FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout

Insurance Implementation—Effective Date

June 10, 2020

Meeting Purpose

1. The June 10, 2020 Board meeting is a decision-making meeting. The purpose of this handout is to (a) provide a summary of agenda requests to be discussed and (b) serve as a basis for the Board's discussion.

Questions for the Board

Issue 1: Effective Date Deferral—All Insurance Entities

1. Does the Board want to add a project to the technical agenda to consider amending the effective date of the amendments in Accounting Standards Update No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*? If yes, does the Board want to propose a one-year deferral of the effective date of the amendments in Update 2018-12 for all insurance entities?

Issue 2: Early Adoption Operability Improvement—All Insurance Entities

2. If the Board decides to propose a one-year deferral of the effective date of the amendments in Update 2018-12 for all insurance entities, does the Board want to amend the early adoption provisions of Update 2018-12 whereby the early adoption transition date would be the beginning of the prior period (for example, a January 1, 2021 transition date for calendar-year entities adopting the guidance as of January 1, 2022)?

Issue 3: Effective Date Deferral—Certain Reinsurance Contracts

3. Does the Board want to add a project to the technical agenda to introduce alternative effective dates of the amendments in Update 2018-12 for certain reinsurance contracts? If yes, what additional research should the staff perform and/or what potential alternatives should the staff consider?

Permission to Draft a Proposed Update

4. Has the Board received sufficient information to make informed decisions on the issues presented? If not, what other information or analyses does the Board need?

5. Subject to what is learned through comment letters, does the Board think that the expected benefits of the changes would justify the perceived costs? If so, does the Board give the staff permission to draft a proposed Update for vote by written ballot?

6. What comment period does the Board select for the amendments in the proposed Update?

Issue 1: Effective Date Deferral—All Insurance Entities

2. The Board will consider proposing a one-year deferral of the effective date of the amendments in Update 2018-12 for all insurance entities.

3. On March 20, 2020, the Board received an agenda request from the American Council of Life Insurers (ACLI) on the effective date of the amendments in Update 2018-12. The ACLI stated that (a) the added strain from the COVID-19 pandemic limits insurers' ability to devote necessary resources to effectively implement the new guidance and (b) uncertainty is a major factor in insurers' ability to work toward implementing the guidance. The ACLI asked the Board to consider the implications of the COVID-19 pandemic on an entity's ability to effectively implement the new guidance and defer the current effective dates for all entities by at least one year.

4. The Board and staff conducted outreach with insurance entities and other stakeholders. Based on the feedback provided, there is uncertainty around the overall effects of COVID-19 on insurance entities' implementation timelines as they adjust to their new working environments.

5. Feedback varied from one insurance entity to another, depending on the current status of their implementations, but, in general, insurance entities expected that a one-year deferral would be needed if the effects of COVID-19 continued to persist. Some public accounting firms noted that while they have observed some minor delays to implementation timelines, the larger uncertainty around the prolonged effects of the pandemic could be put pressure on implementation timelines.

Issue 2: Early Adoption Operability Improvement—All Insurance Entities

6. If the Board agrees to a one-year deferral of the effective date of the amendments in Update 2018-12, the Board also will consider aligning the early adoption transition date with the standard adoption transition date. The following table captures what this alignment would mean for calendar-year larger public insurance companies:

	Standard Adoption (assuming one-year deferral)	**Early Adoption**	
		Current requirement	Staff-recommended improvement
Effective date	1/1/23	1/1/22	1/1/22
Transition date	**1/1/21** (beginning of earliest period presented)	1/1/20 (beginning of earliest period presented)	**1/1/21** (beginning of prior period)

7. Several insurance entities indicated that they may have experienced some small delays or inefficiencies but could still be on track with implementing the amendments in Update 2018-12 by 2022. For those entities, the deferral request is more about the uncertainty around whether the disruptive effects of the COVID-19 pandemic will be longer lasting.

8. One insurance entity suggested that instead of delaying the effective date of the amendments in Update 2018-12, the Board could consider shifting the transition date from the earliest period presented in the financial statements to the prior period presented in the financial statements. Other insurance entities favored a one-year deferral; however, some indicated that they may consider early adopting the amendments in Update 2018-12 if the effects of the COVID-19 pandemic are short term and do not have a significant or prolonged adverse effect on implementation efforts.

