

45th Annual Ohio Council IMA Meonske Professional Development Conference



FASB Update

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April 26, 2019

The views expressed in this presentation are those of the presenter.
Official positions of the FASB are reached only after extensive due process and deliberations

Agenda

Implementation Topics

- Resources
- Leases
- Revenue Recognition
- Financial Instruments

Other Topics

- Cloud Computing
- Reference Rate Reform

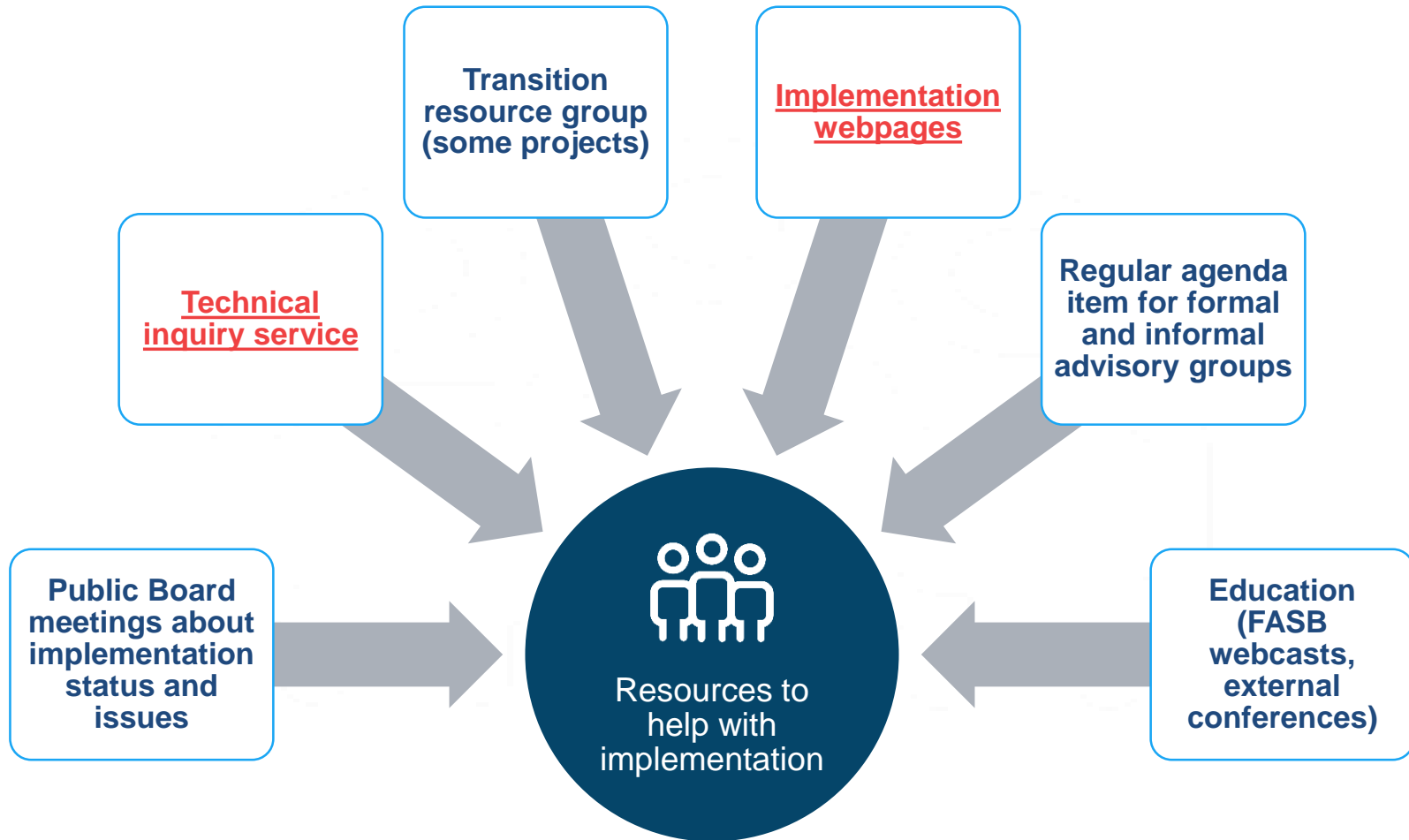
Agenda Topics

- Goodwill Discussion Paper
- Distinguishing Liabilities from Equity
- Financial Performance Reporting
- Segment Reporting

