supply of materials, labor, or services.
- The market or geographic area in which an entity conducts its business.

ASC 275-10-50-16 requires disclosure of concentrations if all the following conditions are met:

- “The concentration exists at the date of the financial statements.”
- “The concentration makes the entity vulnerable to the risk of a near-term severe impact.”
- “It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.”

Entities with material exposures to the affected regions will need to consider whether to provide disclosure of concentrations, particularly if they have met the second condition above.

Assistance and Aid

Business entities (i.e., entities that are not not-for-profit entities or employee benefit plans) may provide assistance or aid to not-for-profit entities or entities affected by the Russia-Ukraine war. If such relief is not associated with an exchange transaction (e.g., a revenue contract), the entities providing it should consider the guidance in ASC 720-25. ASC 720-25-1 and 25-2 state the following:

Contributions made shall be recognized as expenses in the period made and as decreases of assets or increases of liabilities depending on the form of the benefits given. For example, gifts of items from inventory held for sale are recognized as decreases of inventory and contribution expenses, and unconditional promises to give cash are recognized as payables and contribution expenses. For guidance on determining whether a contribution, including promises to give, is conditional, see the Contributions Received Subsection of Section 958-605-25.

If the fair value of an asset transferred differs from its carrying amount, a gain or loss shall be recognized on the disposition of the asset (see paragraphs 845-10-30-1 through 30-2).

Domestic and international governments may also assist entities that have experienced financial difficulty associated with the war. Although some forms of assistance may be referred to as “grants” or “credits,” entities should carefully look at the form and substance of the assistance to determine the appropriate accounting framework to apply. For example, income-based tax credits generally will be within the scope of ASC 740. If the receipt of government assistance does not depend on the entity’s generation of taxable income, the assistance is generally outside the scope of ASC 740 and would most likely be viewed and accounted for as a government grant.

The nature and form of government assistance may vary (e.g., grants, forgivable loans, price adjustments, reimbursements of lost revenues, reimbursements of expenses). In performing its accounting analysis, an entity should first consider whether the government assistance it receives represents an exchange transaction (i.e., a reciprocal transfer in which each party receives and pays commensurate value) or a contribution, which the ASC master glossary defines, in part, as an “unconditional transfer of cash or other assets, as well as unconditional promises to give, to an entity or a reduction, settlement, or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.” To determine whether the government assistance represents an exchange transaction, an entity should consider the factors in the table below, which is adapted from ASC 958-605-15-5A and 15-6 (as amended by ASU 2018-08).

An Exchange Transaction May Not Exist if:	An Exchange Transaction May Exist if:
(1) The benefit provided by the entity is received by the general public, (2) the government only received indirect value from the entity, or (3) the value received by the government is incidental to the potential public benefit derived from using the goods or services transferred from the entity.	The transfer of assets from a government entity is part of an existing exchange transaction between the receiving entity and an identified customer. In this circumstance, “an entity shall apply the applicable guidance (for example, Topic 606 on revenue from contracts with customers) to the underlying transaction with the customer, and the payments from the [government] would be payments on behalf of” the customer, rather than payments for benefits that were received by the general public.
The entity has provided a benefit that is related to “[e]xecution of the [government’s] mission or the positive sentiment from acting as a donor.”	The expressed intent was to exchange government funds for goods or services that are of commensurate value.
The entity solicited funds from the government “without the intent of exchanging goods or services of commensurate value” and the government had “full discretion in determining the amount of” assistance provided.	Both the entity and the government negotiated and agreed on the amount of government assistance to be transferred in exchange for goods and services that are of commensurate value.
Any penalties the entity must pay for failing “to comply with the terms of the [government assistance] are limited to the [goods] or services already provided and the return of the unspent amount.”	The entity contractually incurs economic penalties for failing to perform beyond the government assistance provided.

If an entity concludes that the government assistance it received represents an exchange transaction, it should account for such assistance in accordance with the applicable U.S. GAAP (e.g., ASC 606). As discussed further below, certain payments may be considered part of an exchange transaction between the recipient entity and its customers. Furthermore, if a not-for-profit entity concludes that the government assistance represents a contribution, such assistance would be accounted for under ASC 958-605.



Connecting the Dots

Government assistance could include complex provisions; therefore, an entity should carefully apply judgment and consider consulting with its advisers when determining the appropriate accounting treatment. For example, an entity may conclude that assistance is (1) entirely an exchange transaction or (2) partially an exchange transaction and partially a grant. Further, some provisions may only confer a right to defer payments (for which interest is not imputed in accordance with ASC 835-30-15-3(e)), while others may solely represent a grant from the government (e.g., reimbursement of incurred costs).