Issues 3: Effective Date Deferral—Certain Reinsurance Contracts

9. On November 27, 2019, the Board received an agenda request from the ACLI on the Update 2018-12 effective date in which the ACLI expressed concern about the effect of the staggered effective date between U.S. Securities and Exchange Commission (SEC) filers that are not smaller reporting companies and all other entities on existing and potential future reinsurance arrangements. The ACLI recommended that the Board consider providing insurance entities with transition relief for reinsurance arrangements in which the SEC filer does not retain the administration and/or valuation responsibilities.

10. The staff conducted outreach and performed additional analysis. In general, insurance entities indicated that the data needed or requested from their counterparties would be available in order for them to comply with the amendments in Update 2018-12 on time. Some entities

acknowledged encountering challenges with certain counterparties, but also noted that they were working on resolving those challenges and that there would be no relief that the FASB could provide that would compel their counterparty to provide the necessary information.

Board Meeting Handout

Distinguishing Liabilities from Equity (Including Convertible Debt)

June 10, 2020

Meeting Purpose

1. The June 10, 2020 Board meeting is a decision-making meeting for the Board to complete its redeliberations for this project.

Questions for the Board
Sweep Issues 1. Does the Board affirm that its intent about paragraph 815-40-25-10A(a) is as follows: (a) If a contract explicitly required that an entity cash settle the contract if registered shares were not available (meaning unregistered shares were not an acceptable settlement to the counterparty), the contract would be precluded from equity classification. (b) If a contract was silent about cash settlement if registered shares were not available and/or permitted unregistered share settlement, the contract would meet equity classification? (Issue 1) 2. Would the Board like to provide guidance to address the accounting for convertible debt instruments with substantial premiums? If yes, which of the following alternatives does the Board select: (a) Alternative A—Separation Approach: Retain the current guidance in paragraph 470-20-25-13 on the presumption that a substantial premium represents paid-in capital and require additional disclosures about (1) fair value information of the whole convertible debt instrument with a substantial premium and (2) the premium amount recorded as paid-in capital. (b) Alternative B—Single Liability Approach: Record the substantial premium with the debt principal as a single liability but do not amortize the premium? (Issue 2)

Benefits and Costs and Permission to Ballot

3. Has the Board received sufficient information and analysis to make an informed decision on the perceived costs of the change? If not, what other information or analysis is needed?

4. Does the Board believe that the expected benefits justify the expected costs of the amendments included in the final Update and, therefore, give the staff permission to proceed to a final Update for vote by written ballot? If not, why?

5. Are there any Board members that plan to dissent to the issuance of the amendments in the final Update? If so, why?

External Review

2. At the February 5, 2020 meeting, the Board directed the staff to draft an Update and distribute that draft for external review. The staff distributed the draft to external reviewers in March 2020 and has subsequently addressed the comments received. External reviewers included practitioners, financial services industry representatives, a member of the Private Company Council, and staff members at regulatory agencies.

Sweep Issues

3. The staff identified two sweep issues for the Board's discussion at this meeting. Both sweep issues relate to comments raised by external reviewers. The following is a summary of the issues identified for the Board's consideration.

Issue 1: Settlement in Registered Shares

4. At the December 11, 2019 Board meeting, the Board affirmed its decision to remove the equity classification condition regarding settlement in unregistered shares in paragraph 815-40-25-10(a) unless the contract explicitly states that an entity must settle cash if registered shares are not available. Some external reviewers asked that the Board clarify whether a contract would be precluded from equity classification if registered shares were available at the time of the evaluation of the settlement conditions.

Issue 2: Convertible Debt Instruments with Substantial Premiums

5. At the December 11, 2019 Board meeting, the Board affirmed its decision to account for convertible instruments as a single unit of account, except in circumstances in which the conversion features are required to be bifurcated under Topic 815, Derivatives and Hedging. As a result of that decision, the guidance in paragraph 470-20-25-13 on convertible debt

instruments issued at a substantial premium would be removed from GAAP. External reviewers raised a concern that by eliminating the existing guidance on substantial premiums, a substantial premium that represents the value of shares would affect the income statement (for example, recognition of interest income on a convertible debt instrument). They suggested that the Board address this issue in the final Update.

