Crowe

Smart decisions. Lasting value.™

FMS East Coast Regional Financial Reporting Update September 9, 2019

KT Trivedi, Senior Manager, Boston
Jim Oleff, Senior Manager, Washington, D.C.

Agenda

From the FASB

- Landscape - Effective Dates of Major Standards
- CECL Developments and Path Forward
- LIBOR and Rate Reform
- Leases
- Revenue Recognition
- Recognition and Measurement
- Other FASB Items

From the SEC

- Landscape and rulemaking agenda
- Request for Comment on Earnings Releases and Quarterly Reporting
- Recent rule proposals: Acquisition and Dispositions of Business and Definition of Accelerated and Large Accelerated Filer

From the PCAOB

- Staff Guidance on CAMs

From the CAQ

- Tools for Audit Committees

From the FASB

Landscape – Effective Dates for Major Standards

Landscape for Major Standards

Proposed ASU to delay effective date of certain standards for certain entities - issued August 15, 2019:

Comments due September 16, 2019

ASU 2016-02, “Leases (Topic 842)”	ASU 2017-12, “Derivatives and Hedging (Topic 815)”	ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326)”
• Retains effective date for PBEs (fiscal years beginning after Dec. 15, 2018) • Delays effective date for non-PBEs to fiscal years beginning after Dec. 15, 2020, and interim periods within fiscal years beginning after Dec. 15, 2021	• Retains effective date for PBEs (fiscal years beginning after Dec. 15, 2018) • Defers effective date for non-PBEs to fiscal years beginning after Dec. 15, 2020, and interim periods within fiscal years beginning after Dec. 15, 2021.	• Retains effective date for SEC filers other than Smaller Reporting Companies (SRCs) (fiscal years beginning after Dec. 15, 2019) • Defers effective date for SRCs, other PBEs, non-PBEs to fiscal years beginning after Dec. 15, 2022, including interim periods within.

Smaller Reporting Companies (SRCs)

SEC filing status, which allows scaled disclosures

Criteria	Threshold
Public Float Measure on the last day of issuer’s second fiscal quarter • Shares held by non-affiliates times market price	Less than $250 million
Revenues Measure as of the most recent fiscal year end • Include all gross revenues from traditional banking activities (for example, interest, dividends, fees, mortgage banking, etc.) • Excludes gain/loss on sale of securities, unless trading	Less than $100 million and no float or float less than $700 million Note: Re-entering SRC status after breaching a threshold requires dropping below 80 percent of the specified threshold (that is, public float or revenue)

Smaller Reporting Companies

- Benefits of Smaller Reporting Company Status
  - Scaled disclosure accommodations
- What happens when entity no longer qualifies?
  - No longer qualify for scaled disclosures, beginning Q1 of year following Q2 measurement date

What about non-issuer Broker Dealers?

FASB transition philosophy expressed in proposed ASU is to stagger effective dates for larger public companies and all other companies (including SRCs) with two year stagger. Effective date for FASB standards would be established at the time the standard is issued and would not be accelerated by the loss of SRC status

CECL Developments and Path Forward

CECL Developments and Current Landscape

April 3, 2019
FASB Board Meeting to discuss regional bank proposal & recoveries / charge-off vintage disclosures

April 2019
Issuance of ASU 2019-04

May 2019
Issuance of ASU 2019-05

May 2019
Letter from US Chamber of Commerce to FASB and SEC and CECL bill introduced in Senate

June 2019
FASB Board Meeting on June 5 requests additional staff research on deferral of effective dates and CECL bill introduced in House

July 17, 2019
FASB Board Meeting to discuss deferral of effective dates for certain entities

Post Issuance CECL Standard-Setting

Recap of FASB Standard-Setting Activities		
ASU 2018-19, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses”	Changes effective date for non-PBEs and removes operating leases from scope	Issued Nov. 15, 2018
ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments”	Addresses 11 technical corrections / clarifications including recoveries, negative allowances, vintage disclosures of line-of-credit arrangements that convert to term loans, and contractual extensions	Issued April 25, 2019
ASU 2019-05, “Financial Instruments—Credit Losses (Topic 326), Targeted Transition Relief”	Permits the election of fair value option for eligible assets upon adoption of CECL. Not permitted for HTM debt securities	Issued May 15, 2019
Vintage Disclosure: Gross Write-offs and Gross Recoveries	Would require gross recoveries and gross write-offs to be presented by vintage year and class of financing receivable	At the April 3, 2019 meeting, the Board decided not to proceed with standard-setting
Proposed ASU, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses”	Addresses several codification improvements including clarification that expected recoveries should be considered in the expected credit losses for purchase credit deteriorated (PCD) assets, subject to certain limitations.	Comment period closed July 29, 2019

Big Picture: Implementation Observations

- Adoption Status
  - Very largest banks
  - SEC filers, public business entities (PBEs) other than SEC filers
  - Non-PBEs
- SEC SAB 74 disclosures
  - Observations – mostly qualitative, some quantitative

We expect to be able to disclose the likely quantitative impact of adopting CECL:	Jan. 2019	April 2019	July 2019
2018 10-K	17%	9%	8%
1Q19 10-Q	16%	15%	8%
2Q19 10-Q	16%	12%	9%
3Q19 10-Q	19%	24%	29%
2019 10-K	32%	40%	46%

Agenda Request and Status

- Initial Accounting for Acquisitions of non-PCD Assets – letter #2 under "2019 Agenda Requests"
  - On Jan. 28, 2019, a preparer submitted an agenda request for the FASB to re-consider the day-one accounting for acquired assets that do not meet the definition of purchased financial assets with credit deterioration ("PCD"). Under CECL, allowances for acquired non-PCI assets are recorded through a day-one charge to earnings. The result differs from acquisitions of PCD assets which allocates the purchase price between par, allowance for credit losses and non-credit discount or premium with no impact on earnings.
  - At the April 3, 2019 board meeting, the FASB staff announced their plan to perform outreach and make a recommendation to the board.

Proposed Interagency Policy Statement (IPS)

- Proposed "Interagency Policy Statement on Allowances for Credit Losses"
  - FDIC board agenda on Aug. 20, 2019
  - Supervisory expectations for:
    - designing, documenting, and validating expected credit loss estimation processes, including the internal controls over these processes;
    - maintaining appropriate ACLs;
    - the responsibilities of boards of directors and management; and
    - examiner reviews of ACLs.

When an appropriate expected credit loss framework has been used to estimate expected credit losses, it is inappropriate for the board of directors or management to make further adjustments to ACLs for the sole purpose of reporting ACLs that correspond to a peer group median, a target ratio, or a budgeted amount."