Other Notable ASUs

Q&A

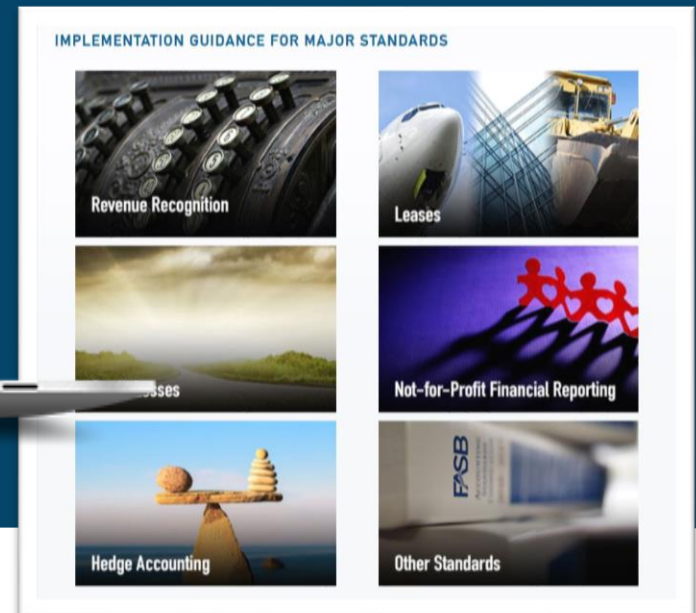
Implementation Resources



Implementation Resources: Web Portal



www.fasb.org/implementation



Leases



Leases: Implementation Activities

Board and staff stand ready to assist stakeholders

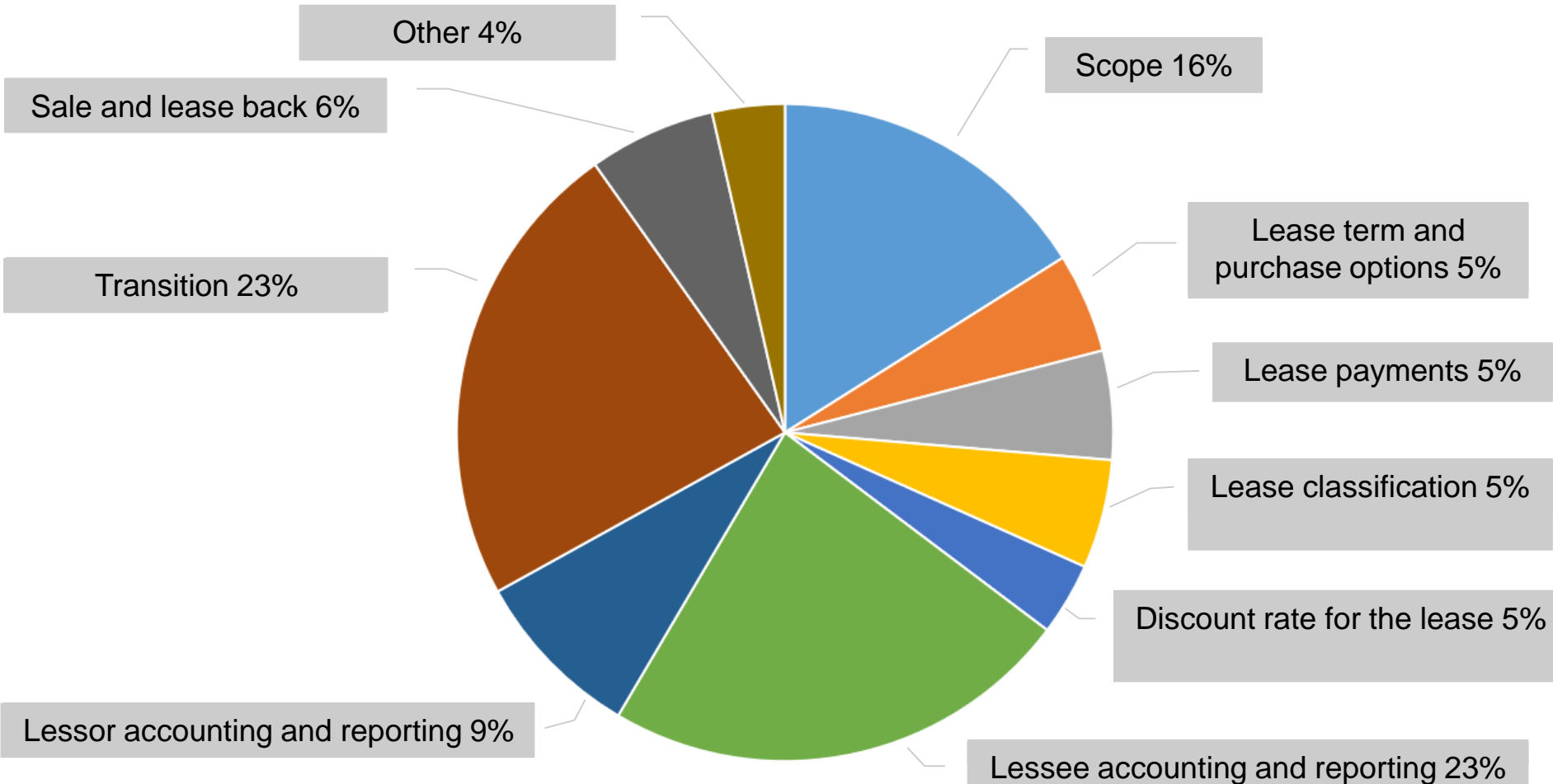
□ Board meetings held to-date on Topic 842 implementation:

