



Summary of Recent Accounting Developments Q3 2020

by
Larry Gee

CNM Professional Practice Director

Summary of Recent Accounting Developments

Third Quarter 2020

CNM Articles Published

- You might want to consider adopting ASU 2020-06 early

New Accounting Standards

- ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contracts in an Entity's Own Equity¹
 - Embedded conversion features no longer are separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital.
 - Added disclosure requirements
 - Revises the guidance in Subtopic 815-40, as follows:
 1. Removes the following conditions from the settlement guidance:
 - a. Settlement in unregistered shares
 - b. Collateral
 - c. Shareholder rights.
 2. Regarding the condition about failure to timely file in the settlement guidance, clarify that penalty payments do not preclude equity classification.
 3. Require instruments that are required to be classified as an asset or liability under paragraph 815-40-15-8A to be measured subsequently at fair value, with changes reported in earnings and disclosed in the financial statements, which is consistent with instruments that are required to be classified as an asset or a liability under Section 815-40-25 on recognition.
 4. Clarify that the scope of the disclosure requirements in Section 815-40-50 applies only to freestanding instruments. Embedded features are not subject to Section 815-40-50 requirements.
 5. Clarify that the scope of the reassessment guidance in Section 815-40-35 on subsequent measurement applies to both freestanding instruments and embedded features.
 - Amends EPS calculation for such instruments.
- Proposed ASU, Stock Compensation (ASC 718), Determining the Current Price of an Underlying Share for Equity-Classified Stock-Option Awards
 - Would provide a practical expedient for nonpublic entities to use a Section 409A valuation in measuring compensation for an equity award (grants and modifications)
 - Would be elected on an award by award basis
 - Cannot be used for liability classified awards
 - Prospective application after effective date (fiscal years beginning after issuance)
 - Comment period ends October 1, 2020, so final standard is not likely to be issued until the end of this year.

¹ For public companies (except small reporting companies), effective for fiscal years and interim periods beginning after December 15, 2021. For all other entities, effective for fiscal years and interim periods beginning after December 15, 2023. Early application permitted but not before fiscal years beginning after December 15, 2020. Either modified retrospective or full retrospective transition method can be applied as of the beginning of the year.

Summary of Recent Accounting Developments

Third Quarter 2020

- Proposed ASU, EITF Consensus, Issue No. 19-C, “Warrant Modifications: Issuers’ Accounting for Modifications of Equity Classified Freestanding Call Options That Are Not within the Scope of Topic 718, Compensation—Stock Compensation, or Topic 815—Derivatives and Hedging”
 - The EITF reached a consensus-for-exposure that an entity should recognize the effect of a modification of a freestanding equity-classified derivative instrument based on the substance of the transaction as follows:
 1. Scenario A: Financing Transaction to Raise Equity. An equity issuance cost in accordance with the guidance in paragraph 340-10-S99-1.
 2. Scenario B: Financing Transaction to Raise or Modify Debt. An expense in accordance with the guidance in Topic 470, Debt, and Topic 835, Interest.
 3. Scenario C: Transaction to Compensate for Goods or Services. Compensation cost in accordance with the guidance in Topic 718.
 4. Scenario D: Other Modifications That Are Not Related to Financings or Compensation for Goods or Services. A dividend.
 - 60-day comment period

Big Four Accounting Guides – new or revised

- PwC
 - Property, plant, equipment and other assets (July 2020)
 - Derivatives and hedging (July 2020)
 - Carve-out financial statements (July 2020)
 - Financial statement presentation (June 2020)
 - Business combinations and noncontrolling interests (June 2020)
 - Income Taxes (May 2020)
- KPMG
 - Earnings per Share Handbook (August 2020)
 - Financial Instruments—recognition and measurement (July 2020)
 - Business Combinations Handbook (July 2020)
 - Statement of Cash Flows Handbook (June 2020)
 - Impairment of Nonfinancial Assets Handbook (June 2020)
 - Going Concern Handbook (June 2020)
 - Share-Based Payments Handbook (June 2020)
 - Financial Statement Requirements in US Securities Offerings, What You Need to Know (2020)
 - Financial Statement Requirements in US Securities Offerings, What Non-US Issuers Need to Know (2020)
- EY
 - Financial Reporting Developments, Business combinations (September 2020)
 - Financial Reporting Developments, Derivatives and hedging (September 2020)
 - Financial Reporting Developments, Impairment of long-lived assets (August 2020)
 - Financial Reporting Developments, Transfers and servicing of financial assets (August 2020)
 - Financial Reporting Developments, Asset retirement obligations (August 2020)
 - Financial Reporting Developments, Lease accounting—ASC 840 (August 2020)