"Examiners generally should accept an institution's ACL estimates and not seek adjustments to the ACLs, when management has provided adequate support for the loss estimation process employed, and the ACL balances and the assumptions used in the ACL estimates are in accordance with GAAP and regulatory reporting requirements. It is inappropriate for examiners to seek adjustments to ACLs for the sole purpose of achieving ACL levels that correspond to a peer group median, a target ratio, or a benchmark amount when management has used an appropriate expected credit loss framework to estimate expected credit losses."

Proposed Interagency Policy Statement (IPS)

- Proposed “Interagency Policy Statement on Allowances for Credit Losses”
  - Upon adoption of CECL, replaces:
    - December 2006 IPS on the ALLL (Fed, FDIC, NCUA, OCC)
    - July 2001 Policy Statement on ALLL Methodologies and Documentation for Banks and Savings Institutions (Fed, FDIC, OCC)
    - May 2002 Interpretive Ruling and Policy Statement 02-3, ALLL Losses Methodologies and Documentation for Federally Insured Credit Unions (NCUA)
  - After approval by all agencies, will be posted in the Federal Register for 60 days comment

https://www.fdic.gov/news/board/2019/2019-08-20-notice.html

AICPA Credit Losses Task Force Activities

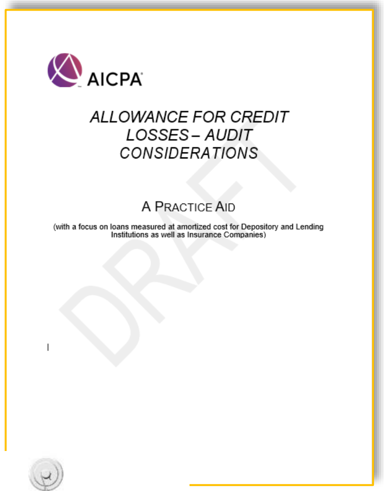
- Requests of the AICPA
  - Provide a forum for issue identification and discussion
  - Serve as a “clearing house” for issues as needed
  - Serve as a vehicle to update of the AICPA A&A Guide
- AICPA CECL Audit & Accounting Guide
  - To document and communicate conclusions reached:
    - By the Transition Resource Group (TRG)
    - By the AICPA Depository Institutions Expert Panel (DIEP)
    - By other stakeholders
  - To include practice aid for auditor expectations
- AICPA Credit Losses Webpage: www.aicpa.org/creditlosses

AICPA Credit Losses Task Force: Accounting

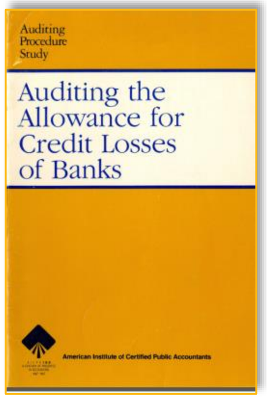
Issue	Status
#1: Zero Expected Credit Losses – Discusses specific examples that might qualify as instruments with zero expected credit losses. These examples are limited to: US Treasury Securities, Ginnie Mae Mortgage-Backed Securities, and Agency Mortgage-Backed Securities.	Final
#6: Reasonable & Supportable Forecasting - Discusses appropriate considerations when: developing a reasonable and supportable forecast period, use of historical loss information, and transition to reversion.	Final
#21: Inclusion of Future Advances of Taxes and Insurance Payments in Estimates - Discusses whether a lenders' expectations of future losses on payments of tax, insurance premiums, and other "costs" (i.e., payments that might not be recovered from borrowers) should be included in the estimate of expected lifetime credit losses prior to the lender advancing the funds or incurring the costs.	Out for Exposure. Comments due October 15, 2019.
#22: Reversion Method: Estimation vs Accounting Policy: Issues include: when determining whether a reversion technique, if any, is an accounting estimation technique or an accounting policy election.	Final
#23: Zero Expected Credit Loss Factors for Secured Financial Assets Secured by Collateral. Issues include: Under what circumstances would it be appropriate to have no allowance for credit losses on secured financial assets.	Out for Exposure. Comments due October 15, 2019.
#28: Scope Exception for Loans and Receivables between Entities under Common Control. Issues include: whether the scope exception for loans and receivables between entities under common control apply to stand alone subsidiary reporting.	Out for Exposure. Comments due October 15, 2019.

AICPA Credit Losses Task Force: Auditing

- AICPA Practice Aid “Audit Considerations”
  - Similar to the alternative investments practice aid from 2006
  - Helpful for preparers to understand auditor expectations
- Table of Contents
  - Management’s Responsibility
  - Audit Committee’s Role in Oversight
  - Internal Control and Governance
  - Audit Objectives
  - Presentation and Disclosure

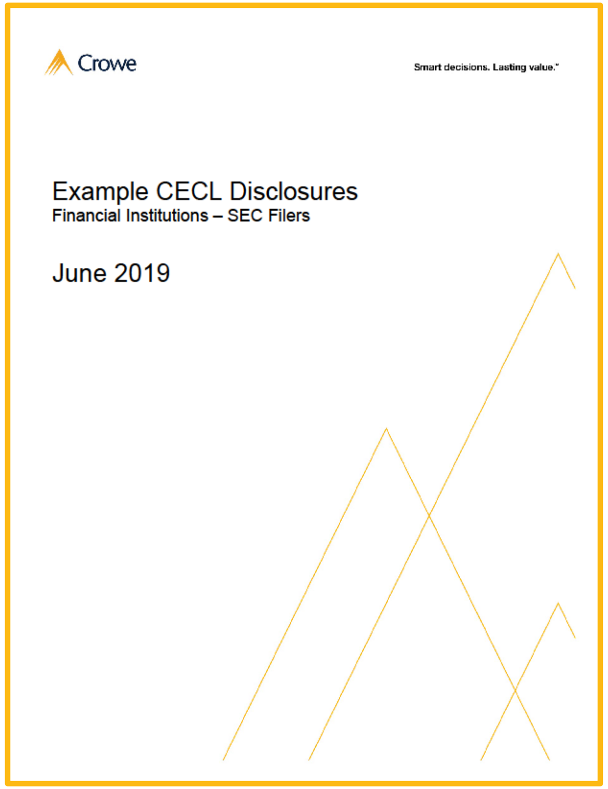


Circa 1986



CECL Resource: Illustrative Disclosures

- As of June 2019
  - 39 pages of illustrative disclosures, Crowe observations, and cross references to authoritative literature
  - Although the illustrative statements do not address all possible scenarios, the examples address both the transition and ongoing disclosure requirements to comply for public business entities that meet the definition of a U.S. Securities and Exchange Commission (SEC) filer.