- ✓ November 2016 (leases implementation update)
- ✓ May 2017 (leases implementation update)
- ✓ June 2017 (technical corrections)
- ✓ August 2017 (land easements)
- ✓ November 2017 (land easements and targeted improvements)
- ✓ January 2018 (technical corrections)
- ✓ March 2018 (transition method and practical expedient)
- ✓ July 2018 (narrow-scope improvements)
- ✓ October 2018 (narrow-scope improvements)
- ✓ December 2018 (codification improvements)

□ Standard setting activities:

- ✓ Land easements ASU 2018-01 (issued in January, 2018)
- ✓ Codification Improvements ASU 2018-10 (issued in July, 2018)
- ✓ **Targeted Improvements ASU 2018-11 (issued in July, 2018)**
- ✓ **Narrow-Scope Improvements ASU 2018-20 (issued in December, 2018)**
- ✓ **Codification Improvements for Lessors ASU 2019-01 (Issued in March, 2019)**

Technical Inquiries to Date (March 2019)



- Scope
- Lease term and purchase options
- Lease payments
- Lease classification
- Discount rate for the lease
- Lessee accounting and reporting
- Lessor accounting and reporting
- Transition
- Sale and leaseback
- Other

Leases: Transition

Current Transition

- Recognize leases on balance sheet for all periods
- Provide new lease disclosures for all periods
- Some relief provided with “run-off” approach for existing leases

Feedback

- Unanticipated costs and complexity related to comparative periods
- Examples: disclosures, tracking of FX rates

New Transition Added

- Initially apply new leases guidance at effective date
- Still gets leases on balance sheet at effective date
- Changes when new leases guidance is initially applied, not how

Leases: Lessor Practical Expedient

- ❑ Accounting policy election by class of underlying asset
- ❑ For Lessors, combine each separate lease component and the associated nonlease components into single component if certain criteria are met:
 - ✓ The timing and pattern of transfer of the lease and nonlease components are the same
 - ✓ Lease component alone would be an operating lease
 - ✓ Nonlease component would have been accounted for under Topic 606
- ❑ If nonlease component is **predominant**
 - ✓ Combined component is accounted for as a single performance obligation under Topic 606
 - ✓ Measure of progress to be used is same as “pattern of transfer”
 - ✓ Use variable consideration guidance in Topic 606
- ❑ If nonlease component is **NOT predominant**
 - ✓ Combined lease component is accounted for as an operating lease under Topic 842
 - ✓ Use variable payment guidance in Topic 842

Leases: Sales and Other Similar Taxes

- ❑ Provides a policy election for lessors.
- ❑ Exclude qualifying taxes from:
 - ✓ Consideration in the contract
 - ✓ Variable payments not included in the consideration in the contract
 - ✓ Thus, no revenue and corresponding expense recognized
- ❑ All taxes within scope of policy election must be excluded if the election is made
- ❑ All taxes assessed by a governmental authority that are both
 - ✓ Imposed on and concurrent with a specific lease revenue-producing transaction
 - ✓ Collected by the lessor from a lessee
- ❑ Examples: Sales, use, value added, some excise taxes
- ❑ Not in scope of this expedient:
 - ✓ Taxes on Lessor's total gross receipt (tax on total revenue)
 - ✓ Taxes assessed on Lessor as the owner of the asset (property taxes)

