US GAAP (US Generally Accepted Accounting Principles)

FASB releases further updates to credit losses standard to provide targeted transition relief to entities

Impact: All entities transitioning to credit losses standard

Based on the feedback from the industry, the FASB has issued a new ASU granting entities an option to irrevocably elect the fair value option, on an instrument-by-instrument basis, for eligible financial assets measured at amortized cost basis upon adoption of the credit losses standard. On adoption of the new standard, entities had begun (or were planning) to elect the fair value option on newly originated or purchased financial assets that have historically been measured at amortized cost. They noted that electing the fair value option would require them to maintain dual measurement methods—fair value measurements and amortized cost basis.

With the issued ASU, entities would have the option to irrevocably elect the fair value option on transition, on an instrument-by-instrument basis, for eligible financial assets. This will improve the comparability of financial statement information provided by institutions that otherwise would have reported similar financial instruments using different measurement methodologies, potentially decreasing costs for financial statement preparers while providing more useful information to investors and other users.

The board also issued a proposed ASU to permit organizations to record negative allowances on PCD assets to respond to clarification by stakeholders whether negative allowances were permitted on assets that had already shown credit deterioration at the time of purchase (also known as PCD assets).

A negative allowance describes a situation in which an organization recognizes a full or partial write off of the amortized cost basis of a financial asset—but then later determines that the amount written off, or a portion of that amount, will in fact be recovered.[1]

Proposal to change SEC disclosures for acquisitions and dispositions

Impact: Public entities

SEC has published its proposed rules on disclosures required for acquisition and disposition activities of businesses to improve the financial information provided about acquired and disposed businesses and also reduce the complexity and cost to prepare such disclosure. The proposed rule would bring about the following changes amongst others:

- Update the significance tests for acquired businesses by revising the investment test and the income test, expanding the use of pro forma financial information in measuring significance, and conforming the significance threshold and tests for a disposed business;
- Reduce the numbers of years of audited financials required for acquired businesses from three years to two years;
- Permit the use in certain circumstances of, or reconciliation to, International Financial Reporting Standards as issued by the International Accounting Standards Board;
- Amend the pro forma financial information requirements to improve the content and relevance of such information; more specifically, these improvements would include disclosure of "Transaction Accounting

[1] https://www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176172898191&d=&pagename=FASB%2FFASBContent_C%2FNewsPage

Adjustments," reflecting the accounting for the transaction; and "Management's Adjustments," reflecting reasonably estimable synergies and transaction effects.

Other SEC Proposals:

With amendments to definitions of an accelerated filer and a large accelerated filer, SEC proposes excluding smaller reporting companies (SRCs) from accelerated filer status and also, removing the requirements of independent auditor attestation over ICFR (Internal Control Over Financial Reporting).

Exposure draft on update of ASC 740 – Income taxes published as part of FASB's initiative to reduce complexity in accounting standards (the Simplification Initiative)

Impact: Entities within the scope of ASC 740

FASB issued the exposure draft of the proposed update[2] to ASC 740 that would remove specific exceptions to the general principles in Topic 740—Income Taxes by eliminating the need for an organization to analyze whether the following apply in a given period:

- Exception to the incremental approach for intra period tax allocation
- Exceptions to accounting for basis differences when there are ownership changes in foreign investments, and
- Exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses.

The proposed ASU would also improve financial statement preparers' application of income tax-related guidance and simplify GAAP for:

- Franchise taxes that are partially based on income
- Transactions with a government that result in a step up in the tax basis of goodwill
- Separate financial statements of legal entities that are not subject to tax, and
- Enacted changes in tax laws in interim periods.

FASB tentatively approves accounting relief for contract modifications arising from reference rate reform

Impact: Entities with debt and other arrangements linked to LIBOR

With global capital markets expected to move away from LIBOR towards more transaction-based reference rates, the cash flows of majority of the companies whose loans, derivatives, and other financial contracts that reference the London Interbank Offered Rate (LIBOR) will be affected. Such changes as per the current rules would need to be analyzed to assess whether they would qualify as modification or extinguishment for accounting purposes.

Considering the accounting complexity and cost associated with such analysis on amendment of the contracts, the FASB tentatively approved accounting relief for contract modifications arising from the reform as part of its broad project to address potential accounting concerns expected to arise from the transition.

As part of the relief, for financial and other contracts that meet certain criteria, a change in the contract's reference interest rate would be accounted for as a continuation of that contract instead of undertaking the modification/extinguishment analysis and creation of a new contract, leading to a major accounting relief for companies being affected by a change in reference rate due to the reform.

IFRS (International Financial Reporting Standards)

Exposure draft on targeted amendments proposed by IASB in response to IBOR reform published

Impact: Entities using hedge accounting

International Financial Reporting Standards require companies to use forward-looking information to apply hedge accounting, meaning, if there is an uncertainty or the company is not able to make forward looking assessments it cannot apply hedge accounting.

Amidst the benchmark interest rate reform and ongoing uncertainty around interest rates, this requirement could lead to companies having to discontinue hedge accounting solely because of the reform's effect on company's ability to make forward-looking assessments leading to reduced usefulness of the information in the financial statements.

