PwC’s quarterly accounting webcast
Polling question 1

What is your company’s current level of concern related to COVID-19?

A. Potential for significant impact to our business operations, and it is causing us great concern
B. Limited to specific regions in our business currently, but we are monitoring closely
C. An isolated challenge; not greatly impacting our business currently, but we are monitoring the situation for any change
Coronavirus impact
What is the COVID-19 Navigator?

Navigator is an online, interactive tool to help organizations better understand where they are on their path toward COVID-19 preparedness and response across these six focus areas:

- Crisis management and response
- Workforce
- Operations and supply chain
- Finance and liquidity
- Tax and trade
- Strategy and brand

Users will receive a robust assessment containing:

- Potential business risks in each area
- Level of preparedness
- Concrete actions they can take to be better prepared
- Links to relevant Thought Leadership and expertise
Real-time insights about COVID-19’s business impact

What we did:
- Surveyed CFOs in US and Mexico, from 3/9-3/11

What we learned:
- CFOs more confident in their own business’ ability to weather the storm than they are in the overall health of the economy.
- 90% said they could be back to “business as usual” within three months if COVID-19 were contained today. Yet, 80% worried about impending recession.
- Why is this? Many have done contingency planning for an economic downturn. Less confident in health of the economy given external factors (coronavirus) outside of their control.

What’s coming:
- New insights will be released on 3/30
Polling question 2

What impact do you expect on your company’s revenue and/or profits this year as a result of COVID-19?

A. Decrease revenue and/or profits
B. It is difficult to assess at this point
C. Increase revenue and/or profits
Coronavirus accounting and reporting - impairment considerations

Consideration of triggering events
• Significant, adverse changes in macroeconomic conditions
• Adverse changes in current and long-term customer demand
• Constraints on supply chain, sourcing of inputs, and workforce availability
• Decrease in market capitalization below book value

Impairment models
• Long-lived assets
  – Triggering event-based impairment model (at asset group level)
  – Step 1: recoverability test comparing undiscounted cash flows to net carrying value
  – Step 2: compare fair value to net carrying value to measure impairment
• Goodwill and indefinite-lived intangible assets
  – Annual impairment testing, unless interim impairment indicators are present
  – Impairment measurement:
    • Compare fair value of reporting unit (or goodwill) to net carrying value
Coronavirus accounting and reporting - impairment considerations (continued)

Fair value considerations
• Considerations on fair value models used for impairment testing
  – Impact of current market and economic factors on cash flow projections
    • Growth expectations, cost increases, volatility in commodities pricing
    • Impact of current market conditions on discount rates
  – Market approach - changes to peer group, multiples used for valuation
  – Consideration of multiple valuation techniques
Financial instrument – impairment models

Equity method investments under Topic 323
• Impairment assessment based on qualitative indicators
• Other-than-temporary impairment (OTTI) model

Investments in equity securities under Topic 321
• Impairments assessment required if applying the measurement alternative
• Impairment assessment is based on qualitative indicators
• No concept of OTTI under this impairment model

Available-for-sale debt securities under Topic 326
• Assessment triggered if fair value is less than amortized cost basis
• Intent and ability to hold (or not sell) the security
• Identify amount of decline attributable to credit related factors and non-credit related factors
• Impairment charge = amortized cost basis – present value of expected cash flows
• Cannot be impaired below fair value
Fair value measurements under Topic 820

- Objective is to determine the price at which an orderly transaction would take pace between market participants under the market conditions that existed at the measurement date

- Despite recent volatility in financial markets, would generally not be appropriate to disregard market prices…unless prices are from transactions not considered “orderly”

- Concept of an orderly transaction is to distinguish it from the price in a distressed sale or forced liquidation
  - Assessment of whether a transaction price is orderly is highly judgement
  - Generally a high bar to conclude a transaction price is not orderly
Polling question 3

Have you assessed your assets for impairment in light of current economic conditions?

