PwC’s quarterly accounting webcast
Polling question

If COVID-19 were to end today, how long would you estimate it would take for your company to get back to “business as usual”?

A. Less than 3 months
B. 3 to 6 months
C. 6 to 12 months
D. More than 12 months
Economic and policy update
Polling question

What is your top concern with respect to returning to the workplace and operating in a changed business environment?

A. Not having enough information to make good decisions regarding the COVID-19
B. Decrease in consumer confidence reducing consumption
C. The effects on our workforce/reduction in productivity
D. Supply chain disruptions
E. Other
Impairment and valuation
Impairment and valuation considerations – Triggering events

**Potential triggering events - ASC 350, Intangibles - Goodwill and Other**

- Sustained decline in market capitalization below book value
- Negative or declining earnings or cash flows compared to budget and/or prior-years
- Significant, adverse change in overall macroeconomic conditions
- Deterioration in industry conditions or market multiples
- Constraints on supply chain, sourcing of inputs, and/or workforce availability
- Loss of key management, personnel, or customers
- Impairments of other assets or establishment of valuation allowances
- Others - entity-specific, “facts and circumstances” judgment required
Impairment and valuation considerations – Valuation reminders

Valuation reminders - goodwill and long-lived assets

• Market participant view - what is “known” or “knowable”

• Challenges in developing cash forecasts in uncertain environment
  – Use of scenario analysis to incorporate uncertainty in cash flows
  – Discount rate(s) reflective of riskiness in cash flow forecasts

• Market cap reconciliation for entities with multiple reporting units
  – Control premium considerations

• Long-lived asset considerations
  – Entity-specific (“Step 1 - Recoverability”) vs. market participant (“Step 2 - Fair Value”) cash flow forecasts
  – Right-of-use asset reminders - fair value; “delinked” expense recognition; sublease

• Other reminders
  – Point-in-time impairment models - not “other-than-temporary”
  – ASC 250 disclosures - material change in estimation methodology
## Impairment and valuation considerations – Scenario analysis

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Probability</th>
<th>Future Earnings</th>
<th>Discount Rate</th>
<th>Net Present Value</th>
<th>Probability-Weighted Net Present Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 &quot;V&quot; Recovery</td>
<td>30%</td>
<td>$10,000,000</td>
<td>10%</td>
<td>$6,144,567</td>
<td>$1,843,370</td>
</tr>
<tr>
<td>2 &quot;U&quot; Recovery</td>
<td>40%</td>
<td>$8,500,000</td>
<td>10%</td>
<td>$5,222,882</td>
<td>$2,089,153</td>
</tr>
<tr>
<td>3 &quot;L&quot; Recovery</td>
<td>30%</td>
<td>$6,000,000</td>
<td>10%</td>
<td>$3,686,740</td>
<td>$1,106,022</td>
</tr>
</tbody>
</table>

**Estimated Fair Value:** $5,038,545
Impairment and valuation considerations – Valuation reminders

Valuation reminders - goodwill and long-lived assets
• Market participant view - what is “known” or “knowable”
• Challenges in developing cash forecasts in uncertain environment
  – Use of scenario analysis to incorporate uncertainty in cash flows
  – Discount rate(s) reflective of riskiness in cash flow forecasts
• Market cap reconciliation for entities with multiple reporting units
  – Control premium considerations
• Long-lived asset considerations
  – Entity-specific (“Step 1 - Recoverability”) vs. market participant (“Step 2 - Fair Value”) cash flow forecasts
  – Right-of-use asset reminders - fair value; sublease vs. abandonment considerations
• Other reminders
  – Point-in-time impairment models - not “other-than-temporary”
  – ASC 250 disclosures - material change in estimation methodology
As a result of COVID-19, does your company expect any of the following to occur in the next month?

A. Productivity loss due to lack of remote work capabilities
B. Furloughs
C. Lay-offs
D. None of the above
Employee restructuring costs
## Employee termination costs models

<table>
<thead>
<tr>
<th>Type of termination benefits</th>
<th>Timing of liability/expense recognition</th>
<th>Applicable guidance</th>
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# Employee termination costs models

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## Employee termination costs models

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An arrangement for one-time employee termination benefits exists at the date the plan of termination meets all of the following criteria and has been communicated to employees:

1. Management, having the authority to approve the action, commits to a plan of termination.
2. The plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date.
3. The plan establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination (including but not limited to cash payments), in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.
4. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
### Stock-based compensation awards: modifications

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<th>Type of modification</th>
<th>Example</th>
<th>Result</th>
</tr>
</thead>
</table>
| Improbable-to-probable (Type III)        | • Upon termination, employee would have forfeited the award under its original terms  