Crowe

Smart decisions. Lasting value.™

Example CECL Disclosures

Financial Institutions – SEC Filers

June 2019

https://www.crowe.com/insights/asset/i/illustrative-cecl-disclosures-financial-institutions

CECL: CAQ Resource for Audit Committees

- Center for Audit Quality (CAQ) issued a tool for audit committees, “Preparing for the New Credit Losses Standard”
  - Issued May 7, 2019
  - The tool has four primary sections:
    - “Understanding the Standard” provides an overview of the standard.
    - “Evaluating the Company’s Impact Assessment” offers questions for audit committees to consider when discussing the impact with management and auditors.
    - “Evaluating the Implementation Plan” assists audit committees in understanding and evaluating management’s implementation plan.
    - “Other Important Implementation Considerations” covers matters such as transition methods and new disclosure requirements.

https://www.thecaq.org/preparing-for-the-new-credit-losses-standard-a-tool-for-audit-committees/

LIBOR and Rate Reform

LIBOR Transition Matters (Rate Reform)

Background	➢ LIBOR and other Interbank Offered Rates (IBORs) are an essential part of the financial markets (e.g., reference rate in debt instruments and loans, derivatives, leases, compensation contracts) ➢ Due to concerns about the reliability of IBORs, central banks and others have recommended replacing IBORs with transaction-based overnight rates (e.g., SOFR); LIBOR goes away after 2021
Financial Reporting Implications	➢ When a reporting entity modifies a contract to replace the LIBOR rate, … ❑ Do we have a contract modification vs. extinguishment issue? ❑ Do we need to reassess for possible embedded derivatives? ❑ What effect will the modification have on existing hedge relationships? ❑ What are the income tax implications for one-time payments, etc.?
FASB Starts New Project to Provide Relief	➢ First public meeting held on June 19, 2019 ➢ FASB is looking to provide relief to facilitate the effects on financial reporting of the market-wide migration from interbank offered rates (IBORs) to alternative reference rates

June 19, 2019 FASB Meeting Recap

Discussion Topics	Tentative Decisions Reached
Scope	➢ Contract references LIBOR or an interest rate that has been discontinued or is anticipated to be discontinued ➢ Critical term changes that are either essential to or related to the replacement of an interest rate ➢ Application of relief would be optional
Proposed Relief	➢ Contract modifications that fall in the scope of the guidance would be treated as a continuation of the contract. For example … ❑ Loan modifications, debt modifications, lease modifications ➢ No need to reassess for embedded derivatives
Next Steps	➢ FASB plans to discuss hedge accounting relief, disclosures, transition guidance, and relief period at a future meeting

What should Audit Committees be doing now?

- **Understand where the entity has exposure to LIBOR or other IBORs**
- **Begin a dialogue with management about how they are preparing for shift away from LIBOR**
- **Consider whether there is a need to include LIBOR transition as a disclosed risk factor**
- **Consider disclosure of why transition from LIBOR is not a risk**

FDIC Supervisory Insights: https://www.fdic.gov/regulations/examinations/supervisory/insights/siwin18/si-winter-2018.pdf

Leases

Leases

- ASU 2016-02, "Leases" (Topic 842), issued in Feb. 2016
  - Effective Dates:
    - PBEs - fiscal years (and interim periods) beginning after Dec. 15, 2018
    - Non-PBEs - fiscal years beginning after Dec. 15 2019 and interim periods after Dec. 15, 2020
  - Recognize all leases with a term more than 12 months
    - Operating leases would no longer be off-balance sheet items for lessees
    - Recognize a right-of-use (ROU) asset and a lease liability on the balance sheet
    - "Display Approach" - accounting-as-usual during the period, top-side entries at period end
    - Sale-leasebacks might qualify as a sale (that is, no deferred gain) with an operating leaseback

Simplifications and Clarifications from the FASB

- ASU 2018-11, "Leases (Topic 842): Targeted Improvements," issued Aug. 6, 2018
  - Provides an optional transition method that allows transition at its adoption date rather than at the earliest comparative period presented
  - For lessors, provides an option which allows them to not separate nonlease components from the related lease components if certain criteria are met (that is, the pattern of recognition must be the same and it must be an operating lease)
- ASU 2018-10, "Codification Improvements to Topic 842, Leases," issued July 30, 2018
  - Provides sixteen improvements and clarifications

Leases: Transition (for a PBE)

Lease Accounting	2017 (comparative period)	2018 (comparative period)	2019 (year of initial adoption)
Original Transition method provided in Update **2016-02**	Cumulative-Effect Adj. 1/1/17 **ASC 842**	**ASC 842**	**ASC 842**
Additional Transition method provided in Update **2018-11**	**ASC 840**	**ASC 840** Cumulative-Effect Adj. 1/1/19	**ASC 842**

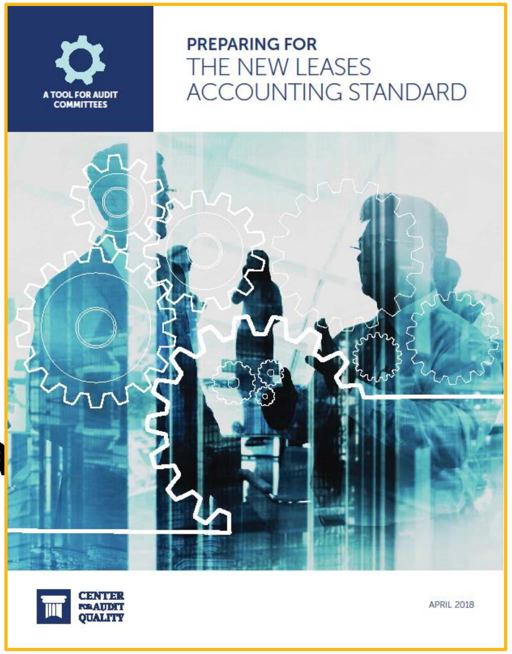
Lessons from PBE Adoption & Ongoing Considerations

Lease identification	➢ More rigor needed, especially around embedded leases (processes, controls) ➢ Will require coordination from several departments (i.e. accounting, operations, procurement, sales, etc.) ➢ Review procedures (manual vs. automated), impact on management review controls
Lease classification	➢ New/enhanced processes and policies around lease term analysis, especially consistency for large, decentralized organizations ➢ Review procedures (manual vs. automated), impact on management review controls
Assumptions (e.g., incremental borrowing rate)	➢ How often to refresh, which approach to take, impact of reliance on third-party specialists (has management gotten around the process?)
Ongoing assessments	➢ Monitoring for reassessment events, modifications, impairments – processes, controls, communication from procurement to accounting ➢ Identification of triggering events requiring reassessment (i.e. extension of lease, termination of lease, purchase of leased asset (whether contractually required or not), exercise of options within leases, installing significant leasehold improvements)

Leases: Key Questions & CAQ Resource

- Key Questions
  - Have we identified all our leases?
  - Contracts do not always have the word “lease” included
  - Are we on track for a successful implementation?
  - Have we asked all the right questions and have involved the right people?
  - What is the impact to regulatory capital?

