5 New Year’s resolutions for year-end and beyond

December 2019
Remember your stakeholders
Polling question

What issue has your audit committee been focused on most this year?

A. Risk oversight
B. New accounting standards
C. Social issues
D. Disclosures
E. Other or N/A
Polling question

What issue has been most prevalent in your company’s interactions with key shareholders this year?

A. Purpose-led reporting (e.g., environmental and social matters)
B. New accounting standards
C. Share repurchase / dividend programs
D. Board composition
E. Other or N/A
Stay up to speed on the big three new standards
CECL, revenue and leasing
Current expected credit losses (CECL)

Changes determination of credit losses from incurred loss approach to expected loss approach

Scope includes loans and loan commitments, receivables (including trade receivables), HTM debt securities, financial guarantees, reinsurance recoverables, net investment in leases on sales-type leases and direct financing leases

Separate revised impairment model for AFS debt securities

Applies to certain financial assets measured at amortized cost, net investments in leases and off balance sheet credit exposures

Effects both financial services and non-financial service entities
Key CECL messages

Companies should be finalizing their estimates, models, and processes, and testing of key controls over the end-to-end process.

Develop processes and controls over understanding and owning third party data, vendors and models.

Key judgments should be documented and supported.

Develop processes and controls around required disclosures, including SAB 74 disclosures.

Companies not adopting until after 2020 should continue moving forward with implementation efforts.
Polling question

What part of your finance function has been most significantly automated or what part do you expect to significantly automate?

A. Accounts receivable
B. Accounts payable
C. Budget, forecasting and management reporting
D. Tax accounting
E. Other or N/A
Principal versus agent assessments (example)

**Facts:**
- A manufacturer and reseller are involved in the transfer of equipment to a customer
- The customer pays $100 for the purchase of equipment $20 is retained by the reseller; $80 is paid to the manufacturer

**Question:** Should the reseller recognize
1) $100 in revenue and $80 in expense OR
2) $20 in revenue?
Principal versus agent assessments

Two-step analysis

1. Identify the specified good or service to be provided to the end consumer

2. Assess whether the company controls the specified good or service before it is transferred to the end consumer

Reminders

- If there are multiple specified goods or services, the analysis is performed separately for each

- “Control” is the ability to direct the use of and obtain substantially all of the remaining benefits
When it is not clear whether the company controls the good or service, consider the three indicators of control:

1. the entity is primarily responsible for fulfilling the promise
2. the entity has inventory risk
3. the entity has discretion in establishing the price
Principal versus agent assessments
5 general reminders

1. Read the final contracts

2. Don’t skip directly to the indicators

3. Don’t use the indicators as a checklist

4. Obtain input from resources outside of accounting/finance

5. Disclose significant judgments and conclusions
Polling question

When does your company typically publicly release earnings associated with its annual results?

A. The same day as we file the Form 10-K
B. One week before filing the Form 10-K
C. Two weeks before filing the Form 10-K
D. More than two weeks before filing the Form 10-K
E. Not applicable / don’t know
Variable payments

We note your disclosure that, “payments that are not fixed at the commencement of the lease are considered variable payments and expensed as incurred.” We also note based on your table on page 18 that variable lease payments were approximately 36% of your total lease cost for the three months ended March 31, 2019. Please tell us and revise your disclosure in future filings, as necessary, to clarify the basis and terms and conditions on which variable lease payments are determined and whether any of your variable payments depend on an index or a rate. Refer to ASC 842-20-50-3(a)(2), ASC 842-10-30-5 and ASC 842-20-25-6.
Asking for disclosure on the significant judgments and assumptions used to determine the discount rate.

We note your disclosure that your weighted average discount rate on operating leases is 3.52%. Please tell us and revise to disclose how you determined the discount rate. See ASC 842-20-50-3(c)(3).
Asking how their Non-GAAP disclosure complies with the Non-GAAP Financial Measures Compliance and Disclosure Interpretations.