A. Not yet
B. Just getting started
C. Yes we are well along
D. N/A
Other miscellaneous topics

<table>
<thead>
<tr>
<th>Topic</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>• Variable consideration</td>
</tr>
<tr>
<td></td>
<td>• Probable collectibility and reserves</td>
</tr>
<tr>
<td>Taxes</td>
<td>• Valuation allowances</td>
</tr>
<tr>
<td></td>
<td>• Annual effective tax rate</td>
</tr>
<tr>
<td>Subsequent events</td>
<td>• Recognized vs. unrecognized</td>
</tr>
<tr>
<td></td>
<td>• Disclosures</td>
</tr>
</tbody>
</table>
Disclosure and reporting considerations of COVID-19

US GAAP Requirements

• Subsequent events disclosure
• Risks and uncertainties
  – ASC 275 requires financial statement discussion of estimates when:
    • it is at least reasonably possible that the estimate will change in the near term and;
    • the effect of the change would be material.

SEC

• Public companies should consider disclosure that may be required outside of the financial statements in SEC filings
  – Risk Factors
  – MD&A
  – Description of Business

SEC Relief

• The SEC issued an order that provides deadline relief to impacted companies, providing an additional 45 days to file certain reports that otherwise would have been due on or before April 30
### Other miscellaneous topics

<table>
<thead>
<tr>
<th>Topic</th>
<th>Summary</th>
</tr>
</thead>
</table>
| ICFR  | • Controls may not be operating effectively to adequately address current risk level  
       | • Disclosure of changes to ICFR |
Polling question 4

How far along is your company in assessing the transition from LIBOR?
A. We haven’t started assessing the impact
B. Just getting started
C. We’ve done some work
D. We’ve completed our assessment
E. N/A
LIBOR and reference rate reform
Transition is imminent
• End of LIBOR: December 31, 2021 – 21 months
• $350 trillion of financial instruments indexed to IBORs
• Contracts, leases, models, customer agreements, etc.

Regulators are driving institutions forward
• UK Regulator: LIBOR derivatives end March 2, 2020, loans Q3 2020; haircuts on Bank of England funding collateral
• Fannie Mae and Freddie Mac: No LIBOR loans after December 31, 2020; FHLB - March 31, 2020
• Inspection & expectations of LIBOR transition plans

Alternative rate products are happening now
• 83 institutions issued $400+ billion SOFR (US) cash instruments
• 100 SONIA (UK) bond issuances > £80bn
• Derivatives market developing > $2tn SOFR, £3tn SONIA

LIBOR transition program attributes
- Program Structure, Governance, and PMO
- Impact Assessment
- New Benchmark Markets & Product Transition
- Contract Discovery & Remediation
- Outreach & Communications
- System and Process Changes
- Risk & Valuation Models
- Financial Reporting & Tax
Reference rate reform (Topic 848)

Objective
• Response to certain accounting issues likely to arise because of reference rate reform

Main Provisions
• Optional expedient for **contract modifications** that replace LIBOR and modifies other terms affected by reference rate reform (including fallback provisions)
• Optional expedients for **hedge accounting** affected by reference rate reform
  – Permits changes to critical terms of the hedging relationship
  – Permits changes to the designated benchmark interest rate in a fair value hedge
  – Relief for assessing hedge effectiveness and probable transaction for cash flow hedges

Effective Date
• Amendments are effective immediately through December 31, 2022
Polling question 5

How much effort did your company put in to adopt CECL?

A. Not much
B. Some effort
C. Significant effort
D. N/A
Polling question 6

How closely do you follow FASB and SEC activities?
A. Not at all
B. Somewhat
C. Very closely
Regulatory and standard-setting activities
Final Rules - Changes to disclosure requirements for certain debt securities

On March 2, the SEC made significant changes to the disclosure requirements for registered securities that are guaranteed and that are collateralized by the securities of an affiliate (previously S-X Rules 3-10 and 3-16).

Below is a summary of disclosure changes for guarantor structures:

<table>
<thead>
<tr>
<th>Entities which can use the SEC’s guarantee-related disclosure framework, generally</th>
<th>Previous rule (Rule 3-10)</th>
<th>New rule (Rule 13-01)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% owned subsidiary issuer or guarantor</td>
<td>Consolidated subsidiary of parent company</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disclosure of financial information</th>
<th>Previous rule (Rule 3-10)</th>
<th>New rule (Rule 13-01)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Condensed consolidating financial statements</td>
<td>Summarized financial information of each issuer and guarantor (can be provided on a combined basis)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Periods to be presented</th>
<th>Previous rule (Rule 3-10)</th>
<th>New rule (Rule 13-01)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All periods the parent presents in its financial statements</td>
<td>Most recently completed fiscal year and subsequent year-to-date interim period</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Location</th>
<th>Previous rule (Rule 3-10)</th>
<th>New rule (Rule 13-01)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required to be in the footnotes</td>
<td>Permitted to be outside of the financial statements (e.g., MD&amp;A)</td>
<td></td>
</tr>
</tbody>
</table>