- Center for Audit Quality (CAQ) Tool for Audit Committees, “Prepa
  Leases Accounting Standard”
  - Issued Apr. 4, 2018



https://www.thecaq.org/preparing-leases-accounting-standard-tool-audit-committees

Revenue Recognition

Revenue Recognition

- ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”
  - Effective Dates:
    - Public Business Entities (PBEs): fiscal years (and interim periods) beginning after Dec. 15, 2017
    - Non-PBEs: fiscal years beginning after Dec. 15, 2018, and interim periods within fiscal years beginning after Dec. 15, 2019; early adoption is permitted

12/31/19 for 12/31 year-ends

- Lessons Learned: Observations from PBE adoption
  - Evaluation and documentation
  - Disclosures
    - Reviewed at 1Q18 Form 10 Q for 47 community and mid-sized bank registrants
      - 8 – not yet effective (non-calendar year-end) or elected EGC later disclosures
      - Of the remaining 39:

		Tabular Disaggregation			**Narrative disaggregation**
		By product type	By geography	By business line	
Cumulative Adjustment	4	4			
No cumulative adjustment	35	13	1	2	4 – by product type

Revenue Recognition: Scoping for Financial Institutions

Out of Scope	In Scope
Interest Income	Service Charges on Deposit Accounts
Trading Revenue	Asset Management Fees
Loan Servicing Fees	Gains or Losses on Other Real Estate Owned
Credit Card Fees	Interchange Fees
Guarantee Fees	

FASB staff provide views (in memo 52) on which disclosures likely apply and likely do not apply for service charges

- FASB's Revenue Recognition Transition Resource Group (TRG)
  - July 13, 2015 meeting
    - Memo No. 36, Credit Cards
    - Memo No. 44, July 2015 Meeting—Summary of Issues Discussed
  - April 18, 2016 meeting
    - Memo No. 52, Scoping Considerations for Financial Institutions
    - Memo No. 55, April 2016 Meeting—Summary of Issues Discussed

Revenue Recognition: Resources

- Example Revenue Recognition Disclosures – Financial Institutions
  - Issued April 2018

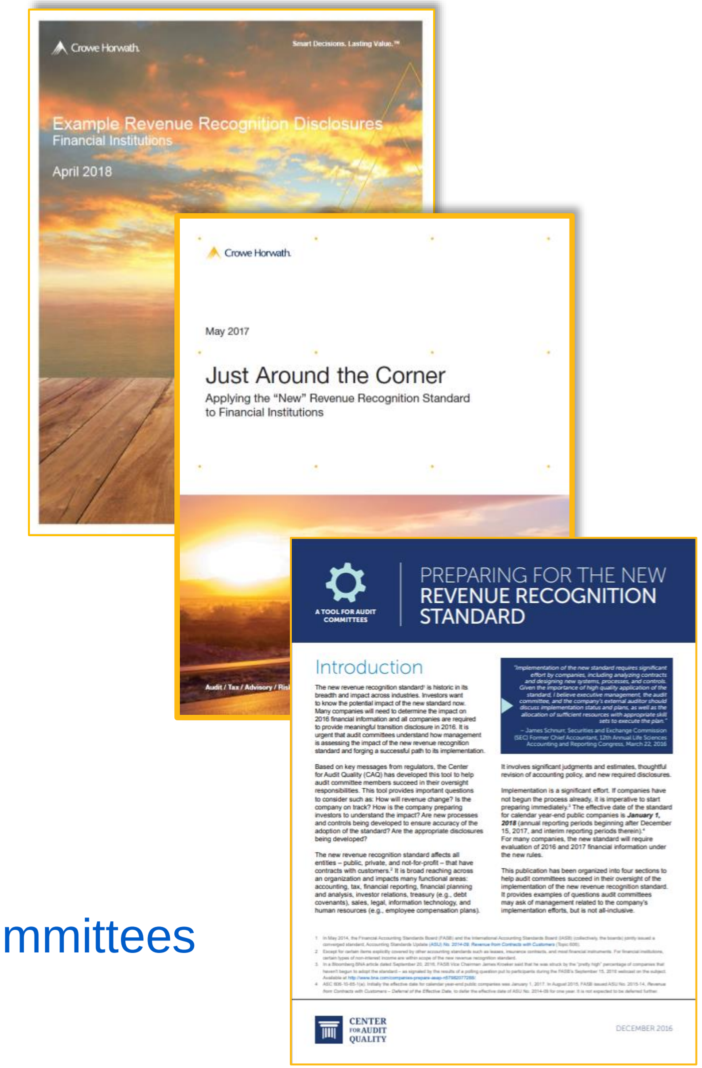
  https://www.crowe.com/insights/asset/e/example-revenue-recognition-disclosures

- Just Around the Corner: Applying the “New” Revenue Recognition Standard to Financial Institutions
  - Issued May 2017

  https://www.crowe.com/insights/asset/f/financial-institutions-revenue-recognition

- CAQ: Preparing for the New Revenue Recognition Standard: A Tool for Audit Committees
  - Issued Dec. 2016

  https://www.thecaq.org/preparing-new-revenue-recognition-standard-tool-audit-committees



Recognition and Measurement

Recognition & Measurement

ASU 2018-03, issued in Feb, & ASU 2019-04, issued in April, addresses various implementation issues

- ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," issued Jan. 5, 2016
  - Effective Dates
    - PBEs - Fiscal years (and interim periods) beginning after Dec. 15, 2017
    - Non-PBEs - Fiscal years beginning after Dec. 15, 2018, and interim periods within fiscal years beginning after Dec. 15, 2019

12/31/19 for 12/31 year-ends

  - Valuation allowance for deferred-tax assets (DTA) on an AFS debt security
    - Assess in combination with other DTAs
  - Financial liabilities measured at fair value under the FVO election
    - Fair value change attributed to instrument-specific credit risk presented in OCI rather than net income
  - Equity Investments
    - Eliminates of the available-for-sale (AFS) category – all will be carried at fair value with changes in earnings (trading)
    - Provides a measurement alternative for equities without a readily determinable FV to be recorded at amortized cost, less impairment, adjusted for observable price changes

VISA Class B Shares

- Typical fact pattern in early 2018.
  - Entity A holds VISA B shares received initially at zero cost
  - Adopted ASU 2016-01 and elected measurement alternative for equity securities without readily determinable FVs
  - Looks for observable trades, finds none
  - Keeps VISA B shares on books at zero
- Late 2018 and beyond considerations
  - If a sale occurs in orderly transaction and similar security, must mark to fair value observed
  - Looking to another entity who sold their shares and disclosed it will not necessarily indicate that is the fair value that you need to record.
  - Your own transaction may be considered observable and entities should be able to evaluate if their own transaction are orderly
  - Visa B settlement announced but certain entities opted out of the settlement.
  - Question is what does this do to the litigation risk in Visa B shares and does it impact whether your shares are convertible to A shares?

