

# ASK THE EXPERTS WEBINAR

*AICPA SEC AND PCAOB Conference Recap:  
2020 Highlights and Key Themes*

**January 14<sup>th</sup>, 2021**

# PRESENTERS



**Zac McGinnis**

*MANAGING DIRECTOR*

**Expertise:** SPAC Mergers, Capital raising assistance, business combination and divestiture matters, IPO readiness, GAAP change and conversions



**Sasha Morozova**

*MANAGING DIRECTOR*

**Expertise:** Capital markets transactions, business combination and divestiture matters, IPO readiness, GAAP change and conversions, SEC reporting



**Patrick Garrett**

*MANAGING DIRECTOR*

**Expertise:** Technical accounting, SEC reporting, business combinations, debt and equity transactions, revenue recognition, goodwill and impairment



**Drew Niehaus**

*MANAGING DIRECTOR*

**Expertise:** Technical accounting, debt and equity transactions, business combinations, SEC reporting, SOX design

## KEY REMINDERS

- ▶ Riveron webcasts – past and upcoming
- ▶ 4 polling questions must be answered to obtain CPE
- ▶ If you have questions, feel free to ask in Q&A option in Zoom
- ▶ Webinar evaluation form & CPE certificate will be emailed to you
- ▶ On demand video is not eligible for CPE
- ▶ You will receive a follow up email including:
  - ▶ Access to this webinar recording and deck
  - ▶ The ability to join our Webinars Mailing list to receive future invites
  - ▶ Presenter contact info

# AGENDA

INTRO & REMINDERS

ACCOUNTING AND DISCLOSURE IMPACTS OF  
COVID-19

ACCOUNTING UPDATE – FASB AGENDA AND  
OFFICE OF THE CHIEF ACCOUNTANT

SEC MATTERS

OTHER HOT TOPICS

Q&A

# Polling Question #1

What do you expect to be the most challenging issue in this year's reporting cycle?

- A. Impairments and going concern
- B. Accounting for financing transactions
- C. Remote work
- D. Ongoing issues from new standards
- E. Other or not applicable





**ACCOUNTING AND  
DISCLOSURE  
IMPACTS OF COVID-19**

# COVID-19 IMPACT ON FINANCIAL REPORTING

The SEC and FASB response to COVID-19 could be bifurcated into addressing the immediate accounting impacts and the broader disclosure and reporting impacts

## Guidance on year-end disclosure and accounting issues

- ▶ Non-GAAP measures
- ▶ Short and long-term impacts to business
- ▶ Audit of key accounting conclusions and relevant transactions occurring during the year



## Address immediate accounting and reporting issues

- ▶ Guidance on critical accounting and reporting issues such as:
  - ▶ Impairments
  - ▶ Restructuring accruals
  - ▶ Going concern analysis
  - ▶ Troubled debt restructurings
  - ▶ Stock compensation
  - ▶ Income taxes
  - ▶ Revenue recognition
- ▶ Pause on large standard-setting projects
- ▶ Delay certain effective dates of new standards

# COVID 19 IMPACT ON REPORTING AND DISCLOSURE

**SEC Staff indicated they want to see robust detailed disclosures related to the short-term and long-term impacts of COVID-19. Key principles to keep in mind when assessing year-end disclosures include:**

## **Avoid boilerplate disclosures**

Disclosures in risk factors, MD&A and discussion of the business should be informative and specific to a company and avoid uninformative boilerplate language.

## **Discuss long-term impacts of COVID-19**

While companies disclosed strategies to address liquidity in the near-term, such as incremental borrowing, refinancing and other options, there is also a need to disclose how COVID-19 will impact the longer-term aspects of a company.

## **Avoid misleading non-GAAP measures**

Any changes to non-GAAP items should be scrutinized for appropriateness by the company. Non-GAAP adjustments disclosed related to COVID should meet the following criteria:

- ▶ Directly attributable to COVID-19
- ▶ Incremental to COVID-19
- ▶ Non-recurring such that the incremental expense is not expected to become an ongoing expenditure as a result of COVID-19
- ▶ Any non-GAAP adjustments to Revenue will almost certainly receive a comment from the Staff



# COVID-19 IMPACT ON ACCOUNTING – GUIDANCE ISSUED

**Accounting standard-setters noted several key changes in guidance and hot topic areas that were extremely relevant as a result of COVID-19.**

## **Delayed guidance**

The FASB delayed the effective dates for companies that had not yet implemented key standards as a result of the strain on preparers caused by COVID-19. Key deferrals noted are as follows:

## **Reference rate reform**

Finalized and issued in March 2020 providing preparers the ability to bypass certain guidance related to the transition to LIBOR.

