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FASB APPROVES ACCOUNTING UPDATES TO PRESENTATION AND DISCLOSURES BY NOT-FOR-PROFIT ENTITIES FOR CONTRIBUTED NONFINANCIAL ASSETS

On September 17, 2020, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations.

Examples of contributed nonfinancial assets include fixed assets such as land, buildings, and equipment; the use of fixed assets or utilities; materials and supplies, such as food, clothing, or pharmaceuticals; intangible assets; and recognized contributed services.

"The ASU responds to feedback from not-for-profit stakeholders who identified gifts-in-kind as an area where the reporting could be improved," stated FASB Member Susan Cosper. "It addresses their concerns by requiring more prominent presentation of contributed nonfinancial assets and enhanced disclosures about the valuation of those contributions and their use in programs and other activities, including any donor-imposed restrictions on such use."

The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets.

It also requires a not-for-profit to disclose:

- Contributed nonfinancial assets recognized within the statement of activities disaggregated by category that depicts the type of contributed nonfinancial assets, and
- For each category of contributed nonfinancial assets recognized (as identified in (a)):
- Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used.
- The not-for-profit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets.
- A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.
- The valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition.
- The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient NFP is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The ASU, including a FASB In Focus, is available at www.fasb.org.

FASB ISSUES PROPOSAL TO SIMPLIFY HOW PRIVATE COMPANY FRANCHISORS EVALUATE CERTAIN PERFORMANCE OBLIGATIONS

On September 21, 2020, the Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU) that would provide a practical expedient that simplifies how franchisors would analyze certain activities when determining their performance obligations in a franchise agreement. Stakeholders are encouraged to review and provide input on the proposal by November 5, 2020.

When a business owner (the franchisee) opens a new branch of a franchise, the franchise agreement generally stipulates that the franchisor will support certain pre-opening activities to support the new branch. Those activities may include services such as training or site selection.

The proposed practical expedient would permit certain pre-opening services listed within the guidance to be accounted for as a single bundled, separate performance obligation, if it is probable that the continuing fees in the franchise agreement would be sufficient to cover the franchisor's continuing costs plus a reasonable profit.

The proposed ASU is available at www.fasb.org.

RECENT ACTIVITIES OF THE PRIVATE COMPANY COUNCIL

The Private Company Council (PCC) met on Tuesday, September 22, 2020. Below is a brief summary of issues addressed by the PCC at the meeting:

Summary of September 21, 2020 Meeting with the AICPA's Technical Issues Committee (TIC): PCC members reported on the issues discussed with TIC during their annual PCC-TIC Liaison meeting. PCC members and FASB Board members discussed the challenges private companies are having in applying the guidance on goodwill impairment in the current environment, including in the identification and evaluation of triggering events. PCC members indicated that, at a minimum, private companies could benefit from educational materials covering this issue, including those currently being developed by the FASB staff. They also recommended that the Board consider simplifying that guidance for private companies.

FASB resources related to the COVID-19 pandemic can be found here. Furthermore, the Board emphasized that it continues to monitor conditions and stands ready to support private companies encountering technical accounting issues. Board members encouraged PCC members and other stakeholders to continue providing feedback.

Implementation Issues—Revenue: FASB staff provided the PCC with an overview of the Revenue Recognition—Practical Expedient for Private Company Franchisors project and the recently issued proposed Accounting Standards Update, Franchisors—Revenue from Contracts with Customers (Subtopic 952-606): Practical Expedient. The project seeks to address the difficulty in determining whether pre-opening services are distinct from the franchise license. The proposed practical expedient is aimed at simplifying the performance obligation analysis.

PCC members also discussed the effect of the adoption of Topic 606, Revenue from Contracts with Customers, on Common Interest Realty Associations (CIRAs) and, in particular, on accounting for reserve assessments. PCC members and FASB staff noted that prior industry-specific guidance used by the CIRA industry has been superseded and therefore is no longer applicable.

Implementation Issues—Leases: FASB staff provided the PCC with an overview of the Leases: Targeted Improvements project that was added to the Board's technical agenda on July 29, 2020. That project provides targeted improvements related to:

1. Sales-type leases with substantial variable lease payments
2. Remeasurement of lease payments based on a reference index or rate
3. Reduction of scope in a lease contract.

FASB PROPOSES THREE TARGETED IMPROVEMENTS TO THE LEASES STANDARD

On October 20, 2020, the Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU) intended to improve three areas of the leases guidance. Stakeholders are encouraged to review and provide comments on the proposed changes by December 4, 2020.

"The proposed ASU represents our commitment to take timely action based on what we learn during our comprehensive post-implementation review (PIR) process of major standards," noted FASB Chair Richard R. Jones. "In this case, it would address three areas brought to our attention by public company stakeholders from their experiences applying the leases standard.