We note you include adjustments in arriving at net operating profit after taxes that appear to remove your operating lease rent expense under GAAP and replace it with estimated depreciation and include lease adjustments in arriving at average invested capital. Please tell us your basis for including each of these adjustments, how you determined the amount of these adjustments, how the adoption of ASC 842 was considered for continuing to present these adjustments and how your presentation complies with the guidance in Question 100.04 of the Non-GAAP Financial Measures Compliance and Disclosure Interpretations.
Tenant improvement allowance

We note your disclosure that tenant improvement allowances are recorded as part of the lease liability on the Condensed Consolidated Balance Sheet and are amortized on a straight-line basis over the lease term as a reduction to occupancy and related expenses. Please explain to us how your accounting for these lease incentives complies with the guidance in ASC 842-20-30-5.

 Asking about how a tenant improvement allowance expected after lease commencement is accounted for
Understand tax matters and changes
Current global landscape in tax

OECD – Organisation for Economic Cooperation and Development

1. International grouping of countries that collaborate on key global issues

2. Member countries work with partners and organisations worldwide to address pressing policy challenges

3. OECD countries and key partners represent about 80% of world trade and investment
Current global landscape in tax

Several countries are enacting (or soon will be enacting) laws driving significant change to longstanding tax structures, including:

1. Elimination of hybrid tax structures
2. Institution of interest deduction limitations
3. Introduction of digital taxes

Application of these changes vary by country; the results however may be directionally consistent in limiting what may once have been an effective tax-minimizing structure.
Taxation of the digital economy

- Public consultation document: March 2019
- Draft work plan released: May 31, 2019
- Progress report: Late 2019
- Final report: 2020

OECD expected timeline
FASB simplification initiative highlights
Removal of certain ASC 740 exceptions

**Intraperiod allocation**
Removes the exception to intraperiod tax allocation when there is a loss in continuing operations and income in other components, such as discontinued operations or other comprehensive income

**Limitation on interim period benefit**
If an entity’s year-to-date loss exceeds the anticipated loss for the year, there will no longer be a limitation on the amount of benefit that can be recorded in an interim period

**Foreign sub to equity method**
If a foreign sub becomes an equity method investment, the outside basis difference for which deferred taxes were not provided for would no longer be considered “frozen” and a DTL would be recorded in the period of change

**Equity method to foreign sub**
If an equity method investment becomes a foreign sub, the DTL for the amount of the outside basis difference would no longer be “frozen” and an entity could assert that the undistributed earnings are indefinitely reinvested
Requires that the **portion of franchise tax based on income** be recognized in accordance with ASC 740 and any incremental amount (based on items such as capital) be accounted for as a non-income-based tax (retroactive application proposed).

Requires an entity to evaluate whether a **step up in tax basis of goodwill** should be considered part of the initial recognition of book goodwill or a separate transaction (prospective application proposed).

For separate company financial statements, specifies that an entity is **not required to allocate consolidated income taxes to disregarded entities not subject to tax** (e.g., single member LLCs), but may elect to do so (retroactive application proposed).

For interim periods, **requires the annual effective tax rate to reflect changes in enacted tax laws or rates**, beginning with the period of enactment (prospective application proposed).
These developments do NOT impact current reporting requirements!
Polling question

What do you believe to be the greatest near-term risk to the growth of your company?

A. Changes in trade policies
B. Changes in taxes worldwide
C. Political uncertainty
D. Market disruption (e.g., competitors or technology)
E. Other
Monitor regulatory matters
Conference on Current SEC and PCAOB Developments
Dec. 9-11, 2019
Year-end disclosure reminders

First
- Regulation S-K disclosure simplification

Second
- Non-GAAP measures

Third
- Financial reporting implications of economic events and conditions

Fourth
- SAB 74 disclosures for standards on the horizon

Fifth
- Critical audit matters
Polling question

Which SEC proposed rule do you believe will have the greatest impact on your company’s disclosure requirements?

