FDIC 2019 Interagency Conference

FASB Update

Russ Golden, FASB Chairman

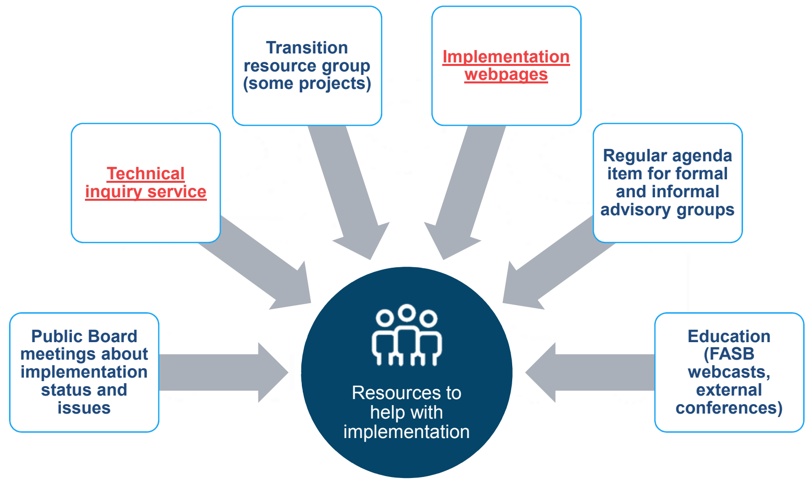
March 19, 2019

The views expressed in this presentation are those of the presenters. Official positions of the FASB are reached only after extensive due process and deliberations.

Agenda

- Implementation
  - Resources
  - Leases
  - Credit Losses
  - Revenue Recognition (Post-Implementation Evaluation)
- Projects in Progress
  - Distinguishing Liabilities from Equity (incl. convertible debt)
  - Identifiable Intangible Assets and Subsequent Accounting for Goodwill
  - Segment Reporting
  - Financial Performance Reporting – Disaggregation of Performance Information

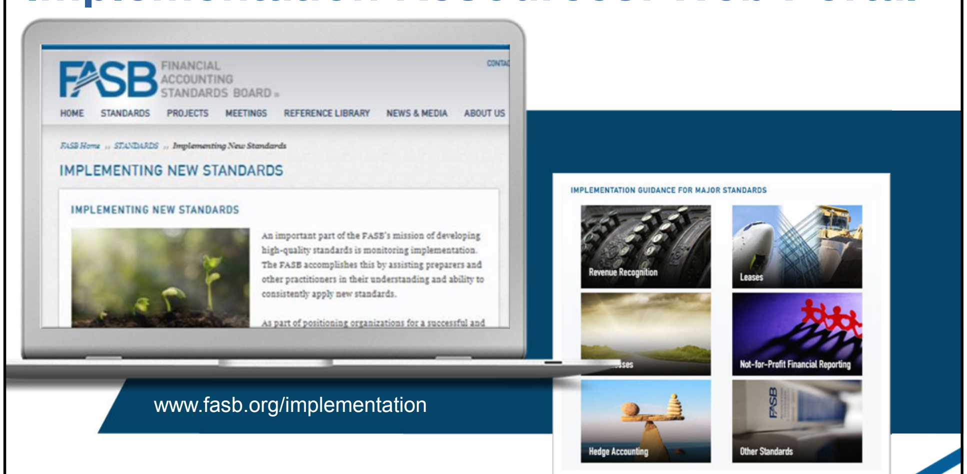
Implementation Resources



FASB FINANCIAL ACCOUNTING STANDARDS BOARD

3

Implementation Resources: Web Portal



FASB FINANCIAL ACCOUNTING STANDARDS BOARD

4

Leases Implementation: Standards

Standard-setting activities

- Land easements ASU 2018-01 (January 2018)
- Codification Improvements ASU 2018-10 (July 2018)
- Targeted Improvements ASU 2018-11 (July 2018)
- Narrow-scope Improvements for Lessors ASU 2018-20 (December 2018)
- Codification Improvements: Lessors & Lessor/Lessee Disclosure Requirements (March 5, 2019)