## **Troubled debt restructuring**

The FASB approved guidance included in the CARES Act that allowed for any loan modifications or restructurings that were considered to be short-term modifications as a result of COVID-19 to be exempted from troubled debt restructuring guidance. In order to qualify for this guidance, a company had to meet the following two criteria:

- ▶ The borrower was not more than 30 days past due as of December 31, 2019
- ▶ The modifications are related to arrangements that defer or delay the payment of principal or interest or change the interest rate on the loan

# COVID-19 ACCOUNTING HOT TOPICS (1 OF 2)

Panelists at the conference addressed several accounting hot topics that have been relevant as a result of COVID-19.

Accounting Topic	COVID-19 Accounting Considerations
<b>Revenue Recognition</b>	<ul style="list-style-type: none"><li>▶ Changes in expectations related to variable consideration (rebates, volumes, returns, bonuses, etc.).</li><li>▶ Evaluate modifications to contracts for accounting treatment changes to contracts include:<ul style="list-style-type: none"><li>▶ Extending payment terms</li><li>▶ Providing discounts</li><li>▶ Reducing quantities</li></ul></li><li>▶ Changes should be evaluated to determine if they should be recorded prospectively, retrospectively, or a change to allocation of transaction price that changes prospective recognition.</li></ul>
<b>Restructuring Costs</b>	<ul style="list-style-type: none"><li>▶ Severance related restructuring costs may have different timing of expense recognition depending on whether the termination is voluntary, involuntary in accordance with a pre-existing plan or set of conditions, or involuntary with or without future service.</li></ul>
<b>Stock Compensation</b>	<ul style="list-style-type: none"><li>▶ Terminations and restructurings that impact the vesting or forfeiture of awards can result in stock option modifications. Option modifications may require a remeasurement of fair value, an acceleration of comp expense or a potential reversal of comp expense if awards are forfeited.</li></ul>

## COVID-19 ACCOUNTING HOT TOPICS (1 OF 2)

Accounting Topic	COVID-19 Accounting Considerations
<p><b>Leases</b></p>	<ul style="list-style-type: none"> <li>▶ FASB issued guidance related to COVID-19 rent concessions to treat them as though they were part of the original contract and do not represent a modification.</li> <li>▶ Changes to leases may qualify as contract modifications and adjustments to lease liabilities.</li> <li>▶ Assessment of ROU Assets for impairment may be necessary. COVID-19 is likely a triggering event and an impairment analysis will need to be performed. Impairment assessments will need to reflect updated projections and appropriate application of the ASC 360 impairment test at the appropriate asset grouping level.</li> </ul>
<p><b>Financing Transactions</b></p>	<ul style="list-style-type: none"> <li>▶ Debt restructurings may qualify as troubled debt restructurings (“TDR”), which require evaluation of whether a borrower is experiencing financial difficulty and a concession has been granted. The concession test is specifically prescribed in the guidance as and evaluation of the change in the lender’s return on the loan. Certain short term payment deferrals for COVID-19 are exempt from that guidance.</li> <li>▶ Debt restructurings that are not TDR’s should be evaluated for modification or extinguishment, which involves the 10% cash flow test.</li> </ul>
<p><b>CARES Act</b></p>	<ul style="list-style-type: none"> <li>▶ Government assistance should be reviewed for its substance to determine the appropriate GAAP; whether it is a loan, an advanced payment, or a tax incentive that may impact deferred tax balances.</li> <li>▶ If government assistance is in form a grant, analogy to IAS 20 for grant accounting may be appropriate. Determination of the expectation of whether the grant has been earned will be critical to the accounting treatment.</li> </ul>

## Polling Question #2

How would you assess your company's implementation of the new accounting standards (leases and revenue recognition)?

- A. Complete and all tools related to implementation are running well
- B. Mostly complete, but still have more manual processes involved than would like
- C. Lots of manual workarounds involved in financial reporting every period but getting to the right answer
- D. Finding new issues every reporting period
- E. Not applicable



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**ACCOUNTING UPDATE – FASB  
AGENDA AND OFFICE OF THE  
CHIEF ACCOUNTANT**

## FASB – STANDARD SETTING AGENDA

**The FASB Technical Director, Hilary Salo, presented an update on the FASB's current technical agenda. Key items noted:**

- ▶ Recently issued ASU 2020-06 related to Debt with conversion and other options, which eliminated the need to bifurcate cash conversion and beneficial conversion features that were not required to be bifurcated as embedded derivatives.