• The company determines (at its discretion) that it will choose to accelerate vesting for the terminated employees | • Brand new measurement date occurs  

• The incremental fair value resulting from the change is equal to the fair value of the modified awards on the modification date  

• This amount is recognized immediately if the awards do not require further service, or over the period until the termination date if the employee has to work until then to get the vesting feature  

• Any expense taken on the awards based on the original grant date value would be reversed. |
## Stock-based compensation awards: modifications

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<th>Example</th>
<th>Result</th>
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<td>Probable-to-probable (Type I)</td>
<td>• The company gives employees with vested options more time to exercise upon termination than was allowed under the awards’ original terms</td>
<td>• Given the term is one of the inputs to measuring the fair value of an option, there is incremental fair value to recognize as compensation cost</td>
</tr>
</tbody>
</table>
Polling question

Which of the following financial actions is your company considering as a result of COVID-19?

A. Implementing cost containment
B. Deferring or canceling planned investments
C. Changing company financing plans
D. Other
Rent concessions and debt classification
Both lessees and lessor can elect to either account for the concession as a:
- Lease contract modification or
- A payment adjustment based on an existing contractual right

The election is available provided the rent concession does not result in a substantial increase in the rights of the lessor or the obligations of the lessee.
- For example, total payments required by the modified contract should be substantially the same as or less than total payments required by the original contract

Election has to be applied consistently to leases with similar characteristics and in similar circumstances

Disclosures should be provided about material concessions and the accounting effects to enable users to understand the nature and financial effect of the COVID-19 related rent concessions
Examples of approaches to account for a rent concession as a payment adjustment based an existing contractual right: Lessee

**As if no change (deferrals only)**
- Recognize a separate non-interest bearing payable for the deferred payments
- Continue to account for the lease liability and right-of-use (ROU) asset as before the rent deferral
- No change to lease expense

**Resolution of a contingency**
- Follow the resolution of a contingency model in ASC 842 without reclassifying the lease or updating the discount rate
- Remeasure the remaining consideration in the contract, reallocate it to lease and non-lease components as applicable, and remeasure the lease liability with an adjustment to the ROU asset for the same amount
- Prospectively adjust lease expense

**As incurred**
- Treat payment changes as variable lease expense
- Any rent concession is accounted for as a negative variable lease expense in the concession period. If payments are deferred, the expense is recognized in the later period when the rent is paid.
- The result would be a lower lease cost during the concession period and in some cases a higher lease cost in a later period
**Covenant violation at the balance sheet date/ Waiver** obtained

Assess the probability of failing the same or more restrictive covenants within the next year:

<table>
<thead>
<tr>
<th>Probability of Failing</th>
<th>Current</th>
<th>Noncurrent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probable the covenant will not be met:</td>
<td>Current</td>
<td></td>
</tr>
<tr>
<td>Reasonably possible the covenant will be met:</td>
<td>Noncurrent</td>
<td></td>
</tr>
</tbody>
</table>

**Lender gives up its right to force repayment for more than one year from the balance sheet date**
Covenant violations after the balance sheet date

Covenant violation after the balance sheet date

- Generally, noncurrent with transparent disclosure
Subjective acceleration clauses

- Long-term financing agreements may contain subjective acceleration clauses (SAC), in which the lender may refuse to continue to lend if the borrower experiences an adverse change.
- Typically referred to as material adverse change (MAC) or material adverse effect (MAE) clauses.
- The likelihood of the due date being accelerated determines the classification of debt with a SAC:

<table>
<thead>
<tr>
<th>Probable* (e.g., recurring losses or liquidity issues)</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasonably possible</td>
<td>Noncurrent with disclosure of the existence of the SAC</td>
</tr>
<tr>
<td>Remote</td>
<td>Noncurrent</td>
</tr>
</tbody>
</table>

* Using definition of “probable” in ASC 450
Additional resources

- **In depth:** FAQ on accounting for COVID-19 and market volatility
- **In depth:** Argentina: Exchange rate and disclosure considerations
- **In the loop:** Are you ready for your stakeholders to ask about the coronavirus?
- **In the loop:** Assessing liquidity and going concern in an uncertain economy
- **Podcast library including accounting fundamentals, COVID-19-related accounting issues, and our new summer series, What’s next?, on emerging stronger in the new environment**
Polling question

In returning to the workplace, what is your biggest concern?