Leases: Lessor Costs

Current Requirement → Lessor required to report “lessor costs” paid/reimbursed by lessee as revenue and expense under Topic 842

❑ Recent Board Decision → Extension of a revenue concept - no revenue recognized when the uncertainty of the variable payment is not expected to ultimately be resolved and for practical reasons (no net impact on earnings)

❑ Outcome of Decision

- ⑩ Exclude all payments made directly to 3rd party by lessee on behalf of lessor from variable payments
- ⑩ Lessee-reimbursed costs are considered lessor costs and should be accounted for as variable payments

Leases: Codification Improvements

- ❑ Exception for determining the fair value of the underlying asset by lessors that are not manufacturers or dealers (generally financial institutions and captive finance companies):
 - ✓ Not carried forward from Topic 840
 - ✓ Fair value is cost (reflecting any volume or trade discounts) instead of fair value in Topic 820
 - ✓ Amendments reinstate the exception

- ❑ Presentation on the Statement of Cash Flows – Sales-Type and Direct Financing Leases
 - ✓ Topic 840 did not have explicit guidance/Topic 942 (industry guidance for depository and lending institutions) included an illustrative example – investing activities for STL and DFL
 - ✓ Topic 842 has explicit guidance – operating activities
 - ✓ Amendment will allow depository and lending institutions in the scope of Topic 842 to continue presenting principal payments received under STL and DFL as an investing activity

- ❑ Clarification that Certain Topic 250 Interim Disclosures Not Required

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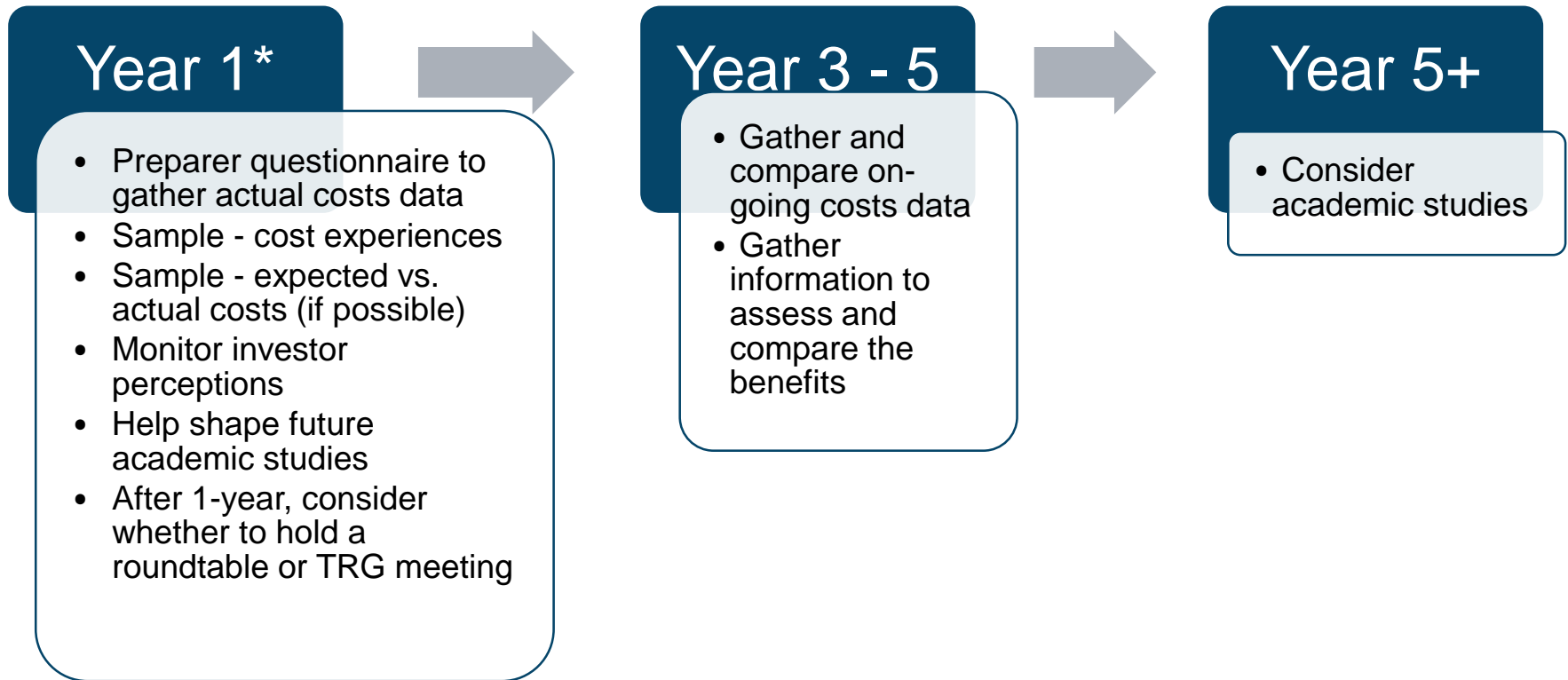
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Revenue Recognition