### **Highlights of the current upcoming agenda:**

- ▶ Proposed ASU on the recognition and measurement of revenue contracts under Topic 805.
  - ▶ This proposed ASU would effectively remove the need to remeasure deferred revenue acquired in a business combination.
- ▶ Proposed Goodwill ASU trigger events, private company only.
  - ▶ This ASU, which was issued for comment before the end of 2020, would require private companies to only assess goodwill for impairment at the annual impairment date and ignore the impact of triggering events throughout the year.
- ▶ Accounting for goodwill – the FASB staff is currently looking at potential options for the ongoing accounting for goodwill, such as moving to an amortization and impairment model.
- ▶ Segment reporting – the FASB staff is currently researching options that would require additional disclosure of significant expense items that are regularly reviewed by the CODM.

## SUMMARY OF OCA SPEECHES

- ▶ Annually, the Office of the Chief Accountant (“OCA”), reviews a number of representative consults highlighting key issues and trends.
- ▶ Typically, the “speeches” represent non-authoritative GAAP and an indication of what the SEC considers best practice.
- ▶ The speeches are archived and available to the public at <https://www.sec.gov/news/speeches>

**In addition to the typical accounting consultations, the Staff highlighted several other topics they had observed during the year. Key issues noted were:**

- ▶ **Implementation of Critical Audit Matters (“CAMs”)** – Continued emphasis on avoiding boilerplate language, found that company specific disclosures related to specific inputs are most informative.
  - ▶ PCAOB has issued a report and two whitepapers related to CAMs implementation.
- ▶ **Auditor Independence** – New recommendations for auditor independence rules focus on prevention of violations, including developing internal processes to monitor services, update affiliates and early discussion with auditors if a private company intends to go public.

The SEC staff also emphasized a desire to work with preparers in determining appropriate accounting answers and encouraged consultations as needed.

## KEY TOPICS COVERED BY OCA SPEECHES



### REVENUE RECOGNITION

- ▶ Principal vs. Agent
- ▶ 2 speeches addressed principal vs. agent
- ▶ Emphasis on **control** highlighted
- ▶ Focus on **substance of transactions**
  - ▶ Digital ad broker who placed ads on publishers through an auction process
    - ▶ Momentary possession of the ad space as a result of auction
    - ▶ Lack of control as the company is not able to obtain substantial economic benefit of ad space
    - ▶ Company acting as Agent
  - ▶ Commodity seller who sourced from a related party
    - ▶ Took possession and title of product
    - ▶ Ability to redirect product
    - ▶ Did not believe assumed inventory risk because of insurance policy protecting against loss
    - ▶ Determined to be acting as Principal, regardless of insurance policy



## KEY TOPICS COVERED BY OCA SPEECHES, CONT'D



### STATEMENT OF CASH FLOWS

(Gross or Net Presentation)

- ▶ Company was purchasing fixed assets from a customer, presented within Investing activities
- ▶ Company considered examples in the guidance where amounts were large and had quick turnover which indicated that net presentation would be preferable
- ▶ Staff ultimately concluded that cash flows should be shown gross related to customer cash receipts and payments to customer for fixed assets; general presumption that companies should present gross



### EQUITY METHOD INVESTMENT

- ▶ Focus on all aspects of investment arrangement
- ▶ Consider board control and managerial influence in application of equity method guidance
  - ▶ Company held less than 20% of the outstanding voting stock
  - ▶ Also had a contractual arrangement with other investors to vote in concert on members of the Board
  - ▶ Arrangement allowed for influence over a majority of the board of directors
  - ▶ Also shared managerial personnel with investee
  - ▶ Company focused on lack of voting interests; however the SEC considered the totality of the facts indicated the Company had significant influence and should apply equity method accounting

## KEY TOPICS COVERED BY OCA SPEECHES, CONT'D



### RIGHT OF USE ASSET (“ROUA”) IMPAIRMENT

- ▶ Consider application of appropriate guidance in impairment of ROUA
- ▶ Impairment of ROUA’s is considered under existing impairment guidance in ASC 360 per the lease standard
  - ▶ Company had identified leases for abandonment
  - ▶ Applied ASC 360 recoverability test at the asset group level, no impairment indicated
  - ▶ As no impairment indicated, the Company changed the amortization period to reflect the expected pattern of use of the ROUA