Other FASB Items

ASUs Issued – Impact on Financial Institutions

ASUs to consider	ASUs with potentially little impact
• ASU 2017-04 – Goodwill impairment testing • ASU 2017-08 – Premium amortization on debt securities • ASU 2018-02 – Reclassification of tax effects in AOCI • ASU 2018-09 – 30 ASC changes (Basel disclosure) • ASU 2018-15 – Cloud computing implementation costs	• ASU 2017-11 – Down round features; mandatorily redeemable financial instruments • ASU 2018-07 – Non-employee stock compensation • ASU 2018-08 - Contributions received and made • ASU 2018-17 – VIEs under common control
ASUs impacting or clarifying major standards	**ASUs impacting disclosures**
• ASU 2018-01 - Land Easements • ASU 2018-03 – Recognition and measurement • ASU 2018-04 – Rescission of SAB Topic 5.M • ASU 2018-10 – Lease clarifications • ASU 2018-11 – Optional transition method for leases • ASU 2018-16 – SOFR as a benchmark interest rate • ASU 2018-19 – Credit losses: Non-PBE transition, leases • ASU 2018-20 – Narrow scope lease improvements • ASU 2019-01 - Leases clarifications • ASU 2019-04 – Various ASC improvements • ASU 2019-05 – Credit Losses: fair value option	• ASU 2018-13 – Fair value disclosures • ASU 2018-14 – Pension disclosures

ASUs of Interest to Financial Institutions

	Effective Date for Calendar Year Ends	
ASUs to consider	**PBEs**	**Non-PBEs**
Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test.	Tests performed on or after Jan. 1, 2020	Tests performed on or after Jan. 1, 2022
Premium Amortization on Purchased Callable Debt (ASU 2017-08) Shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, instead of to the maturity date. Requires the premium to be amortized to the earliest call date; discount continues to be amortized to maturity	3/31/19	12/31/20

ASUs of Interest to Financial Institutions

ASUs to consider	Effective Date for Calendar Year Ends: PBEs	Non-PBEs
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02) Allows entity to make an election to reclassify "stranded tax effects" from accumulated other comprehensive income to retained earnings.	1/1/19	1/1/19
Codification Improvements (ASU 2018-09) Contains 30 issues, including EPS, debt, income taxes, fair value measurement, foreign currency and plan accounting. Specific to financial institutions, issue 23, "Disclosure Requirement Update Related to Basel III," clarifies that an entity must disclosure the required and actual amounts of regulatory capital for each measure of regulatory capital for which the entity must comply.	Varies by issue (pages 8-9 in ASU)	Varies by issue (pages 8-9 in ASU)
Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (ASU 2018-15) Provides additional guidance on accounting for implementation costs for a cloud computing arrangement that is a service contract and aligns the requirements for capitalizing with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license).	3/31/20	12/31/21

Cloud Computing: Implementation Costs

- ASU 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement” (CCA)
  - Issued Aug. 29, 2018
  - For CCAs accounted for as service contracts:
    - Costs in the preliminary project and post-implementation-operation stages are expensed
    - Costs for integration with on premise software, coding, and configuration or customization are capitalized and amortized over the term of the CCA.
    - Data conversion and training costs are expensed.
  - Transition & effective dates
    - Choice of prospective or retrospective transition.
    - PBEs - annual periods, including interim periods within those annual periods, beginning after Dec. 15, 2019 (1Q20 for calendar year-ends)
    - Non-PBEs - annual periods beginning after Dec. 15, 2020, and interim periods beginning after Dec. 15, 2021 (Dec. 31, 2021 for calendar year-ends)
    - Early adoption, including adoption in any interim period, for all entities
      - Applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption

Preparation for early adoption is key

Disclosures: Fair Value Measurement

- ASU 2018-13, “Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”

Good news!

Key Simplification Observation – Deletions exceed additions

  - Removes:
    - Transfers between Level 1 and Level 2 of the fair value hierarchy
    - The policy for determining when transfers between any of the three levels have occurred
    - The valuation processes used for Level 3 measurements
    - Non-PBEs: changes in unrealized gains or losses presented in earnings for Level 3 instruments held at B/S date
  - Modifies:
    - Nonpublic entities: Level 3 roll forward is eliminated but disclosure of transfers in and out of Level 3 as well as purchases and issuances are required
    - Clarifies Level 3 measurement uncertainty disclosure should communicate information about the uncertainty at B/S date
  - Adds:
    - Nonpublic entities: some form of quantitative info re: significant unobservable inputs used in Level 3 fair value measurements
  - Effective for calendar year-ends, with early adoption permitted; PBEs - March 31, 2020; Non-PBE – Dec. 31, 2020

Disclosures: Defined Benefit Plan Sponsors

Key Simplification Observation – Deletions exceed additions

- ASU 2018-14, "Changes to the Disclosure Requirements for Defined Benefit Plans"
  - Removes the following disclosures:
    - Amounts in AOCI that the entity expects to recognize in net periodic benefit cost during the next fiscal year
    - Amount and timing of plan assets expected to return to the employer
    - Information about the June 2001 amendments to the Japanese Welfare Pension Insurance Law
    - Certain related-party disclosures
    - For nonpublic entities, the roll forward of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy (but requires disclosures of amounts of transfers in and out of Level 3 as well as Level 3 plan asset purchases)
  - Clarifies that the following disclosures are required:
    - The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets
    - The accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets
  - Adds the following disclosure requirements:
    - The weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates
    - An account of the reasoning for significant gains and losses related to changes in the benefit obligation for the period
  - Effective for calendar year-ends, with early adoption permitted
    - PBEs – Dec. 31, 2020
    - Non-PBE – Dec. 31, 2021