The amendments in the proposed ASU address the following areas:

For lessors, it would amend lease classification requirements for leases in which the lease payments are predominantly variable by requiring lessors to classify and account for those leases as operating leases. In doing so, the risk of lessors recognizing losses at lease commencement for sales-type leases that are expected to be profitable would be mitigated and the resulting financial reporting is expected to more faithfully represent the economics underlying the lease.

For lessees, it would provide the option to remeasure lease liabilities for changes in a reference index or a rate affecting future lease payments at the date that those changes take effect; that option would be available as an entity-wide accounting policy election.

Finally, for both lessees and lessors, it would change the requirements when there is an early termination of some leases within a contract that does not economically affect the remaining leases in that contract. In those circumstances, entities would be exempt from applying modification accounting to the remaining leases.

The proposed ASU, including information on how to provide comments, is available at www.fasb.org.

FASB PROPOSES CLARIFICATIONS TO THE ISSUER'S ACCOUNTING FOR CERTAIN MODIFICATIONS OF FREESTANDING EQUITY-CLASSIFIED FORWARDS AND OPTIONS

On October 26, 2020, the Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU) that would clarify an issuer's accounting for certain modifications or exchanges of freestanding equity-classified forwards and options (for example, warrants) that remain equity classified after modification. Stakeholders are asked to review and provide input on the proposed ASU by December 28, 2020.

The proposed ASU is based on a consensus of the FASB's Emerging Issues Task Force (EITF). The proposed ASU would provide guidance on how an issuer would measure and recognize the effect of these transactions. Specifically, it would provide a principles-based framework to determine whether an issuer would recognize the modification or exchange as an adjustment to equity or an expense.

The proposed ASU, including information on how to submit comments, is available at www.fasb.org.

FASB ISSUES PROPOSAL TO CLARIFY SCOPE OF RECENT REFERENCE RATE REFORM GUIDANCE

On October 29, 2020, the Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU) that would clarify the scope of the FASB's recent reference rate reform guidance. Stakeholders are asked to review and provide input on the proposed ASU by November 13, 2020.

Trillions of dollars in loans, derivatives, and other financial contracts reference the London Interbank Offered Rate (LIBOR), the benchmark interest rate banks use to make short-term loans to each other. With global capital markets expected to move away from LIBOR, the FASB took on a project to help ease the potential accounting burden.

As a result of that project, in March 2020 the FASB issued Accounting Standards Update No. 2020-04—Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. Topic 848 provides temporary, optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued.

Since then, stakeholders have raised questions about whether Topic 848 can be applied to derivative instruments that do not reference a rate that is expected to be discontinued but that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Stakeholders indicated that the modification, commonly referred to as the "discounting transition," may have accounting implications. These stakeholders raised concerns about the need to reassess previous accounting determinations related to those contracts and about the hedge accounting consequences of the discounting transition.

The amendments in this proposed ASU would clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to contracts that are affected by the discounting transition. Amendments in this proposed ASU to the expedients and exceptions in Topic 848 are included to capture the incremental consequences of the proposed scope refinement and to tailor the existing guidance to derivative instruments affected by the discounting transition.

The proposed ASU, including information on how to submit comments, is available at www.fasb.org.

FASB ISSUES STANDARD THAT DELAYS LONG-DURATION INSURANCE GUIDANCE AND EASES EARLY ADOPTION PROVISIONS

On November 5, 2020, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) that will help insurance companies adversely affected by the COVID-19 pandemic by giving them an additional year to implement Accounting Standards Update No. 2018-12, Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts (LDTI). For insurers that do not need the extra time, the ASU makes it easier and more cost-effective to maintain their current timelines and early adopt LDTI.

"The new ASU has two purposes: first, to ensure a high-quality implementation of LDTI guidance by permitting insurance companies impacted by the pandemic to take an additional year to apply the standard," stated FASB Vice Chairman James L. Kroeker. "And second, to reduce cost and complexity for insurance companies that remain on track to make a successful transition to the standard by the current effective date."

To facilitate early application and encourage accelerated delivery of better information to investors, the ASU allows insurance companies to restate only one previous period, rather than two, if they choose to early adopt LDTI.

For insurance companies that need extra time, the ASU permits them to delay implementation by one year as follows:

For SEC filers, excluding smaller reporting companies as defined by the SEC, LDTI is effective for fiscal years beginning after

December 15, 2022, and interim periods within those fiscal years.

For all other entities, LDTI is effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025.

The ASU, along with other documents the FASB has issued to support stakeholders during the pandemic, is available through the COVID-19 web portal at www.fasb.org.

SEC ADOPTS RULES TO MODERNIZE DISCLOSURES

On Aug. 26, 2020, the Securities and Exchange Commission announced that it voted to adopt amendments to modernize the description of business (Item 101), legal proceedings (Item 103), and risk factor disclosures (Item 105) that registrants are required to make pursuant to Regulation S-K. These disclosure requirements have not undergone significant revisions in over 30 years. The amendments the Commission is adopting today update these items to reflect the many changes in our capital markets and the domestic and global economy in recent decades.