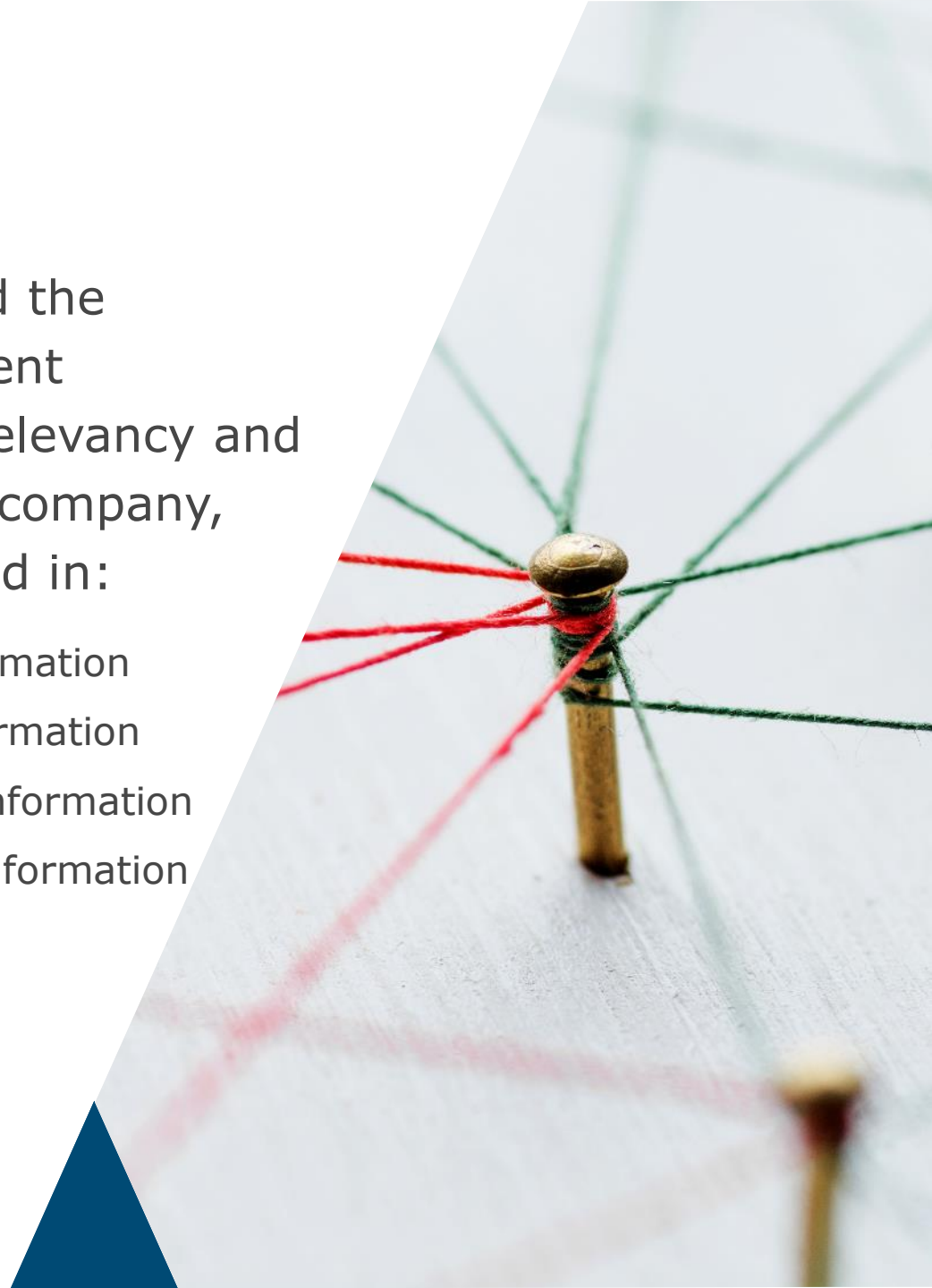
### IDENTIFICATION OF PERFORMANCE OBLIGATIONS

- ▶ Combination of software license and updates to the license as one performance obligation
  - ▶ Significant consideration given to the nature of the license and updates as impact can be material
  - ▶ Consultation focused on a data analytics platform that required updates from the manufacturer that updated the underlying software, connections to other data sources, connections to third party sources
  - ▶ As the updates were considered critical to functionality of the software, considered to be one performance obligation