Summary of Recent Accounting Developments

Third Quarter 2020

- EY (cont'd)
 - Financial Reporting Developments, Lease accounting—ASC 842 (July 2020)
 - Financial Reporting Developments, Foreign currency matters (July 2020)
 - Financial Reporting Developments, Exit or disposal cost obligations (July 2020)
 - Financial Reporting Developments, Statement of cash flows (July 2020)
 - Financial Reporting Developments, Earnings per share (June 2020)
 - Technical Line, A closer look at the accounting for asset acquisitions (September 2020)
- Deloitte
 - A Roadmap to SEC Reporting Considerations for Guarantees and Collateralizations (September 2020)
 - A Roadmap to Fair Value Measurements and Disclosures (Including the Fair Value Option) (September 2020)
 - A Roadmap to Non-GAAP Financial Measures and Metrics (August 2020)
 - A Roadmap to Initial Public Offerings (August 2020)
 - A Roadmap to Accounting for Environmental Obligations and Asset Retirement Obligations (August 2020)
 - A Roadmap to Foreign Currency Transactions and Translation (July 2020)
 - A Roadmap to Consolidation (July 2020)
 - A Roadmap to Segment Reporting (June 2020)
 - Heads up: Are Your CECL Disclosures in Good Standing? Observations on First Quarter Filings

Other Guidance

- SEC Adopts Rule Amendments to Modernize Disclosures of Business, Legal Proceedings, and Risk Factors Under Regulation S-K²
 - The Securities and Exchange Commission today announced that it voted to adopt amendments to modernize the description of business (Item 101), legal proceedings (Item 103), and risk factor disclosures (Item 105) that registrants are required to make pursuant to Regulation S-K.
 - Many of the amendments reflect the Commission's long-standing commitment to a principles-based, registrant-specific approach to disclosure.
- AICPA, Technical Questions and Answers, Section 2130 (June 2020):
 - .41 Determination of the effective interest rate
 - .42 Classification of advances under the Payroll Protection Program
 - .43 Consideration of the SBA guarantee under the Payroll Protection Program
 - .44 Accounting for the loan origination fee received from the SBA
 - .45 Accounting for Loan Repayment or Forgiveness by the SBA
- SEC Corporation Finance Disclosure Guidance: Topic No. 9A, Coronavirus (COVID-19) — Disclosure Considerations Regarding Operations, Liquidity, and Capital Resources
- SEC Chief Accountant, Sagar Teotia, published a statement emphasizing the continued importance of high-quality financial reporting for investors in light of COVID-19

² Effective 30 days after publication in the Federal Register.



www.cnmlp.com

Who is CNM?

Founded in 2003, CNM is recognized as one of the premier technical advisory firms in Southern California with Big 4 experience that provides the responsive customer service of a boutique firm. And we're a dynamic team that enlists all our energy to help transform the way your company does business – carefully evaluating your needs, simplifying your financial processes, and passionately solving problems in the most cost-effective way.

Our extensive knowledge of US GAAP, ICFR and SEC reporting skills has given us the ability to assist our clients with transactions that are not only multifaceted, but the capability to implement new or complex accounting standards. We have over 130 partners and employees in our Los Angeles, Orange County, San Diego, and New York City offices. Many of our clients are developed from direct referrals from the Big 4 accounting firms, speaking to the level of quality services we provide.

To learn more about how we can help, visit our website at www.cnmlp.com.



LOS ANGELES

A | 21051 Warner Center Lane
Suite 140
Woodland Hills, CA 91367
O | 818.999.9501

ORANGE COUNTY

A | 15635 Alton Parkway
Suite 450
Irvine, CA 92618
O | 949.299.5582

NEW YORK CITY

A | 264 West 40th Street
19th Floor
New York, NY 10018

SAN DIEGO

A | 11622 El Camino Real
Suite 100
San Diego, CA 92130

Restriction on Disclosure and Use of Information – This material contains confidential and proprietary information of CNM LLP, the unauthorized disclosure of which would provide a competitive advantage to others, as a result the recipient of this document shall not disclose, use, or duplicate this document, in whole or in part, for any purpose other than for the recipient's evaluation of CNM LLP's proposal.