- Non-financial disclosures – expanded to include, among others, information about the issuers/guarantors, terms and conditions of the guarantees, and how the structure of the guarantees may affect payment
- Summarized financial information – must exclude all subsidiaries that are not issuers or guarantors
- Materiality – requires disclosures only to the extent material
- Disclosures can be ceased if the related subsidiary issuers’ or guarantors’ reporting obligations have been suspended

Effective January 4, 2021, but can be adopted immediately
Summary of disclosure changes related to registered securities that are collateralized by the pledge of an affiliate’s securities.

The new rule (Rule 13-02):

- Requires summarized financial information of each affiliate whose securities are pledged as collateral instead of Rule 3-16’s requirement for full financial statements for each affiliate (can be presented on a combined basis)
  - Generally similar to the summarized financial information for guarantor structures under new Rule 13-01
  - Should include the financial information of all subsidiaries that would be consolidated by the affiliate
- Requires non-financial disclosure generally similar to guarantor rule
- Permits the registrant to include the information as a footnote to its financial statements or outside of its financial statements
- Requires disclosures only to the extent material instead of using Rule 3-16’s 20% significance threshold

Effective dates:

Rule 13-02 can be applied immediately but must be applied starting January 4, 2021.

“Grandfathering” provision – The previous Rule 3-16 will continue to govern any previously issued and outstanding securities at January 4, 2021 if the parent had not previously provided financials statements under the requirements of that rule.
SEC amendments to accelerated filer definition

- On March 12, 2020 the SEC finalized changes to expand the population of companies designated as non-accelerated filers to include smaller reporting companies (SRCs) with less than $100M in revenue.

- Updated thresholds:

<table>
<thead>
<tr>
<th>Filer Status</th>
<th>Aggregate Worldwide Market Value</th>
<th>Annual Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smaller reporting company “SRC” and Non-Accelerated Filer</td>
<td>Less than $75M</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>$75M to less than $700M</td>
<td>Less than $100M</td>
</tr>
<tr>
<td>SRC and Accelerated Filer</td>
<td>$75M to less than $250M</td>
<td>$100M or more</td>
</tr>
<tr>
<td>Accelerated Filer (non-SRC)</td>
<td>$250M to less than $700M</td>
<td>$100M or more</td>
</tr>
</tbody>
</table>

Note: The worldwide market value threshold to exit accelerated filer status is <$60M

- Non-accelerated filers are not required to have an auditor attestation of internal control. Amendment does not alter existing requirements related to management’s assessment relating to the effectiveness of internal control.

- The final amendments will become effective 30 days after they are published in the Federal Register and will apply to annual reports due on or after the effective date.
Polling question 7

What is your preferred method to keep up to speed on financial reporting matters?

A. Webcasts
B. Podcasts
C. Written publications
## New standards issued – Q1 2020

<table>
<thead>
<tr>
<th>Standard</th>
<th>Main provisions</th>
<th>Effective date(s)</th>
</tr>
</thead>
</table>
| ASU 2020-01 – Clarifying the Interactions Between ASC 321, 323, and 815 | • Clarifies companies should look to observable transactions when either applying or discontinuing the equity method  
 • Confirms companies should fair value forwards or options to purchase equity investments that will be accounted for under the equity method from contract inception to settlement | • January 1, 2021 for PBEs  
 • One year delay for all others |
| ASU 2020-02 – SEC Paragraph Updates to Credit Losses and Leasing Standards | • Updates SEC paragraphs of ASC 326, *Credit Losses*, to include SAB 119  
 • Updates SEC paragraphs of ASC 842, *Leases*, to incorporate SEC staff speech from 2019 AICPA conference | • Immediate |
# New standards issued – Q1 2020 (continued)