6. The staff has identified the following alternatives to address the issue related to convertible debt instruments issued at a substantial premium:

   a. **Alternative A**—Separation Approach: Retain the current guidance in paragraph 470-20-25-13 on the presumption that a substantial premium represents paid-in capital and require additional disclosures about (1) fair value information of the whole convertible debt instrument with a substantial premium and (2) the premium amount recorded as paid-in capital

   b. **Alternative B**—Single Liability Approach: Record the substantial premium with the debt principal as a single liability but do not amortize the premium.

FINANCIAL ACCOUNTING STANDARDS BOARD

Board Meeting Handout
Not-for-Profit Reporting of Gifts-in-Kind
June 10, 2020

Meeting Purpose

1. The June 10, 2020 Board meeting is a decision-making meeting. The purpose of this meeting is to discuss feedback received from stakeholders on the proposed Accounting Standards Update, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets,* and complete redeliberations.

2. This handout is organized as follows:

    (a) Background

    (b) Summary of Comment Letters Received

    (c) Not-for-Profit Advisory Committee (NAC) Feedback

    (d) Topic 1: Scope

    (e) Topic 2: Presentation

    (f) Topic 3: Disclosure

    (g) Topic 4: Transition and Effective Date

    (h) Topic 5: Additional Outreach and Research about Fair Value.

Questions for the Board

<u>Scope</u>

1. Does the Board want to affirm its decisions on scope, including limiting the guidance to (a) contributed nonfinancial assets and (b) not-for-profit entities (NFPs)?

<u>Presentation</u>

2. Does the Board want to affirm its decision to require NFPs to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets?

Disclosure

3. Does the Board agree with the following regarding the disclosure requirements, including:

(a) Clarifying that disaggregation of contributed nonfinancial assets is a quantitative disclosure

(b) Requiring disclosure of an NFP's policy (if any) for monetizing rather than utilizing contributed nonfinancial assets and removing the requirement to disclose the NFP's intent for future use

(c) Affirming the requirement to disclose a description of any donor restrictions associated with the contributed nonfinancial assets

(d) Requiring a description of the valuation techniques and inputs used to arrive at a fair value measure for contributed nonfinancial assets in accordance with paragraph 820-10-50-2(bbb)(1), at initial recognition

(e) Requiring disclosure of the principal market (or most advantageous market) used to arrive at a fair value measurement if it is a market in which the recipient NFP is prohibited by donor restrictions from selling or using the contributed nonfinancial asset?

Transition and Effective Date

4. Does the Board want to affirm its decision to require retrospective transition?

5. Does the Board think that the amendments should be effective for NFPs for annual reporting periods beginning after June 15, 2021, and interim periods within fiscal years beginning after June 15, 2022, with early adoption permitted?

Cost-Benefit Analysis and Permission to Ballot

6. Does the Board think that the expected benefits of the changes justify the expected costs of the changes? If so, does the Board give the staff permission to draft a final Update for vote by written ballot?

Additional Outreach and Research About Fair Value

7. Does the Board want the staff to perform additional research and outreach on potential approaches to address stakeholders' concerns about fair value measurement of contributed nonfinancial assets?

Summary of Comment Letters Received

1. The comment period for the proposed Update ended on April 10, 2020. Twenty-five comment letters were received on the proposed Update. The following table provides information on the composition of the comment letter respondents by respondent type:

Type of Respondent	Number of Respondents
Public Accounting Firms	12
Preparers	3
Practitioner	1
Trade Group or Association	1
State Societies of CPAs	4
Regulators	2
Charity Watchdog	1
Academic	1
Total Respondents	**25**