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

5

Leases Implementation: Practical Expedients

PURPOSE: Provide relief from application of leases guidance when appropriate (i.e., costs versus benefits)

Example **existing** practical expedients	**New** practical expedients
Lessee practical expedient on not separating lease and nonlease components	**Lessor** practical expedient on not separating lease and nonlease components
Short-term lease practical expedient	**Land easements transition** practical expedient

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

6

Credit Losses (CECL) Implementation Update

- Transition Resource Group meeting (June 2018)
  - ✓ **Recoveries** → Codification Improvements
    - Should expected recoveries on written-off financial assets be included in the estimated expected cash flows for CECL purposes?
  - ✓ **Reversal of Accrued Interest for Nonaccrual Loans** → Codification Improvements
    - Can entities continue the practice of reversing accrued interest applicable to loans placed on nonaccrual status through the interest income line item?
  - ✓ **Transfers from HFS to HFI (Loans), AFS to HTM (Debt Securities)** → Codification Improvements
    - How should the CECL model be applied to an HFS loan transferred to HFI or credit-impaired AFS security transferred to HTM?
  - ✓ **Refinancings and Prepayments**
    - Should the loan refinancing or restructuring guidance in Subtopic 310-20 be used to determine if a refinancing is a prepayment within the CECL model?
  - ✓ **Capitalized Interest**
    - How capitalized interest should be considered when estimating CECL using a method other than a discounted cash flow method?

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

7

Credit Losses (CECL) Implementation Update

- Transition Resource Group meeting (November 2018)
  - ✓ **Borrower extensions** → Codification Improvements
    - ✓ Should entities consider borrower only extensions when determining the contractual life of a financing receivable?
  - ✓ **Short-term lending arrangements**
    - ✓ Can an entity consider information outside of the contractual term to determine credit losses for cash flows during the contractual term?
  - ✓ **Recoveries** → Codification Improvements
    - ✓ What types of recoveries should be included in the measurement of credit losses?
  - ✓ **Vintage Disclosure** → Codification Improvements
    - ✓ How should revolving loans that convert to term loans be disclosed in the new vintage disclosure?
- Codification Improvements ED (Comments were due January 2019)

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

8

Credit Losses (CECL) Implementation Update

- FASB Staff CECL Q&A
  - ✓ Issued January 10, 2019
  - ✓ Addresses issues related to the weighted average remaining maturity (WARM)
  - ✓ Some stakeholders, including small financial institutions, asked if WARM method is acceptable
  - ✓ FASB staff agrees WARM method is one of many methods that could be used for less complex financial asset pools
- Credit Losses Roundtable—January 28, 2019
  - ✓ Included representative of banks of various sizes, regulators, and other stakeholders
  - ✓ Discussed FASB staff's research on recent credit losses agenda requests
  - ✓ Also discussed FASB's consideration of charge-offs and recoveries as a component of the vintage disclosures
  - ✓ Input to be discussed at April 3, 2019 FASB meeting

9

Revenue Recognition: Post-Effective Date Monitoring

Year 1*

- Preparer questionnaire to gather actual costs data
- Sample - cost experiences
- Sample - expected vs. actual costs (if possible)
- Monitor investor perceptions
- Help shape future academic studies
- After 1-year, consider whether to hold a roundtable or TRG meeting

Year 3 - 5

- Gather and compare on-going costs data
- Gather information to assess and compare the benefits

Year 5+

- Consider academic studies

* Effective dates for new major standards often are different for public vs non public entities. This process would begin for entities in the year that a standard is initially required (for example for revenue recognition, Year 1 would be 2018 for public entities and 2019 for non public entities).

10

Revenue Recognition: Post-Effective Date Monitoring

- Early-on discussions with advisory groups
  - 1Q'18
    - Financial Accounting Standard Advisory Council
  - 2Q'18
    - Small Business Advisory Committee
    - Investor Advisory Committee
- Public Company Survey

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

11

Projects in Progress

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

12

FASB Technical Agenda

- Recognition & Measurement: Broad Projects
  - Distinguishing Liabilities from Equity (inc. convertible debt)
  - Identifiable Intangible Assets and Subsequent Accounting for Goodwill
- Presentation & Disclosure Projects
  - Segment Reporting
  - Financial Performance Reporting – Disaggregation of Performance Information

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

13

Liabilities & Equity Project: Why?