A. Guarantor and collateralization disclosures (Regulation S-X Rules 3-10 and 3-16)
B. Disclosures about acquired and disposed businesses (Regulation S-X Rule 3-05)
C. Modernization of Regulation S-K Items 101, 103, and 105
D. Not applicable/still evaluating
Keep up-to-date on standard setting
Critical audit matter (CAM) reporting

Auditing Standard (AS) 3101

• Requires disclosure of audit-specific information relating to material accounts or disclosures that involve challenging, subjective, or complex auditor judgment

• Phase in begins with large accelerated filers for fiscal years ending on or after June 30, 2019

• All others required to adopt for fiscal years ending on or after December 15, 2020

Refer to the Center for Audit Quality materials example: Illustrative example of a CAM
CAM reporting through Nov 30, 2019

Top CAM concentrations

- Goodwill and other intangible assets: 88 CAMs
- Revenue recognition: 64 CAMs
- Taxes: 43 CAMs
- Business combinations: 40 CAMs

Reports have an average of 1.7 CAMs

Source: PCAOB Critical Audit Matters Spotlight
## Change in effective dates

ASU 2019-09 and 2019-10

<table>
<thead>
<tr>
<th>Effective date</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public business entities that are SEC filers, excluding SRCs</td>
<td>All other entities</td>
</tr>
<tr>
<td>Credit losses</td>
<td>January 1, 2020</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>January 1, 2020</td>
</tr>
<tr>
<td>Insurance – long-duration contracts</td>
<td>January 1, 2022</td>
</tr>
</tbody>
</table>

### Effective date (no change)

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<tbody>
<tr>
<td>Public business entities</td>
<td>All other entities</td>
</tr>
<tr>
<td>Hedging</td>
<td>January 1, 2019</td>
</tr>
<tr>
<td>Leases</td>
<td>January 1, 2019 includes NFP conduit bond obligors and employee benefit plans that are SEC filers</td>
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</tbody>
</table>
## Current EITF issue status

<table>
<thead>
<tr>
<th>Issue</th>
<th>Title</th>
<th>Status</th>
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<tbody>
<tr>
<td>19-A</td>
<td>Financial Instruments—Clarifying the Interactions between Topic 321, 323, and 815</td>
<td>Final standard in draft</td>
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<tr>
<td>19-B</td>
<td>Revenue Recognition—Contract Modifications of Licenses of Intellectual Property</td>
<td>Deliberations</td>
</tr>
<tr>
<td>19-C</td>
<td>Warrant Modifications – Issuers’ Accounting for Modifications of Equity Classified Freestanding Call Options That Are Not within the Scope of Topic 718 or Topic 815</td>
<td>Added to agenda</td>
</tr>
</tbody>
</table>
Issue 19-A – Clarifying the Interactions between Topic 321, 323 and 815

- Consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method.

- Consider whether the equity security underlying a forward contract or purchased option would, individually or with existing investments, be accounted for under the equity method in Topic 323 upon settlement of the forward contract or exercise of the purchased option.

- Prospective
  - Effective for PBEs for fiscal years beginning after December 15, 2020
  - One-year delay for others
## Exposure drafts open for comment

<table>
<thead>
<tr>
<th>Exposure draft</th>
<th>Topics</th>
<th>Comments due</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Codification improvements</strong></td>
<td>Various improvements in 30+ topics such as: - ASC 410, Asset Retirement Obligations - ASC 420, Exit or Disposal Cost Obligations - ASC 860, Transfers and Servicing</td>
<td>Dec 26, 2019 (30 day comment period)</td>
</tr>
<tr>
<td><strong>Codification Improvements to Hedge Accounting</strong></td>
<td>Proposed changes: - Change in hedged risk in a cash flow hedge - Contractually specified components in cash flow hedges of nonfinancial forecasted transactions - Dual hedges - Hedging interest rate risk of prepayable financial assets</td>
<td>Jan 13, 2020 (60 day comment period)</td>
</tr>
</tbody>
</table>
Polling question

Which day of the week do you prefer to receive our e-mail with the weekly accounting news?

A. Monday  
B. Tuesday  
C. Wednesday  
D. Thursday  
E. Friday
Thank you