## Polling Question # 3

The SEC has recently “eased the burden” on financial statement preparers while improving relevancy and impact to readers. For your company, this focus of the SEC resulted in:



- A. Less effort, better quality information
- B. More effort, better quality information
- C. Same effort, same quality of information
- D. More effort, worse quality of information
- E. Not applicable/Other





# SEC MATTERS

# IMPACT ON SIGNIFICANCE TEST AND PRO FORMA INFORMATION

 <b>INCOME TEST</b>	<ul style="list-style-type: none"><li>▶ Now has a revenue component</li></ul>
 <b>INVESTMENT TEST</b>	<ul style="list-style-type: none"><li>▶ Public Companies will use an “aggregated worldwide market value” (AWMV) as the denominator</li><li>▶ The AWMV is calculated using the last five trading days of the registrant’s most recently completed month-end. These five days are prior to the earlier of the registrant’s announcement of the transaction or the execution date of the parties’ agreement</li><li>▶ A registrant’s total assets will be used when its common equity is not publicly traded, including for the purposes of an initial public offering</li></ul>
 <b>ASSET TEST</b>	<ul style="list-style-type: none"><li>▶ No changes</li></ul>
 <b>PRO FORMA FINANCIAL STATEMENTS</b>	<ul style="list-style-type: none"><li>▶ Synergies now optional</li><li>▶ Three adjustment categories:<ul style="list-style-type: none"><li>▶ Transaction Accounting Adjustments</li><li>▶ Autonomous Entity Adjustments and</li><li>▶ Management adjustments</li></ul></li><li>▶ Non-recurring concept for income statement</li></ul>

Click [here](#) to learn more.

# AMENDMENTS TO MD&A, SELECTED AND SUPPLEMENTARY FINANCIAL INFORMATION

## NOVEMBER 19, 2020

SECTION	PREVIOUS RULE	NEW RULE
Contractual obligations table	Required in tabular format by certain registrants	Not required in tabular format, but must disclose material cash requirements from known contractual and other obligations
Selected financial data	Required for last five years for certain registrants	Not required, but encouraged for years prior to financial statement periods, if valuable
Selected quarterly financial data	Required for each quarter for last two years, variances and effect of disc ops and infrequent/unusual items	Not required, unless a material retrospective change for any prior quarters in past two years
Interim results of operations	Required quarter- to-date and comparative prior year quarter	Comparative quarter can instead be immediately preceding quarter
Net sales and revenues – results of operations	Focus discussion on increases	Focus discussion on changes, both quantitatively and qualitatively

Click [here](#) to learn more.

# SEC RULE AMMENDMENT

## Financial Disclosures about guarantors and issuers of guaranteed securities and affiliates whose securities collateralize a registrant's securities (2020-52)