- High volume of SEC comment letters
- Leading cause of financial statement restatements

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

14

Liabilities and Equity: Project Objectives

- Reduce cost & complexity in financial reporting associated with:
  - Convertible Instruments (reduce number of accounting models)
  - Scope exception to derivative accounting (Subtopic 815-40)
- Focus on:
  - Indexation criterion (formerly EITF 07-5)
  - Equity classification criterion (formerly EITF 00-19)
- Maintain or improve quality of information reported to financial statement users.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

15

Goodwill and Intangible Assets: Relevant Standards

Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill* (Private company alternative)

- Amortize goodwill straight-line, over 10 years, or less if justified
- Test for impairment upon a triggering event
- Test for impairment at the entity or reporting unit level

Update No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination* (Private company alternative)

- Subsume certain customer-related intangible assets and all non-compete agreements into goodwill and amortize

Update No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*

- Introduced “Step 0”, an optional qualitative assessment

Update No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

- Eliminates Step 2 of the impairment test for all entities, effective 2020 with early adoption

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

16

Goodwill and Intangible Assets: Current and Planned Activities

- Issued proposed standard that would extend the private company accounting alternatives as a package
  - ED issued December 2018; comment period ended February 19, 2019
- Working on Invitation to Comment (ITC): Identifiable Intangible Assets and Subsequent Accounting for Goodwill.
  - Identifying if there is a problem for PBEs
  - Potential approaches
  - Potential double-step transition for NFPs and private companies
  - ITC expected to be issued in 2Q 2019; comment period TBD

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

17

Segment Reporting Project—Why?

Investors are unsatisfied with the level of segment detail provided and believe that there should generally be more segments and more disclosure about those segments.

This problem is driven by three main areas of the standard:

1. Segment identification
2. Application of the aggregation criteria
3. Segment disclosure requirements.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

18

Segment Reporting: Research & Next Step

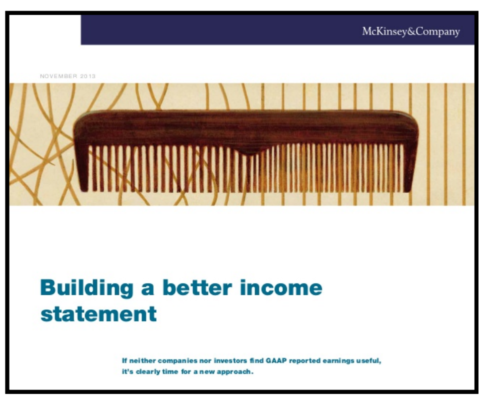
Study Phase	Potential alternatives
2018 Segment Reporting Study	**Aggregation Criteria and Reportable Segments Process** • Re-order the process for determining reportable segments, moving the quantitative threshold tests earlier in the process. • Remove the aggregation criteria, but retain the practical limit guidance.
Expected 2019 Segment Study	**Segment Disclosure Requirements:** • Add items to the list of required segment disclosures. • Require information to be reported in a table that reconciles to the consolidated line items. • Require a table of regularly reviewed information based on a financial statement format.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

19

Financial Peformance Reporting & Disclosures Project: Why?

- Top priority across stakeholder groups in 2015 FASAC agenda survey
- Stakeholders continue to raise concerns: McKinsey Report



FASB FINANCIAL ACCOUNTING STANDARDS BOARD

20

Financial Performance Reporting—Issues with the Income Statement

- Aggregation of earnings into only a few line items
- Limited transparency of items that are useful in making future earnings predictions
- No requirement to prepare a structured income statement

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

21

FPR: Next Steps

- Research ways of disaggregating expense information based on how it is viewed internally by management
- Conduct outreach with preparers & users to understand operability & usefulness of those alternatives & consider location of information in financial statements

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

22

Questions / Comments

23