ASUs from Yesteryear: Now Applicable for non-PBEs

ASUs Effective for Non-PBE Calendar Year Ends	Non-PBEs
Breakage for Prepaid Cards (ASU 2016-04) - Applies to prepaid stored-value products that are redeemable for monetary values of goods or services but also may be redeemable for cash, such as certain prepaid gift cards, prepaid telecommunication cards, and traveler's checks.	12/31/19
Statement of Cash Flows: Certain Clarifications (ASU 2016-15) - Provides guidance on how eight specific cash flows should be classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments, insurance settlement proceeds, bank-owned or company-owned life insurance (BOLI or COLI) policy settlements and premiums, equity method investee distributions, beneficial interests in securitization transactions, and predominance principle for receipts and payments.	12/31/19
Income Taxes for Intra-Entity Asset Transfers (ASU 2016-16) - Applies to asset transfers between legal entities, including related parties (such as, subsidiaries); transferor recognizes the current and deferred tax effects when the transfers occur.	12/31/19
Statement of Cash Flows: Restricted Cash (ASU 2016-18) - Requires that restricted cash and cash equivalents be presented in total cash and cash equivalents in the statement of cash flows, and the nature of restrictions on restricted cash and cash equivalents be disclosed.	12/31/19
Definition of a Business (ASU 2017-01) - Applies to the determination of whether an asset or business is acquired (which determines whether goodwill is recognized), as well as asset de-recognition and business deconsolidation transactions.	12/31/19
Presentation of Net Periodic Pension and Postretirement Benefit Costs (ASU 2017-07) - Rather than reporting pension expense as a net amount, the service cost component will be presented consistent with similar compensation for the same employees, and the other components will be separately presented in the income statement.	12/31/19

What Else? Goodwill and Intangibles

Identifiable Intangible Assets and Subsequent Accounting for Goodwill

- Invitation to Comment (ITC) issued July 9, 2019; closes Oct 7, 2019 requests feedback on costs and benefits of current PBE accounting model for goodwill
- ASU 2019-06 extended certain private company accounting alternatives to not-for-profit entities
- PBEs are only entities without ability to amortize goodwill and/or subsume certain identifiable intangibles into goodwill
- Variety of stakeholders hold differing views on the costs and benefits of the current model
- Also requests comment on certain comparability concerns

What Else? Segments

- Segment reporting
  - In June 2019, FASB issued a media release calling for public companies to participate in a study on phase 2 of potential improvements to the segment disclosure requirements.
  - Participants will be asked to provide information on how various potential improvements would affect their segment reporting including:
    - Requiring additional disclosures by reportable segment and additional general disclosures about the basis of segmentation and composition of reportable segments.
    - Improving the connectivity of the segment information and the financial statements, including the reconciliation requirements.

Applicants are no longer being accepted for the 2019 study. The study is expected to last three to four months, and stakeholder feedback is expected to be summarized prior to year end.

From the SEC

SEC: Current landscape

- Three Key Concepts: Capital Formation / Disclosure Effectiveness / Investor Protection
  - Where are these three concepts demonstrated?
    - Rulemaking agenda
      - Disclosure update and simplification
      - Update and reconsideration of SEC rules (Acquisition and dispositions of business and reconsideration of Section 404(b))
      - Exploring changes to the quarterly reporting system
    - New Office of the Advocate for Small Business Capital Formation
    - Re-consideration of Exempt Offerings

Interests of "Main Street" investors

SEC: Regulatory Flexibility Agenda

October 2018	April 2019
Registered Debt Offerings (Rule 3-10 and 3-16) – proposed rule issued 7/28/2018	Registered Debt Offerings (Rule 3-10 and 3-16) – proposed rule issued 7/28/2018 – comment period closed
Amendments to Disclosures for Acquired Businesses (Rule 3-05) – proposed rule issued 5/3/2019	Amendments to Disclosures for Acquired Businesses (Rule 3-05) – proposed rule issued 5/3/2019 – comments due 7/29/2019
Business, Financial and Management Disclosure Required By Regulation S-K – not yet proposed	Business, Financial and Management Disclosure Required By Regulation S-K – not yet proposed
Industry Guides (Bank Holding Company Disclosures – not yet proposed; Mining Companies – final rule issued 10/31/2018)	Industry Guides (Bank Holding Company Disclosures) – not yet proposed
Earnings release/quarterly reports – request for comment issued 12/18/2018	Earnings release/quarterly reports – request for comment issued 12/18/2018 – comment period closed
Accelerated filer definition – proposed rule issued 5/9/2019	Accelerated filer definition – proposed rule issued 5/9/2019 – comments due 7/29/2019

Regulatory Flexibility Agenda updated every six months with current forecast of rulemaking timing

Guide 3 update forecasted for late 2019 in April agenda

Earnings releases & quarterly reports

- Goal: Reduction in administrative and other burdens of quarterly reporting while maintaining appropriate investor protections; Sought comment on:
  - Nature, timing, and frequency of corporate reporting
  - How the periodic reporting system, earnings releases, and earnings guidance may affect corporate decision making and strategic thinking
- Issued Dec. 18, 2018; comments due Mar. 21, 2019
- Themes from comment letters
  - General support for retaining quarterly reporting
  - Staff currently considering the over 70 comment letters received
  - Public "Roundtable on Short-Term / Long-Term Management of Public Companies" held on July 18th, 2019
    - Archive available at https://www.sec.gov/video/webcast-archive-player.shtml?document_id=roundtable-short-long-term-071819
    - SEC staff still accepting comments

Majority of questions focused on preparer's perspective

SEC Proposal: Definition of A/F and Large A/F

Revenue test for banks consistent with SRC rules

- Proposal would exempt certain “low revenue” issuers from auditor ICFR attestation under Section 404(b) of Sarbanes Oxley
  - Exclude from the accelerated and large accelerated filer definitions an issuer that is eligible to be an SRC and had no revenues or annual revenues of less than $100 million in the most recent fiscal year for which audited financial statements are available
  - Increase the transition thresholds for accelerated and large accelerated filers becoming a non-accelerated filer from $50 million to $60 million and for exiting large accelerated filer status from $500 million to $560 million
  - Add a revenue test to the transition thresholds for exiting both accelerated and large accelerated filer status

- Proposal Issued May 9, 2019; comments due July 29, 2019
- 60+ comment letters received
- Themes from comment letters
  - Preparers generally supportive
  - Users generally support keeping current definitions

SEC Proposal: Definition of A/F and Large A/F

Proposed Public Float Thresholds and Resulting Filing Status		
Public Float	**Annual Revenues**	**Filing Status**
Less than $75 million	N/A	SRC and non-accelerated filer (ICFR attestation not required)
$75 million to $700 million *	Less than $100 million *	
$75 million to $250 million	$100 million or more	SRC and accelerated filer
$250 million to $700 million	$100 million or more	Accelerated filer (not SRC)
More than $700 million	N/A	Large Accelerated Filer

* Represents proposed change to ICFR auditor attestation

SEC Proposal: Acquired and Disposed businesses

- Proposed Amendments
  - Significance tests in S-X Rule 1-02(w)
  - S-X Rule 3-05
  - S-X Rule 3-14
  - S-X Article 11
  - Investment company acquisitions