<table>
<thead>
<tr>
<th>Standard</th>
<th>Main provisions</th>
<th>Effective date(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASU 2020-03 – Codification Improvements - Financial Instruments</strong></td>
<td>• Various technical corrections</td>
<td>• Immediate as of January 1, 2020</td>
</tr>
</tbody>
</table>
| **ASU 2020-04 – Reference Rate Reform** | • Relief from accounting analysis and impact otherwise required for modifications to agreements (e.g., loans, debt, derivatives.)  
• Optional expedients to continue hedge accounting in certain hedging relationships | • Immediate as of January 1, 2020 (through December 31, 2022) |
| **Revenue Recognition Implementation Q&A** | • Not new guidance  
• Incorporates previously-issued FASB staff and Transition Resource Group (TRG) memos and other educational materials |  |
## Exposure drafts/roundtables

<table>
<thead>
<tr>
<th>Exposure draft</th>
<th>Topics</th>
<th>Comments due</th>
</tr>
</thead>
</table>
| NFP – Presentation and Disclosure of Contributed Nonfinancial Assets | • Scope includes only NFPs  
• Proposes to present contributed nonfinancial assets as a separate line item in statement of activities  
• Proposes to require certain disclosures | Apr 10, 2020       |
| Leases                                                       | • Forum to share feedback about public company challenges and successes in adopting ASC 842 | May 18, 2020  |
## New standards effective in 2020 – PBEs

<table>
<thead>
<tr>
<th>Standard</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Credit Losses</strong></td>
<td>• Requires financial instrument impairment model based on current expected credit losses, rather than incurred losses</td>
</tr>
<tr>
<td><strong>Goodwill Impairment</strong></td>
<td>• Eliminates “step 2” from the goodwill impairment test</td>
</tr>
<tr>
<td><strong>Cloud Computing</strong></td>
<td>• Requires use of internal-use software guidance to determine which cloud computing arrangement implementation costs to capitalize</td>
</tr>
<tr>
<td><strong>Fair Value Measurement</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Disclosure Requirements</strong></td>
<td>• Revises certain fair value measurement disclosure requirements</td>
</tr>
<tr>
<td><strong>Collaborative Arrangements</strong></td>
<td>• Clarifies when collaborative arrangement transactions are within the scope of ASC 606</td>
</tr>
</tbody>
</table>

* Effective in 2020 for SEC filers other than SRCs; effective in 2023 for all other companies, including SRCs.
New standards effective in 2020 – PBPs (continued)

<table>
<thead>
<tr>
<th>Standard</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consolidation: VIE-Related Party</strong></td>
<td>• Provides private company exception to VIE guidance and other narrow-scope improvements</td>
</tr>
<tr>
<td><strong>Episodic Television Series</strong></td>
<td>• Narrow-scope changes to accounting for production costs of an episode television series</td>
</tr>
<tr>
<td><strong>Share-Based Consideration to a Customer</strong></td>
<td>• Requires such arrangements with customers to be recorded consistent with stock compensation guidance of ASC 718</td>
</tr>
<tr>
<td><strong>Definition of Collections</strong></td>
<td>• Changes the definition of the term “collections,” primarily affecting not-for-profit entities</td>
</tr>
</tbody>
</table>
## New standards early adoptable in 2020

<table>
<thead>
<tr>
<th>Standard</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASU 2019-12 – Simplifying the Accounting for Income Taxes</strong></td>
<td>Changes to certain areas of income tax accounting, including intraperiod tax allocation, franchise taxes based on income, separate company financial statements, and other topics</td>
</tr>
<tr>
<td><strong>ASU 2020-01 – Clarifying the Interactions Between ASC 321, 323, and 815</strong></td>
<td>Clarifies application of measurement alternative of ASC 321 when applying or discontinuing the equity method of accounting for an investment forward and purchase contracts subject to ASC 321</td>
</tr>
<tr>
<td><strong>ASU 2020-03 – Reference Rate Reform</strong></td>
<td>Relief from certain accounting impacts and analysis resulting from the discontinuation of LIBOR</td>
</tr>
<tr>
<td><strong>ASU 2018-12 – Insurance: Long-Duration Contracts</strong></td>
<td>Significant changes to accounting and disclosure for long-duration insurance contracts, including recognition and measurement of insurer liabilities</td>
</tr>
</tbody>
</table>
Thank you

© 2020 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.