2. The proposed Update asked the following questions:

> **Question 1:** Are the amendments in this proposed Update operable? If not, which proposed amendment or amendments pose operability issues and why?
>
> **Question 2:** Should the scope of the presentation and disclosure requirements apply to all contributed nonfinancial assets? If not, what types of nonfinancial contributions should be excluded from the scope and why? Should the scope of the presentation and disclosure requirements be extended to business entities? If yes, why?
>
> **Question 3:** Should the disclosure requirements in paragraph 958-605-50-1A(c) be required for each category of contributed nonfinancial assets? If not, please explain why.
>
> **Question 4:** Would retrospective application of the proposed amendments be operable and would that application provide decision-useful information? If not, please explain why and what you would recommend.
>
> **Question 5:** How much time would be needed to adopt the proposed amendments? Should early adoption be permitted?
>
> **Question 6:** Is education or implementation guidance needed on the valuation of contributed nonfinancial assets? If yes, what type of guidance or additional education should be developed?

3. Overall, most respondents supported the Board's objective and efforts to improve the transparency around reporting of contributions of nonfinancial assets. Respondents generally agreed that the proposed presentation and disclosure requirements are operational. Some respondents raised concern about the operability for smaller NFPs, specifically the potential burden the proposed amendments would impose. Other respondents provided suggestions to clarify the amendments in the proposed Update to further enhance the operability of the standard and reduce potential diversity in practice when applying the guidance. Some respondents also commented that additional examples, as well as implementation guidance or educational materials, could be beneficial. Some respondents, mainly regulators, supported the guidance in the proposed Update but suggested that the Board also reconsider certain aspects of current guidance on fair value

measurement, especially for certain assets such as pharmaceuticals that are received with restrictions on distribution or sale. The charity watchdog agency generally supported the proposed presentation and disclosure requirements, as well as additional implementation guidance and educational materials related to valuation, to improve consistency and comparability among NFPs that report contributed nonfinancial assets.

Not-for-Profit Advisory Committee (NAC) Feedback

4. On April 7, 2020, the NAC discussed the project and provided feedback on the amendments in the proposed Update. Committee members generally indicated that the proposed presentation and disclosure requirements were operable and would provide additional transparency around the reporting of contributed nonfinancial assets that would enhance financial reporting. Committee members also noted that the flexibility the proposed Update affords when applying the presentation and disclosure requirements would enable NFPs to provide information that is most relevant to each NFP's stakeholders. Some Committee members and participating observers noted that valuation challenges will still exist, especially for pharmaceuticals and certain other assets, but providing additional examples either in the Codification or in educational materials such as a Staff Q&A document, in addition to the proposed Update, could be helpful.

Topic 1: Scope

5. Most respondents noted that the presentation and disclosure requirements should apply to all contributed nonfinancial assets for consistency and enhanced transparency. A few respondents suggested that some of the disclosures apply only to certain categories of nonfinancial assets, for example, pharmaceuticals and medical devices or other high-value nonfinancial assets, because of what those respondents believe is a greater degree of relevance of the information for certain assets compared with others. One respondent specifically raised concern about the potential burden that the proposed requirements could place on smaller NFPs that receive large amounts and variety of low-value in-kind contributions, such as books, used clothes, and so forth. A few respondents also requested that the Board clarify that the presentation and disclosure requirements only apply to contributed nonfinancial assets that are *recognized* as compared with all contributed nonfinancial assets *received* (for example collection items or services that are not recognized).

6. All respondent types (for example, preparers and practitioners) had mixed views about whether the presentation and disclosure requirements should be extended to business entities. The respondents that supported extending the requirements to business entities did so to be consistent with other guidance in Subtopic 958-605, such as the guidance set forth

in Accounting Standards Update No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received*, that applies to all entities. One non-Big 4 public accounting firm specifically suggested that the scope of the proposed Update should be extended to business entities to the extent that Subtopic 958-605 already is applicable to business entities, stating that business entities should continue to be excluded from the presentation requirements but should be subject to the disclosure requirements. Additionally, some respondents noted that the guidance should apply to all entities that receive contributions, regardless of whether the entity is an NFP or a business entity, because if the information is material it could provide financial statement users with relevant information.