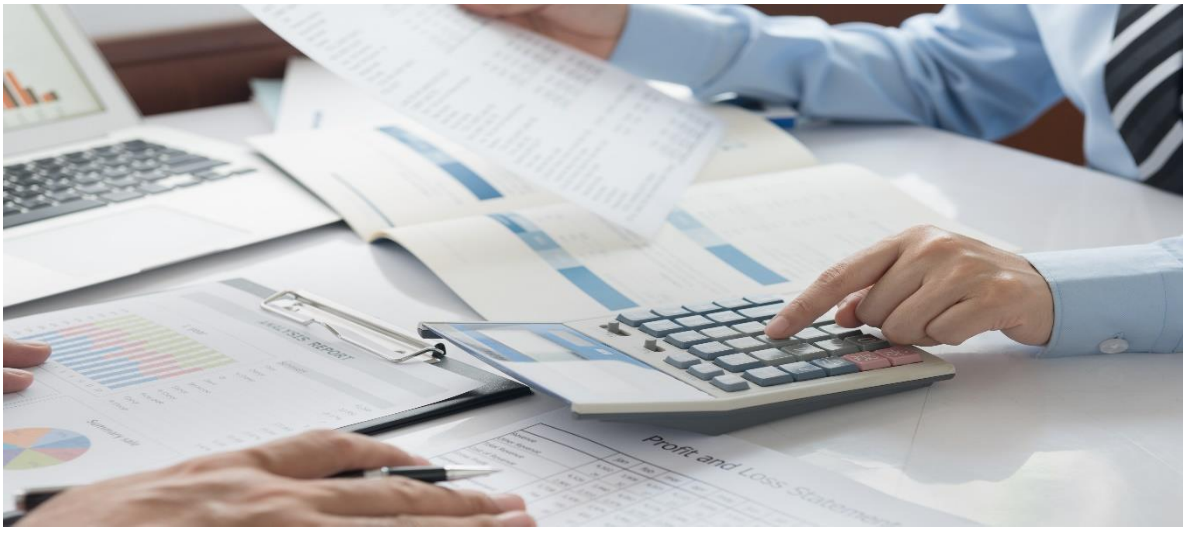
[2] https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176172652976&acceptedDisclaimer=true

To overcome this challenge, Board has proposed to amend IFRS 9 Financial Instruments and *IAS 39 Financial Instruments: Recognition and Measurement* to provide relief from specific hedge accounting requirements that could have resulted in the discontinuation of hedge accounting solely due to the uncertainty arising from interest rate benchmark reform.

IASB proposes annual improvements to IFRS standards

As part of its improvement and maintenance initiative for IFRS standards, IASB published narrow scope amendments to the following standards:

Standard	Proposed amendment
IFRS 1 First-time Adoption of International Financial Reporting Standards	A subsidiary, associate or joint venture that elects to apply paragraph D16(a) of IFRS 1 would be required to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs. This proposed amendment would also apply to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1
IFRS 9 Financial Instruments	The Board proposes to clarify that the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability - should include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
Illustrative Examples accompanying IFRS 16 Leases	The Board proposes to amend Illustrative Example accompanying IFRS 16 Leases to remove the illustration of payments from the lessor relating to leasehold improvements. The proposed amendment would remove potential for confusion regarding the treatment of lease incentives applying IFRS 16
IAS 41 Agriculture	Align the fair value measurement requirements in IAS 41 with those in other IFRS Standards



IASB issues exposure draft to update conceptual framework reference in IFRS 3

Impact: All entities entering business combinations

On May 30, 2019 IASB issued its exposure draft on narrow-scope amendments to IFRS 3 *Business Combinations*[3].

The draft replaces the reference to "Framework for the Preparation and Presentation of Financial Statements issued in 1989" for definition of assets and liabilities with a reference to the current version—"the Conceptual Framework for Financial Reporting" issued in March 2018. The differences in the definitions under the frameworks are such that it could increase the population of assets and liabilities qualifying for recognition in a business combination.

The second proposal in the draft is to add to IFRS 3 a requirement that for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21, if incurred separately, an acquirer should apply IAS 37 or IFRIC 21 respectively, instead of the Conceptual Framework, to identify the obligations it has assumed in a business combination. By including this exception, the liabilities and contingent liabilities recognized in a business combination would effectively be the same as those recognized applying IFRS 3 at present and would avoid any problem of day 2 losses or gains due to such contingent liabilities.

The proposal also makes requirements for contingent assets more explicit. IFRS Standards define contingent assets as possible assets whose existence will be confirmed only by uncertain future events. IFRS 3 prohibits recognition of contingent assets, but this prohibition is stated explicitly only in the Basis for Conclusions accompanying the Standard. To clarify the requirements and avoid any doubt about whether updating the reference to the Conceptual Framework would change them, the Board proposes to add to IFRS 3 an explicit statement that an acquirer should not recognize contingent assets acquired in a business combination.

[3] https://www.ifrs.org/-/media/project/updating-a-reference-to-the-conceptual-framework-amendments-to-ifrs-3/exposure-draft/exposure-draft-reference-to-the-conceptual-framework-ifrs-3.pdf

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