A. Providing a safe environment for employees and customers

B. Balancing the needs of all stakeholders (customers, employees, suppliers, communities, investors)

C. Providing clear response and shut-down protocols if cases in your area rose significantly or there was a second wave of infections

D. Other
Regulatory and standard setting
Q1 COVID-19 disclosure trends

85% of the S&P 500 included COVID-19 disclosures in the financial statements in Q1 filings

- ASC 275, Risks and uncertainties
- ASC 205-40, Going concern
- Triggering events requiring asset impairment tests
- Debt matters/liquidity

Themes in Q1 8-K filings:

- Guidance withdrawals/revisions
- Debt offerings/draws on existing credit facilities
- Liquidity updates/updating risk factors disclosure since 10-K
- Dividend and share buyback suspensions or adjustments
- Restructurings, furloughs, and executive pay reductions
In May, the SEC amended its disclosure requirements applicable to acquisitions and dispositions of businesses, including real estate operations and investment companies. The changes include, among others:

- Revising the income and investment tests
- Conforming the significance threshold and tests for a disposed business to those used for an acquired business
- Permitting abbreviated financial statements for certain acquisitions of a component of an entity
- Reducing the maximum number of years for which financial statements are required under Rule 3-05 from 3 to 2
- Eliminating the need for a comparative interim period when only one year of audited Rule 3-05 financials are required
- Allowing a registrant to exclude separate acquired business financial statements once the business has been included in the consolidated results for generally a complete fiscal year
- Amending pro forma requirements to improve the content and relevance of such information
- Amending provisions of Rule 3-14 for real estate operations and adding a new rule for fund acquisitions by investment companies

New rules required to be applied no later than the beginning of the registrant’s fiscal year beginning after December 31, 2020. Voluntary early compliance is permitted.
Polling question

Is your company considering any of the following?

A. Reconfigure work sites to promote physical distancing
B. Making remote work a permanent option for roles that allow
C. Reduce real-estate footprint (e.g., partial opening of offices, retail locations)
D. Accelerate automation and new ways of working
## FASB response on certain COVID issues

Change in effective dates

<table>
<thead>
<tr>
<th>Applicable for</th>
<th>Fiscal years beginning after</th>
<th>Interim</th>
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<tbody>
<tr>
<td><strong>ASC 606, Revenue from Contract with Customers</strong></td>
<td></td>
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<tr>
<td>All entities besides PBEs, public NFPs, and “public EBPs” that have not yet</td>
<td>December 15, 2019</td>
<td>Following year</td>
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<tr>
<td>issued financial statements (or made available for issuance) reflecting</td>
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<td>adoption of ASC 606 as of June 3, 2020</td>
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<td><strong>ASC 842, Leases</strong></td>
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<td>Public NFPs that have not yet issued</td>
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<td>**ASU 2018-12, Targeted Improvements to the Accounting for Long Duration</td>
<td></td>
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<td>Contracts**</td>
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<td>1 year delay for PBEs that are SEC filers other than SRCs (proposed)</td>
<td>December 15, 2022</td>
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<td>1 year delay for all other entities (proposed)</td>
<td>December 15, 2024</td>
<td>Following year</td>
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<tr>
<td>Topic</td>
<td>Issue</td>
<td>FASB staff view</td>
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<td>Interest income</td>
<td>Calculation of interest income on deferral of interest payments</td>
<td>2 acceptable views: either calculate a new effective interest rate or use the amount of interest that has legally accrued</td>
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<td>Leases</td>
<td>Treatment of rent concession related to COVID-19</td>
<td>Election to treat as either lease modification or as if it is an adjustment under an existing force majeure clause</td>
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<td>Hedging</td>
<td>When to reclassify amounts in AOCI when there are delays in the timing of a forecasted transaction due to COVID-19</td>
<td>Delays in timing may be considered rare cases caused by extenuating circumstances</td>
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<td>Fair value</td>
<td>Suspension of mark-to-market accounting</td>
<td>Guidance in Topic 820, <em>Fair Value Measurement</em>, related to volume or level of activity and orderly transactions is sufficient</td>
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# New standards likely to be finalized before Q3

<table>
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<tr>
<th>Standard</th>
<th>Main provisions</th>
<th>Status</th>
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| Distinguishing Liabilities from Equity (Including Convertible Debt) | • Intended to simplify the accounting for convertible instruments and contracts in an entity’s own equity and related earnings per share implications  
• Includes additional disclosure requirements                           | Board resolved sweep issues and directed staff to draft final ASU        |
| Not-for-Profit Reporting of Gifts-in-Kind     | • Provides presentation and disclosure guidance for contributed non-financial assets to not-for-profits | Board resolved sweep issues and directed staff to draft final ASU        |
Polling question

What about the current situation will make your company better in the long run?

A. Work flexibility (e.g., hours, location)
B. Leaner operations
C. Better resiliency and agility
D. Other