Minimal, if any, impact to target financial statements in proxy or S-4 filings

From the PCAOB

PCAOB Auditors Reporting Model (ARM)

- Phase 1:
  - Minor improvements to the auditors opinion
  - Disclosure of auditor tenure

Effective for fiscal years ending after:	Large Accelerated Filers	Other Filers
Other than CAMs	Dec. 15, 2017	Dec. 15, 2017
CAMs	June 30, 2019	Dec. 15, 2020

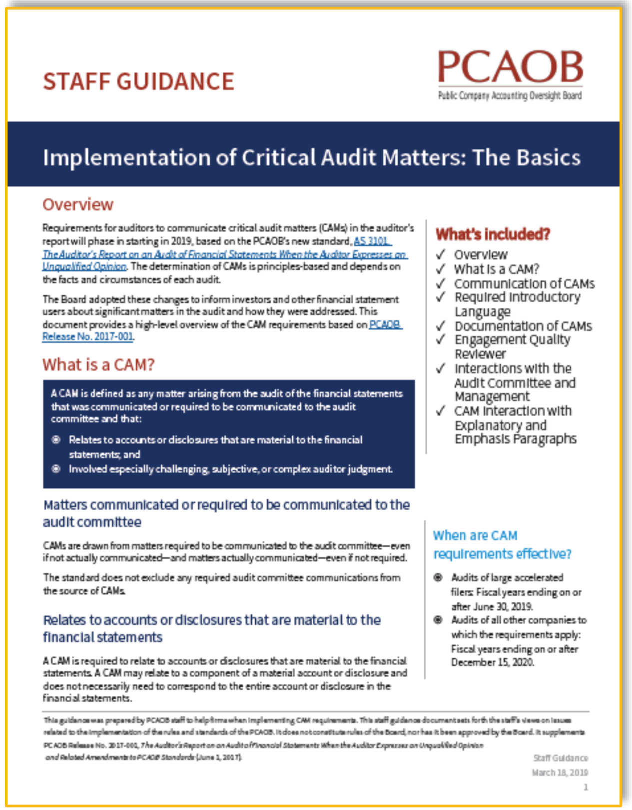
- Phase 2: Critical Audit Matters (CAMs)
  - A CAM is:
    - Any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee; and that:

1. Relates to accounts or disclosures that are material to the financial statements, and;
2. Involved especially challenging, subjective, or complex auditor judgment

CAMs: PCAOB Staff Guidance (Part 1)

- Issued March 18, 2019
  - "Implementation of Critical Audit Matters: The Basics" (5 pages)
  - "Implementation of Critical Audit Matters: Staff Observations from Review of Audit Methodologies" (3 pages)
    - Reviewed CAM methodologies, practice aids, training materials, and examples ("methodologies") submitted by 10 U.S. audit firms that collectively audit approximately 85% of large accelerated filers
  - "Implementation of Critical Audit Matters: A Deeper Dive on the Determination of CAMs" (7 pages)

"While these documents primarily offer insights for auditors, the high-level overview—"The Basics"—may also be of interest to preparers, audit committees, and investors."



STAFF GUIDANCE

PCAOB
Public Company Accounting Oversight Board

Implementation of Critical Audit Matters: The Basics

Overview

Requirements for auditors to communicate critical audit matters (CAMs) in the auditor's report will phase in starting in 2019, based on the PCAOB's new standard, AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. The determination of CAMs is principles-based and depends on the facts and circumstances of each audit.

The Board adopted these changes to inform investors and other financial statement users about significant matters in the audit and how they were addressed. This document provides a high-level overview of the CAM requirements based on PCAOB Release No. 2017-001.

What's included?

- ✓ Overview
- ✓ What is a CAM?
- ✓ Communication of CAMs
- ✓ Required Introductory Language
- ✓ Documentation of CAMs
- ✓ Engagement Quality Reviewer
- ✓ Interactions with the Audit Committee and Management
- ✓ CAM Interaction with Explanatory and Emphasis Paragraphs

What is a CAM?

A CAM is defined as any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that:

- Relates to accounts or disclosures that are material to the financial statements; and
- Involved especially challenging, subjective, or complex auditor judgment.

Matters communicated or required to be communicated to the audit committee

CAMs are drawn from matters required to be communicated to the audit committee—even if not actually communicated—and matters actually communicated—even if not required.

The standard does not exclude any required audit committee communications from the source of CAMs.

Relates to accounts or disclosures that are material to the financial statements

A CAM is required to relate to accounts or disclosures that are material to the financial statements. A CAM may relate to a component of a material account or disclosure and does not necessarily need to correspond to the entire account or disclosure in the financial statements.

When are CAM requirements effective?

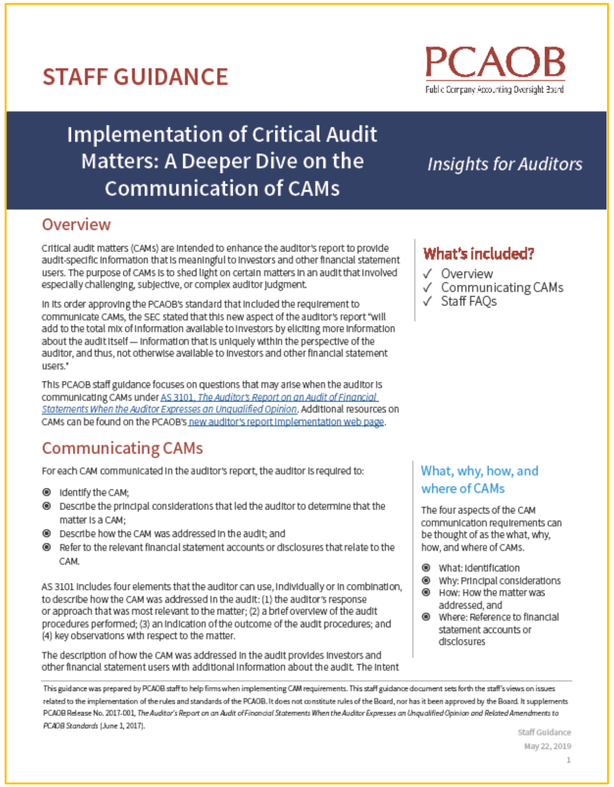
- Audits of large accelerated filers: Fiscal years ending on or after June 30, 2019.
- Audits of all other companies to which the requirements apply: Fiscal years ending on or after December 15, 2020.