Revenue Recognition: Post-Effective Date Monitoring



* Effective dates for new major standards often are different for public vs non public entities. This process would begin for entities in the year that a standard is initially required (for example for revenue recognition, Year 1 would be 2018 for public entities and 2019 for non public entities).

Financial Instruments



Credit Losses (CECL) Implementation Update

❑ FASB Staff CECL Q&A

- ✓ FASB staff agrees WARM method is one of many methods that could be used for less complex financial asset pools

❑ Codification Improvements – TRG discussions in 2018

- ✓ Recoveries
- ✓ Reversal of Accrued Interest on Nonaccrual Loans
- ✓ Transfers from HFB to HFI (Loans) and AFS to HTS (Debt Securities)
- ✓ Borrower Extensions
- ✓ Recoveries
- ✓ Vintage Disclosures – also addressed at a Roundtable in January 2019

Hedging Implementation Update

❑ Codification Improvements

- ✓ ASU expected in April 2019 – housekeeping items

❑ Upcoming Substantive Items

- ✓ Contractually specified component hedging for nonfinancial items
- ✓ Change in hedged risk in a cash flow hedge
- ✓ Use of the word “prepayable” under the shortcut method
- ✓ Dual Fair value and net investment hedges
- ✓ Last-of-Layer project to allow more than 1 layer to be hedged

❑ Phase II

- ✓ Staff to begin research on other ways to align hedge accounting more closely with risk management activities

Cloud Computing



Cloud Computing (ASU 2018-15)

- ❑ Implementation costs of cloud computing arrangements (CCAs) that are service contracts would be accounted for in accordance with the guidance in Subtopic 350-40 on internal-use software
- ❑ The amortization period of the capitalized implementation costs would include periods covered by renewal options of the CCA that are reasonably certain to be exercised
- ❑ Presentation:
 - ✓ The amortization of the capitalized costs would be recorded in the same line item on the income statement as the hosting fees
 - ✓ The capitalized implementation costs would be presented on the balance sheet in the same line item as a prepayment of the hosting fees
 - ✓ Cash flow classification would be the same as the hosting fees

Transition and Effective Date

Transition Method Options

- ✓ Prospectively to implementation costs incurred after the adoption date
- ✓ Retrospectively

Effective Date

- ✓ Public business entities: Annual periods beginning after December 15, 2019, including interim periods within those annual periods
- ✓ Entities other than public business entities: Annual periods beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2021
- ✓ Early adoption is permitted

Reference Rate Reform: Facilitation of the Effects of the Interbank Offered Rate Transition on Financial Reporting

Reference Rate Reform

- Background: Recent Accounting Standards Update (October 2018) adding a new benchmark interest rate for hedge accounting purposes