7. The respondents that do not support extending the scope of the presentation and disclosure requirements to business entities cited reasons similar to those outlined in paragraph BC9 of the basis for conclusions in the proposed Update that explains why the Board decided to limit the scope to NFPs. Paragraph BC9 notes that the transparency concerns around contributed nonfinancial assets relate primarily to NFPs and the specific needs of their financial statement users. Additionally, respondents noted that contributions of nonfinancial assets are typically immaterial to business entities (if those contributions are received) and that the additional information provided would likely not be as relevant for business entities' financial statement users. One Big 4 firm suggested that the staff perform a cost-benefit analysis and specific outreach with users and preparers of business entity financial statements before explicitly expanding the scope of the requirements.

Topic 2: Presentation

8. Almost all respondents agreed with the proposed requirement to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and indicated that the requirement would be operable. Overall, respondents indicated that the presentation requirement, along with the disclosure requirements, supports the Board's objective of enhanced transparency around reporting of contributed nonfinancial assets and provides users of financial statements with relevant information. A few respondents raised concern that additional requirements overall (including the presentation requirement) could be burdensome for smaller NFPs.

Topic 3: Disclosure

9. The Proposed Update requires the following disclosures:

> **958-605-50-1A** A not-for-profit entity (NFP) shall disclose in the notes to financial statements a disaggregation of contributed nonfinancial assets recognized within the statement of activities by category that

depicts the type of contributed nonfinancial assets. For each category of contributed nonfinancial assets, an NFP shall disclose the following:

(a) Qualitative information about whether contributed nonfinancial assets were or are intended to be either monetized or utilized during the reporting period and future periods. If utilized, a description of the programs or other activities in which those assets were or are intended to be used.

(b) A description of any donor restrictions associated with the contributed nonfinancial assets.

(c) A description of the valuation techniques and inputs used to arrive at a **fair value** measure, including the **principal market** (or **most advantageous market**) if significant, in accordance with paragraph 820-10-50-2(bbb)(1).

10. Most respondents indicated that the disclosure requirements would be operable and support the Board's objective by providing users of financial statements with relevant information. A few respondents raised concern about the operability of the disclosure requirements for smaller NFPs that might have fewer resources to implement the new standard. Other respondents indicated that the information should be readily available for most NFPs. One regulator suggested that the final Update require additional disclosure that an entity has discretion over the donated assets for which it has recognized revenue. Specific suggestions made to clarify the disclosure requirements to make the standard more operable and encourage consistent application in practice are noted in the individual sections below.

Disaggregation

11. Some respondents indicated that the proposed guidance is unclear whether the requirement to disaggregate contributed assets by category is a quantitative disclosure and suggested that the Board clarify the guidance. A few respondents raised questions about the level of disaggregation required, specifically how to determine the categories of contributed nonfinancial assets. Other respondents indicated that they like the flexibility given to preparers to determine which categories to disclose.

Utilization and Monetization of Contributed Nonfinancial Assets

12. Some respondents raised concern about requiring NFPs to disclose their "intent" to utilize or monetize contributed assets in a future period because it involves judgment and uncertainty that can be difficult to operationalize and lead to inconsistency in practice. A few public accounting firms also noted that the requirement could be complicated and costly to audit. Respondents who raised concerns about this proposed disclosure requirement suggested that the Board instead require NFPs to disclose their policies (if any) related to using or monetizing the assets, which would provide more accurate and valuable information about future periods. Many respondents also requested more comprehensive examples of the disclosure requirements to assist preparers in applying the standard and improve operability.

Those respondents suggested that the examples in the guidance should include more types of nonfinancial assets, such as intangibles, contributed services, right-of-use assets, and an example of an asset that is monetized.

Fair Value Disclosures

13. The Board requested feedback specifically related to the proposed fair value disclosure requirement in paragraph 958-605-50-1A(c) of the proposed Update, which would require that an NFP disclose a description of the valuation techniques and inputs used to arrive at a fair value measure, including the principal market (or most advantageous market) if significant. Some respondents indicated that the disclosure supports the Board's objective of enhancing transparency by providing valuable information to financial statement users about key judgments and assumptions used in determining the fair value of the contributed nonfinancial assets. Some respondents who supported the requirement also indicated that the information should be readily available for most NFPs. Other respondents raised concern about the difficulty and potential cost of applying the fair value disclosure requirement to certain types of assets for which the information may not be as relevant, such as clothing, books, food, or if the type of contributed asset is not individually material. Respondents indicated that the disclosure could place undue burden on organizations that receive large volumes of nonfinancial assets for which the information may not be as relevant.