Staff Guidance
March 18, 2019
1

https://pcaobus.org/News/Releases/Pages/PCAOB-staff-provides-guidance-advance-CAM-effective-dates.aspx

CAMs: PCAOB Staff Guidance (Part 2)

- Issued May 22, 2019
  - “Implementation of Critical Audit Matters: A Deeper Dive on the Communication of CAMs” (4 pages)
  - Seven Questions and Answers:
    - Communicating principal considerations
    - Describing audit procedures in response
    - Describing key observations
    - Considering disclosures and other publicly available information
    - Recurring CAMs
    - Ordering
    - Dual-dated reports



STAFF GUIDANCE

PCAOB
Public Company Accounting Oversight Board

Implementation of Critical Audit Matters: A Deeper Dive on the Communication of CAMs

Insights for Auditors

Overview

Critical audit matters (CAMs) are intended to enhance the auditor's report to provide audit-specific information that is meaningful to investors and other financial statement users. The purpose of CAMs is to shed light on certain matters in an audit that involved especially challenging, subjective, or complex auditor judgment.

In its order approving the PCAOB's standard that included the requirement to communicate CAMs, the SEC stated that this new aspect of the auditor's report "will add to the total mix of information available to investors by eliciting more information about the audit itself — information that is uniquely within the perspective of the auditor, and thus, not otherwise available to investors and other financial statement users."

This PCAOB staff guidance focuses on questions that may arise when the auditor is communicating CAMs under AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*. Additional resources on CAMs can be found on the PCAOB's new auditor's report implementation web page.

What's included?
- ✓ Overview
- ✓ Communicating CAMs
- ✓ Staff FAQs

Communicating CAMs

For each CAM communicated in the auditor's report, the auditor is required to:

- Identify the CAM;
- Describe the principal considerations that led the auditor to determine that the matter is a CAM;
- Describe how the CAM was addressed in the audit; and
- Refer to the relevant financial statement accounts or disclosures that relate to the CAM.

AS 3101 includes four elements that the auditor can use, individually or in combination, to describe how the CAM was addressed in the audit: (1) the auditor's response or approach that was most relevant to the matter; (2) a brief overview of the audit procedures performed; (3) an indication of the outcome of the audit procedures; and (4) key observations with respect to the matter.

The description of how the CAM was addressed in the audit provides investors and other financial statement users with additional information about the audit. The intent

What, why, how, and where of CAMs

The four aspects of the CAM communication requirements can be thought of as the what, why, how, and where of CAMs.

- What: Identification
- Why: Principal considerations
- How: How the matter was addressed, and
- Where: Reference to financial statement accounts or disclosures

This guidance was prepared by PCAOB staff to help firms when implementing CAM requirements. This staff guidance document sets forth the staff's views on issues related to the implementation of the rules and standards of the PCAOB. It does not constitute rules of the Board, nor has it been approved by the Board. It supplements PCAOB Release No. 2017-001, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards* (June 1, 2017).

Staff Guidance
May 22, 2019
1

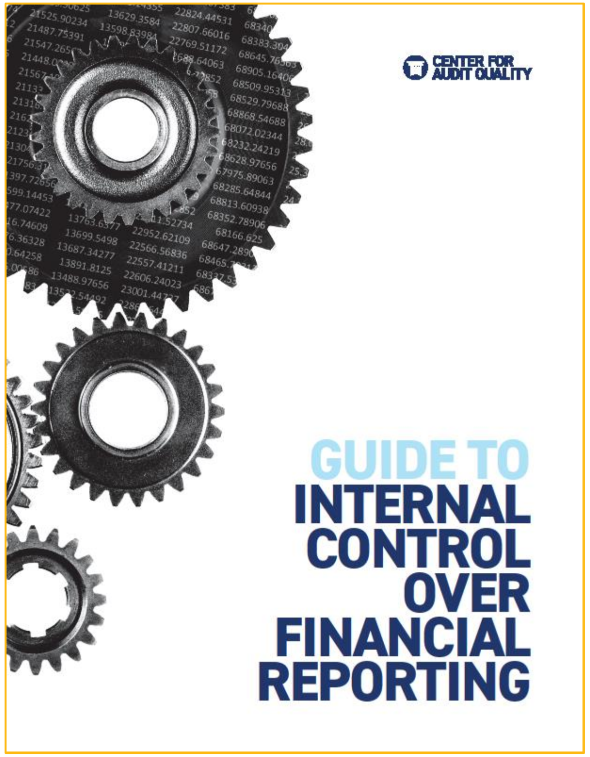
https://pcaobus.org/Standards/Documents/Implementation-Critical-Audit-Matters-Deeper-Dive-Communication-of-CAMs.pdf

From the Center For Audit Quality

CAQ Tool: Guide to ICFR (Updated)

Crowe

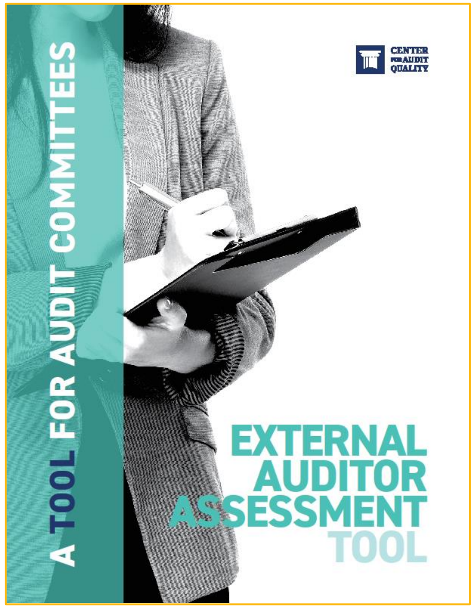
- Issued May 9, 2019 (updates the 2013 edition)
  - Contents:
    - Introduction
    - Key ICFR Concepts
      - Control Environment
      - Scaling ICFR to the Company
    - ICFR Roles and Responsibilities
      - Management, Audit Committee, and Auditor
    - What ICFR Means for Companies, Investors, and Markets



https://www.thecaq.org/guide-internal-control-over-financial-reporting/

CAQ Tool: External Auditor Assessment

- Tool for Audit Committees: Issued April 2, 2019
  - Updates 2017 publication
    - include considerations related to changes in accounting standards and potential risk areas
    - also contains new material to enhance audit committee understanding of how audit quality is supported and monitored at the firm level
  - Sample questions to help committees in four specific areas:
    - quality of services and sufficiency of resources provided by the engagement team
    - quality of services and sufficiency of resources provided by the audit firm
    - communication and interaction with the external auditor
    - auditor independence, objectivity, and professional skepticism.



https://www.thecaq.org/external-auditor-assessment-tool-reference-us-audit-committees

Thank You

KT Trivedi, Senior Manager
Crowe LLP
312.576.9012
kshitiz.trivedi@crowe.com

Jim Oleff, Senior Manager
Crowe LLP
202.552.8002
jim.oleff@crowe.com