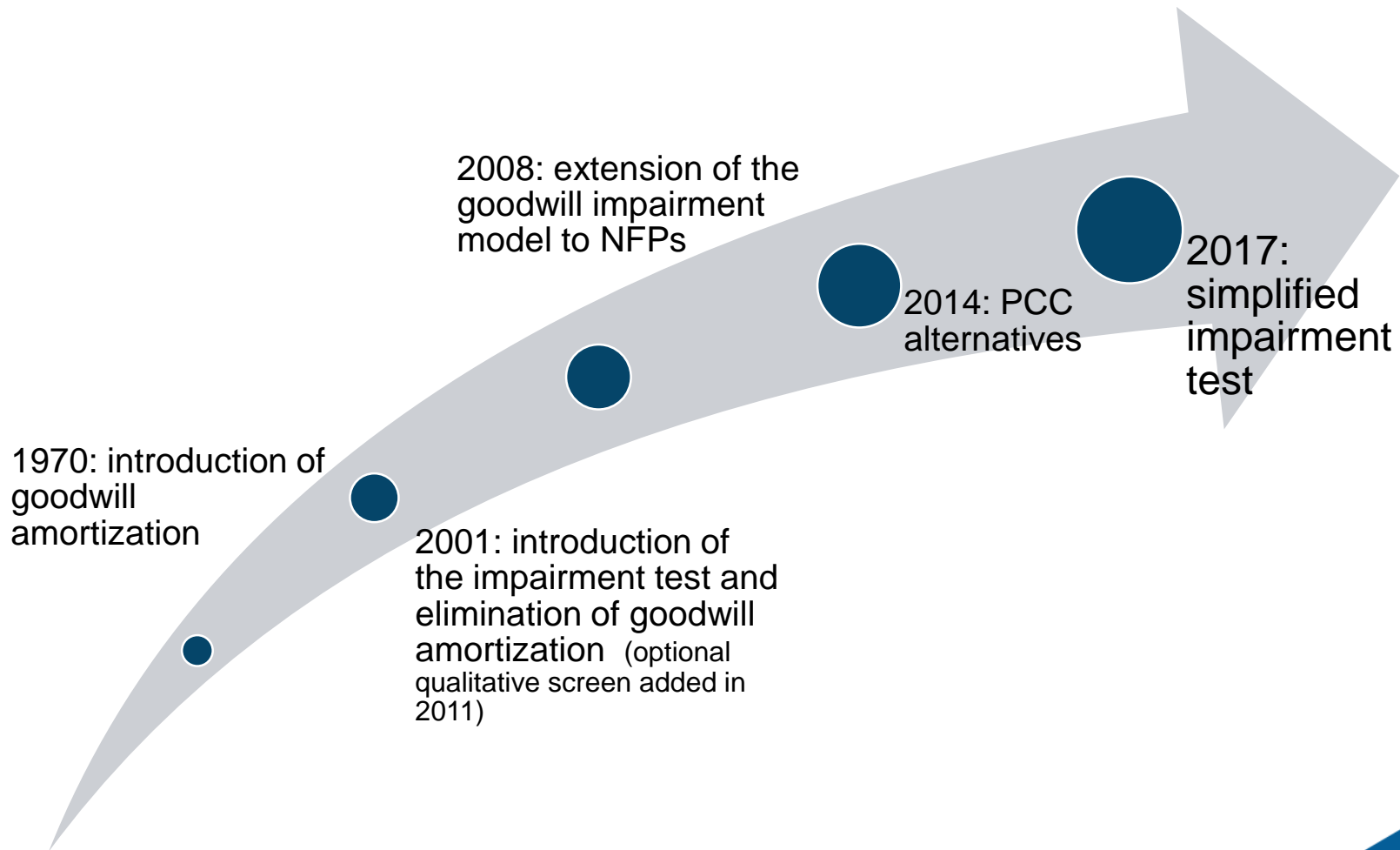
No. 2018-16—Derivatives and Hedging (Topic 815): *Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*

- Objective of new project: To facilitate the effects on financial reporting of the market-wide transition away from the London Interbank Offered Rate (or other reference rates) to the Secured Overnight Financing Rate (or other alternative reference rates)
- Early research phase
- Initial areas of focus:
 - Hedge accounting — for example, whether existing hedging relationships can be preserved if the reference rate changes
 - Loan/debt modifications — for example, whether (for accounting purposes) a change in the reference rate results in (a) the extinguishment of an instrument and the recognition of a new instrument or (b) the modification of an existing instrument

Goodwill and Intangible Assets



History of Goodwill Accounting



Goodwill and Intangible Assets

Relevant Accounting Standard Updates

Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill* (Private company alternative)

- Amortize goodwill over 10 years or less
- Test for impairment upon a triggering event
- Test for impairment at the entity or reporting unit level

Accounting Standards Update No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination* (Private company alternative)

- Subsume certain customer-related intangible assets and all non-compete agreements into goodwill and amortize

Accounting Standards Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*

- Introduced “Step 0” optional qualitative assessment

Accounting Standards Update No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

- Eliminates Step 2 of the impairment test for all entities

Projects Added to the Board's Agenda in October 2018

- ❑ Exposure Draft (ED) to extend the Private Company Alternatives to NFPs as a package
 - ED issued in December 2018
 - Comment period ended on February 18, 2019; very positive overall feedback
 - Redeliberations affirmed decisions; staff expects final ASU to be issued in 2Q