Income Taxes

Entities should consider how profitability, liquidity, and impairment concerns that could stem from the Russia-Ukraine war might also influence income tax accounting under ASC 740 in affected jurisdictions. For example, a reduction in a jurisdiction's current-period income or the actual incurrence of losses, coupled with a reduction in forecasted income or a forecast of future losses, could result in (1) a reassessment of whether it is more likely than not that some or all of the jurisdiction's deferred tax assets are realizable and (2) a need to recognize a valuation allowance in that jurisdiction. If declining earnings or impairments generate losses, entities will need to consider the character (i.e., capital or operating) of such losses and evaluate whether there is sufficient income of the appropriate character to fully realize the related deferred tax asset in that jurisdiction.

Adjustments to forecasted income (like those assumed for other impairment analyses) will also need to be factored into an entity's estimated annual effective tax rate (AETR). As a result of the war, losses may be incurred in one or more jurisdictions for which no benefit can be recognized. Such jurisdiction(s) may therefore need to be removed from the entity's AETR. In other more extreme instances, an overall reduction in an entity's forecasted income as a result of changing macroeconomic conditions might make the entity's AETR highly sensitive to changes in estimated ordinary income for the year (e.g., situations in which permanent items are more significant and do not "scale"), and the entity may not be able to make a reliable estimate of the AETR. In those cases, the actual effective tax rate for the year to date may be the best estimate of the AETR.

Similarly, if an entity or its subsidiaries have liquidity issues or other challenges resulting from the current macroeconomic environment, the entity may also need to reassess whether undistributed earnings of foreign subsidiaries are still indefinitely reinvested or whether a deferred tax liability should now be recorded for an outside basis taxable temporary difference in a foreign subsidiary. While most entities have already recorded U.S. tax on a significant portion of their undistributed foreign earnings and profits,¹⁰ repatriation of such amounts may still trigger currency gains and losses and be subject to additional withholding or state or other income taxes.



Disclosure Considerations

Entities should also disclose any material changes to their valuation allowance, AETR, or indefinite reinvestment assertions that stem from the Russia-Ukraine war.

Going-Concern Disclosures

The Russia-Ukraine war may significantly disrupt the operations of businesses that have material operations in the regions affected by it or that may hold material investments or lending activities with entities in such regions. Those entities will need to assess whether any disruptions may be prolonged and result in diminished demand for products or services or significant liquidity shortfalls (or both) that, among other things, raise substantial doubt about whether the entities may be able to continue as going concerns.

¹⁰ For example, as a result of the deemed repatriation transition tax in the Tax Cuts and Jobs Act of 2017.

As part of performing this assessment, management may need to consider whether an entity's financial statements should continue to be prepared on a going-concern basis (i.e., whether ASC 205-30 is applicable). Even more importantly, management must consider whether, on the basis of ASC 205-40, (1) there are conditions and events that, when considered in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern within one year after the date on which the interim or annual financial statements are issued and (2) these conditions are able to be mitigated by management's plans.

ASC 205-40 requires an entity to provide disclosures in the **annual** and **interim** financial statements when events and conditions are identified that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. Such disclosures are required even when management's plans alleviate such doubt about the entity's ability to continue as a going concern. If management's plans do not alleviate substantial doubt about the entity's ability to continue as a going concern, in addition to the required disclosures, management must state in the footnotes to the financial statements that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date on which the annual or interim financial statements are issued.

As indicated in ASC 205-40-55-2, assessing whether there is substantial doubt about an entity's ability to continue as a going concern may involve the consideration of factors such as the following:

- Negative financial trends, such as working capital deficiencies and short-term negative cash flows from operating activities, that may stem directly from the war.
- Other indications of possible financial difficulties such as default on loans or similar agreements, denial of usual trade credit from suppliers, a need to restructure debt to avoid default, noncompliance with statutory capital requirements, and a need to seek new sources or methods of financing or to dispose of substantial assets.
- Internal matters such as substantial dependence on operations in regions affected by the war, uneconomic long-term commitments, and a need to significantly revise operations.
- External matters such as legal proceedings, sanctions, legislation, or similar matters that might jeopardize the entity's ability to operate in affected regions; loss of a key franchise, license, or patent; or loss of a principal customer or supplier. These circumstances, which would apply primarily to affected entities, are generally the most unpredictable given the unprecedented nature of the war.

Subsequent Events

Given the geopolitical uncertainty resulting from the Russia-Ukraine war and the likelihood that changes may occur rapidly or unexpectedly, entities should carefully evaluate information that becomes available after the balance sheet date but before the issuance of the financial statements. ASC 855-10-25-1 and ASC 855-10-25-3 provide the following guidance on evaluating subsequent events:

An entity shall recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. See paragraph 855-10-55-1 for examples of recognized subsequent events.

An entity shall not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date but before financial statements are issued or are available to be issued. See paragraph 855-10-55-2 for examples of nonrecognized subsequent events.

For example, in their interim and annual financial statements as of December 31, 2021, and January 31, 2022, entities are likely to have accounted for the economic and geopolitical risks associated with the war as nonrecognized subsequent events. However, depending on the war's duration and evolution, we expect that future filings (e.g., Form 10-Q for the quarter ended March 31, 2022, or annual or interim financial statements for periods ending on or after February 28, 2022) may reflect an increase in the recognition of associated accounting impacts for entities that have material exposures to them.