"Today we modernized our public company business disclosure rules for essentially the first time in over 30 years," said SEC Chairman Jay Clayton. "Building on our time-tested, principles-based disclosure framework, the rules we adopt today are rooted in materiality and seek to elicit information that will allow today's investors to make more informed investment decisions. I am particularly supportive of the increased focus on human capital disclosures, which for various industries and companies can be an important driver of long-term value. I applaud the staff for their dedication and thoughtful approach to modernizing and improving these rules and adding efficiency and flexibility to our disclosure framework."

Many of the amendments reflect the Commission's long-standing commitment to a principles-based, registrant-specific approach to disclosure. These disclosure requirements, while prescriptive in some respects, are rooted in materiality and are designed to facilitate an understanding of each registrant's business, financial condition, and prospects. The rules are designed for this information to be presented on a basis consistent with the lens that management and the board of directors use to manage and assess the registrant's performance. The modernization of Items 101, 103, and 105 is intended to elicit improved disclosures, tailored to reflect registrants' particular circumstances, which are designed will improve disclosures for investors and add efficiencies to the compliance efforts of registrants. The amendments are also intended to improve the readability of disclosure documents, as well as discourage repetition and reduce the disclosure of information that is not material.

SEC UPDATES AUDITOR INDEPENDENCE RULES

On Oct. 16, 2020, the Securities and Exchange Commission announced that it adopted final amendments to certain auditor independence requirements in Rule 2-01 of Regulation S-X. Informed by decades of staff experience applying the auditor independence framework, the final amendments modernize the rules and more effectively focus the analysis on relationships and services that may pose threats to an auditor's objectivity and impartiality.

The final amendments reflect updates based on recurring fact patterns that the Commission staff has observed over years of consultations in which certain relationships and services triggered technical independence rule violations without necessarily impairing an auditor's objectivity and impartiality. These relationships either triggered non-substantive rule breaches or required potentially time-consuming audit committee review of non-substantive matters, thereby diverting time, attention, and other resources of audit clients, auditors, and audit committees from other investor protection efforts. The final amendments result in auditor independence requirements that will be used to evaluate specific relationships and services, with a focus on protecting investors against threats to the objectivity and impartiality of auditors.

"Today's amendments reflect the Commission's long-recognized view that an audit by an objective, impartial, and skilled professional contributes to both investor protection and investor confidence," said Chairman Jay Clayton. "These modernized auditor independence requirements will increase investor protection by focusing audit clients, audit committees, and auditors on areas that may threaten an auditor's objectivity and impartiality. They also will improve competition and audit quality by increasing the number of qualified audit firms from which an issuer can choose."

SEC ADOPTS AMENDMENTS TO MODERNIZE AND ENHANCE MANAGEMENT'S DISCUSSION AND ANALYSIS

On Nov. 19, 2020, the Securities and Exchange Commission announced that it has voted to adopt amendments that will modernize, simplify and enhance certain financial disclosure requirements in Regulation S-K. The amendments are intended to enhance the focus of financial disclosures on material information for the benefit of investors, while simplifying compliance efforts for registrants.

"Today's rules will improve the quality and accessibility of the disclosure that companies provide their investors, including, importantly giving investors greater insight into the information management uses to monitor and manage the business," said SEC Chairman Jay Clayton. "The improved approach to these disclosures reflects the broad diversity of issuers in our public markets and will allow investors to make better capital allocation decisions, while reducing compliance burdens and costs and maintaining strong investor protection."

The amendments reflect the Commission's long-standing commitment to a principles-based, registrant-specific approach to disclosure. This approach, as applied to Management's Discussion and Analysis, should yield material information relevant to an assessment of the financial condition and results of operations of the registrant, and allow investors to view the registrant from management's perspective. The amendments are also intended to improve disclosure by enhancing its readability, discouraging repetition and eliminating information that is not material.

AICPA PROPOSES NEW AUDITING STANDARD TO HELP AUDITORS ASSESS THE RISKS OF MATERIAL MISSTATEMENTS IN FINANCIAL STATEMENTS

On August 27, 2020, the American Institute of CPAs (AICPA) Auditing Standards Board (ASB) issued an exposure draft of Proposed Statement on Auditing Standards (SAS) Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement to supersede SAS No. 122, as amended, section 315 of the same title, and amend various AU-C sections in AICPA Professional Standards.

The proposed SAS is based on the International Standard on Auditing 315, Identifying and Assessing the Risks of Material Misstatement. The overall objectives of this proposed SAS are:

To enhance the requirements and guidance on identifying and assessing the risks of material misstatement, in particular the guidance that addresses the entity's system of internal control and information technology (IT).

Revise the definition of significant risks. The current definition focuses on risks that require special audit considerations. The revised definition focuses on where those risks lie on the spectrum of inherent risk and it includes new guidance intended to enhance an auditor's professional skepticism.

Interested parties are encouraged to submit their feedback to the ASB at CommentLetters@aicpa-cima.com.