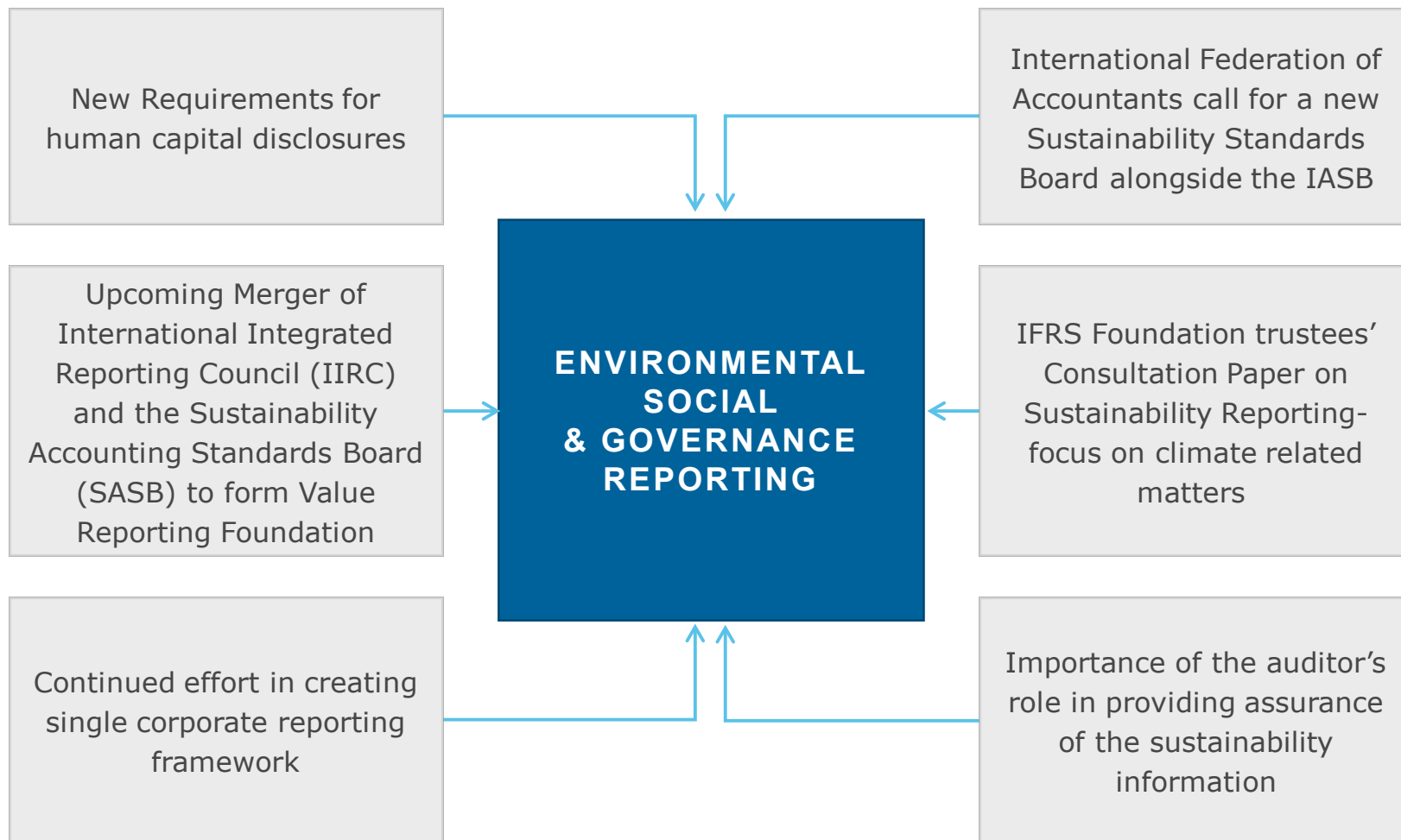
<b>EFFECTIVE DATE</b>	<ul style="list-style-type: none"><li>▶ January 4, 2021</li></ul>
<b>SCOPE</b>	<ul style="list-style-type: none"><li>▶ Greater population</li><li>▶ E.g. – Previously a subsidiary issuer or guarantor had to be 100% owned by parent, whereas now a consolidated subsidiary alone can be provided this accommodation</li></ul>
<b>FORM AND CONTENT</b>	<ul style="list-style-type: none"><li>▶ Less periods</li><li>▶ Presented outside F-pages</li><li>▶ Summarized financial information instead of condensed consolidating tables</li><li>▶ More non-financial disclosures – i.g. information about issuer, guarantor, terms, structure</li></ul>



# OTHER HOT TOPICS



# ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) PRACTICES AND DISCLOSURES



# AUDITOR INDEPENDENCE

The PCAOB noted four specific areas of focus related to auditor independence requirements:



- ▶ SEC issued final amendment to Rule 2-01 to modernize its independence requirements was issued in October 2020
  - ▶ Focus on auditor independence considerations related to relationships and services that are most likely to affect an auditor's objectivity and impartiality
- ▶ Targeted amendments to PCAOB's interim independence standards and rules to align its independence requirements with SEC's final amendments

# INTERNAL CONTROLS OVER FINANCIAL REPORTING

Consider how the move to a remote workforce may have introduced additional business risks to entities

Evaluate whether changes in the working environment and to business risk will affect ICFR and whether enhanced disclosures are necessary

Must disclose in quarterly or annual filings any changes to internal controls that materially affect, or are reasonably likely to materially affect ICFR



**Perform thorough evaluations to determine whether changes in internal control are material**

## Polling Question #4

Have you experienced changes in internal control structure as the result of COVID-19?

- A. Major changes in internal controls structure
- B. Some modifications to key controls
- C. Minimal changes
- D. N/A - private company
- E. Not applicable



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**Q&A**

## ADDITIONAL RESOURCES

### Related Thought Leadership

[Five Common Mistakes Companies Make When Addressing a Material Weakness](#)

[Audit Readiness Checklist](#)

[SEC Updates Financial Disclosure Requirements for Acquisitions and Dispositions](#)

[Key Takeaways from the 2020 AICPA Annual Conference](#)

View additional insights [\*\*HERE\*\*](#)

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