Disclosure Considerations

ASC 855-10-50-2 notes, in part, that “[s]ome nonrecognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading.” In such circumstances, the disclosures must include (1) the “nature of the event” and (2) an “estimate of its financial effect, or a statement that such an estimate cannot be made.”

Internal Control Considerations

Entities should consider providing disclosures about the effects, if material, of the Russia-Ukraine war on their internal controls and disclosure controls and procedures. As a result of the war's impact, entities may need to implement new internal controls or modify existing ones. Entities must disclose in their quarterly or annual filings in Item 4 of Form 10-Q or in Item 9A of Form 10-K (or, for foreign private issuers, in Item 15 of Form 20-F) any changes in internal controls that have materially affected, or are reasonably likely to materially affect, their internal control over financial reporting.

Entities will need to consider the operating effectiveness of controls, which includes assessing any inability of individuals to perform control duties because of the war (e.g., control owners at affected locations are unable to complete the control). If existing controls cannot be performed, management may need to identify alternative appropriately designed controls to compensate for the lack of information as well as to potentially identify and evaluate control deficiencies.

In addition, entities should consider management's ability to complete its financial reporting process and prepare its financial statements on a timely basis, including the completion of any statutory audits. Entities may have shared service center (SSC) locations or business process outsourcing (BPO) centers in Ukraine or other areas affected by the war that are no longer operational or operating at a reduced capacity. In these instances, entities should carefully consider how the responsibilities and controls routinely performed by the SSC or BPO will be completed. Delays in closing the underlying financial records may increase the potential for error in the financial statements and merit the use of new or modified controls to offset the increased risk of potential financial statement error. In addition, entities will need to ensure that they have properly designed and implemented controls related to the selection and application of GAAP for the accounting and disclosure issues arising from the war.

Appendix — Entities Reporting Under IFRS Standards

The accounting and financial reporting considerations discussed in this publication are equally relevant to entities reporting under IFRS Standards. For example, it is likely that an indicator of impairment of PP&E under U.S. GAAP would also be an indicator of impairment under IFRS Standards. However, the underlying accounting guidance itself (e.g., the impairment test) often differs. For a comprehensive discussion of the differences between the two sets of standards, see Deloitte's Roadmap [Comparing IFRS Standards and U.S. GAAP: Bridging the Differences](#).

The table below lists the major topics discussed in this publication, the relevant IFRS Standards and U.S. GAAP, and the sections of *Comparing IFRS Standards and U.S. GAAP: Bridging the Differences* in which they are discussed in detail. Also see Deloitte's March 17, 2022, [IFRS in Focus](#) for more information about IFRS financial reporting considerations related to the Russia-Ukraine war. **[Paragraph amended March 31, 2022]**

Topic	IFRS Standards	U.S. GAAP	Discussion in Roadmap <i>Comparing IFRS Standards and U.S. GAAP: Bridging the Differences</i>
Impairment — PP&E and finite-lived intangible assets	IAS 36 ¹¹	ASC 350 and ASC 360	Section 1.7
Impairment — indefinite-lived intangible assets and goodwill	IAS 36	ASC 350	Section 1.7
Leases	IFRS 16	ASC 842	Section 5.7
Inventory	IAS 2	ASC 330	Section 1.4
Contingencies	IAS 37	ASC 420 and ASC 450	Section 2.2
Revenue recognition	IFRS 15	ASC 606	Section 3.1
Consolidation	IFRS 10 and IFRS 12	ASC 810	Section 5.2
Equity method investments	IAS 28	ASC 323	Section 1.3
Foreign currency matters	IAS 21 and IAS 29	ASC 830	Section 5.6
Employee benefits	IAS 19 and IFRIC Interpretation 14	ASC 420, ASC 710, ASC 712, and ASC 715	Section 2.1
Impairment — financial assets	IFRS 9 and IAS 28	ASC 310, ASC 320, ASC 321, ASC 323, and ASC 326	Sections 1.1, 1.2, and 1.3
Derivatives and hedging	IFRS 9	ASC 815	Section 5.3
Fair value	IFRS 13	ASC 820	Section 5.4
Debt modifications and extinguishments	IFRS 9	ASC 470-50 and ASC 470-60	Section 2.3
Noncurrent assets held for sale	IFRS 5	ASC 360-10 and ASC 205-20	Section 4.2
Income taxes	IAS 12 and IFRIC Interpretation 23	ASC 740	Section 3.3
Presentation of financial statements	IAS 1	ASC 205-10, ASC 220-10, ASC 505-10, ASC 810-10, and SEC Regulation S-X	Section 4.1
Statement of cash flows	IAS 1 and IAS 7	ASC 230-10	Section 4.3
Subsequent events	IAS 10	ASC 855	Section 5.9

¹¹ For titles of international standards, see the [lists](#) on the IFRS Web site.

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