- ❑ Invitation to Comment (ITC) for the broader system, with a focus on Public Business Entities
 - Scope and Optionality
 - Goodwill amortization period
 - Impairment testing upon a triggering event (rather than annually) and at an entity level (alternative to reporting unit)
 - Subsuming certain identifiable intangible assets into goodwill and amortizing
 - Potential double-step transition for NFPs and private companies
 - ITC expected to be issued in 2Q 2019; comment period TBD

Distinguishing Liabilities from Equity (Including Convertible Debt)



Project Overview

Targeted improvements to reduce cost and complexity in financial reporting for convertible instruments and contracts in an entity's own equity.



Project added to the agenda

Board decisions: convertible instruments

Board decisions: derivatives scope exception, disclosures, and earnings per share (EPS)

Complete initial deliberations

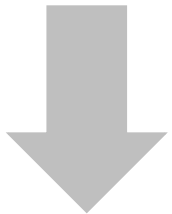
Exposure Draft projected to be issued



Convertible Instruments (primarily Topic 470)

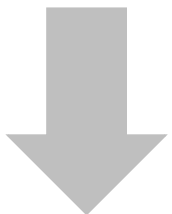


Simplification of accounting for convertible instruments



Number of convertible instrument models

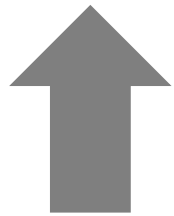
- Cash Conversion Model, Beneficial Conversion Model, and Substantial Premium Model would be removed



Bifurcation of conversion options

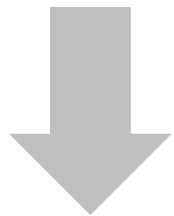
- No changes to Embedded Derivative Model

Derivatives Scope Exception for Contracts in an Entity's Own Equity (Subtopic 815-40)



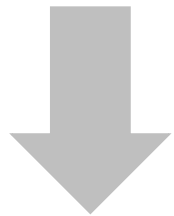
Use of management's judgment

- Disregard contingent events that are remote of occurring



Strict rules

- Removal of 3 conditions for equity classification (such as settlement in registered shares)



Form over substance classification outcomes

Financial Performance Reporting



Income Statement: Perceived Issues

Aggregation of earnings into only a few line items

- Entities are only required to present certain lines
- SG&A and COGS comprise lots of dissimilar items

Limited transparency of items that are useful in making future earnings predictions

- Nonrecurring items aren't clearly communicated
- Users rely on Non-GAAP measures to provide greater transparency of performance
- Adjustments and nonrecurring items may not be consistent over time

No requirement to prepare a structured income statement

- Use of Non-GAAP metrics suggests that some performance measures, in addition to net income, are important

FPR: Next Steps

- Research ways of disaggregating expense information based on how it is viewed internally by management
- Conduct outreach with preparers & users to understand operability & usefulness of those alternatives & consider location of information in financial statements



Segment Reporting



Segment Reporting Project—Why?

Investors are unsatisfied with the level of segment detail provided and believe that there should generally be more segments and more disclosure about those segments.

This problem is driven by three main areas of the standard:

1. Segment identification
2. Application of the aggregation criteria
3. Segment disclosure requirements.

Segment Reporting: Research & Next Step

Study Phase	Potential alternatives
2018 Segment Reporting Study	Aggregation Criteria and Reportable Segments Process <ul style="list-style-type: none">• Re-order the process for determining reportable segments, moving the quantitative threshold tests earlier in the process.• Remove the aggregation criteria, but retain the practical limit guidance.
Expected 2019 Segment Study	Segment Disclosure Requirements: <ul style="list-style-type: none">• Add items to the list of required segment disclosures.• Require information to be reported in a table that reconciles to the consolidated line items.• Require a table of regularly reviewed information based on a financial statement format.

Other Notable ASUs



Updating the Definition of *Collections*

Improvements to Accounting for Costs of Films and License Agreements for Program Materials

Collaborative Arrangements

Targeted Improvements to Related Party Guidance for Variable Interest Entities

Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans

Other Notable ASUs



Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement

Targeted Improvements to the Accounting for Long-Duration Contracts

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

Improvements to Nonemployee Share-Based Payment Accounting

Codification Improvements to Financial Services—Depository and Lending

Questions or Comments?

www.fasb.org

