

GAAP Accounting and Reporting Update



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GAAP REVISIONS

Effective 2023

- ASU No. 2020-04, Reference Rate Reform (Topic 848)
 - ASU No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848
- ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326)
 - ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses
 - ASU No. 2019-05, Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief
 - ASU No. 2019-10, Financial Instruments – Credit Losses (Topic 326): Effective Dates

The word "GAAP" is rendered in a large, bold, blue, three-dimensional serif font. The letters have a slight shadow and a reflection below them, giving them a floating appearance on a light surface.

REFERENCE RATE REFORM (TOPIC 848)

Background:

- Regulators have taken to eliminate certain reference rates
- Stakeholders raised concerns with operational challenges

Main Provisions:

- Optional expedients and exceptions
- Applies to contracts, hedging relationships, and other affected transactions
- Election applied at any time up
- Once elected, must be applied prospectively for all eligible contract modifications



REFERENCE RATE REFORM (TOPIC 848)

Modifications

- Topic 310, Receivables and 470, Debt – prospectively adjust effective interest rate
- Topic 840 and 842, Leases – no reassessment of classification or discount rate
- No reassessment of embedded derivatives
- No reassessment or remeasurement of previous determinations

Effective through December 31, ~~2022~~ 2024

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FINANCIAL INSTRUMENTS – CREDIT LOSSES (TOPIC 326)

Background:

- Current GAAP delays recognition of losses until probable
- Delays recognition and could result in potential overstatement of assets

Main Provisions:

- Replaced incurred loss impairment methodology with expected credit loss methodology
- Broaden range of reasonable and supportable information to support credit loss estimates
- Affects
 - Loans
 - Trade receivables
 - Off-balance-sheet credit exposures
 - Other financial assets not excluded
 - Debt securities
 - Net investments in leases
 - Reinsurance receivables

FINANCIAL INSTRUMENTS – CREDIT LOSSES (TOPIC 326)

Subtopic 326-20 - Assets measured at amortized cost

- ASU No. 2019-04 – reinsurance recoverables are included in scope
- Financial assets presented at net amount expected to be collected
- Allowance for credit losses valuation account
- Initial recognition of credit losses and expected increase/decrease in income statement
- Expectation based on relevant information
 - Historical experience
 - Current conditions
 - Reasonable and supportable forecasts
- Allowance for credit losses on purchased financial assets – initial allowance added to purchase price



FINANCIAL INSTRUMENTS – CREDIT LOSSES (TOPIC 326)

Subtopic 326-30 – Available-for-Sale Debt Securities

- Allowance for credit losses through valuation account
 - Allows for reversals of credit losses recognized in current period net income
- Limited to amount by which fair value is below amortized cost
- Length of time in an unreal loss position should not be used to avoid recording a credit loss
- Not required to consider historical and implied volatility of fair value



FINANCIAL INSTRUMENTS – CREDIT LOSSES (TOPIC 326)

ASU 2019-04, Issue 1C: Recoveries

- Recoveries and expected recoveries included in evaluation
- Not to exceed amounts previously written off

ASU 2019-05, Targeted Transition Relief

- ASU 2016-13 resulted in entities to elect the fair value option on newly originated/purchased securities that historically would have been measured at amortized cost
- Could result in different measurement methodologies of similar financial instruments
- Allows option to irrevocably elect fair value option in Subtopic 825-10, Financial Instruments – Overall
- Does not apply to held-to-maturity debt securities
- Applied instrument-by-instrument



FINANCIAL INSTRUMENTS – CREDIT LOSSES (TOPIC 326)

Originally effective 2021

ASU 2019-10, extended effective date to 2023

Modified-retrospective approach

- Cumulative-effect adjustment to retained earnings

Prospective transition for debt securities with OTTI recognized before effective date



QUESTIONS

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