14. All respondent types (with the exception of the regulators and charity watchdog) had mixed views about whether the fair value disclosure requirement should apply to all categories of contributed nonfinancial assets. Some respondents, including a preparer, some public accounting firms, regulators, the charity watchdog, and a state CPA society, agreed that the fair value disclosure requirement apply to all categories of contributed nonfinancial assets. Other respondents, including two Big 4 firms, other public accounting firms, a trade association, and a few state CPA societies, recommended limiting the fair value disclosure requirement to certain contributed assets, such as pharmaceuticals and medical equipment, for which the information is particularly relevant. A few respondents, including a regulator, noted that the Board did not go far enough to address regulators' concerns about the fair value measurement guidance that exists in GAAP (including the considerations that are used in determining a principal market for purposes of valuation), but supported the proposed disclosure requirements. One respondent, a Big 4 firm, indicated that the guidance was unclear about whether the fair value disclosures are required at initial recognition. As with the other disclosure requirements, a few respondents also requested that additional examples be included in the standard.

Topic 4: Transition and Effective Date

15. Most respondents noted that retrospective application would be operable, especially if given sufficient time to implement the standard. Some respondents noted that retrospective application could be time consuming, costly, and burdensome for some NFPs (especially smaller ones that might not have the resources), without providing users of financial statements with significant value and suggested that retrospective application be permitted but not required. A few respondents suggested a modified retrospective transition in which some presentation and/or disclosure requirements could be omitted for periods before adoption. For example, either all disclosure requirements should be applied prospectively (while the presentation requirements are applied retrospectively) or at least certain disclosures should be applied prospectively.

16. Most respondents suggested an effective date between one to two years after issuance of the final Update and almost all respondents indicated that early adoption should be permitted. The main concern regarding effective date was ensuring that NFPs had sufficient time to gather the information necessary, especially if retrospective application is required. Some respondents noted that the information should be readily available for most NFPs. Others indicated that even if the information is readily available, entities may have to develop new processes and controls to gather the information if it was previously only used for internal purposes. A few respondents also specifically raised concern about smaller NFPs (that often heavily rely on the receipt of contributed nonfinancial assets in conducting their programs and other activities) and ensuring that those entities had ample time to implement the standard.

Topic 5: Additional Outreach and Research About Fair Value

17. Respondents had mixed views about whether additional education or implementation guidance on the valuation of contributed nonfinancial assets is needed and what type of guidance or additional education should be developed. Some respondents indicated that additional implementation guidance or educational materials about the valuation of contributed nonfinancial assets would be beneficial, primarily to help reduce the diversity in practice and improve understandability of the guidance. Respondents provided various suggestions for the Board to consider, ranging from additional education such as webcasts and speech updates to additional implementation guidance and/or Staff Q&As. A few respondents (mainly regulators) suggested that the Board reexamine the fair value guidance in Topic 820, specifically how donor restrictions could affect fair value.

18. Respondents requested additional examples, specifically relating to pharmaceuticals and medical supplies, services, assets with complex valuations (for example, assets without an active market), as well as simple examples geared toward smaller NFPs. Respondents indicated that additional examples within implementation guidance could enhance operability

and consistency in applying valuation techniques to different types of assets. Other suggestions included additional implementation guidance about acceptable valuation methodologies and how donor restrictions should or should not be considered in the fair value of an asset. A few respondents, including a regulator, are particularly concerned about situations in which donor restrictions limit the donated goods from being used in the United States. A preparer suggested focusing additional guidance on the fair value measurement approach and principal market, specifically related to donated pharmaceuticals, because those areas are complex and have raised issues in practice. One Big 4 firm indicated that additional guidance is unnecessary at this time. Another Big 4 firm raised concern about potential unintended consequences of providing explicit implementation examples on valuation for NFPs.