BerryDunn

Recently Issued Accounting Pronouncements

Financial services

Last review date: June 13, 2023, through ASU No. 2023-02

Legend

P - Public business entity that meets the definition of an SEC filer
PBE - All other public business entities
NP - All other entities

Accounting Pronouncements Issued Since Last Quarter

Accounting Standards Update	Highlights	Effective Dates
2023-01, Leases (Topic 842)	The ASU addresses two distinct issues resulting from Accounting Standards Codification (ASC) Topic 842: (1) terms and conditions to be considered in common control arrangements and (2) accounting for leasehold improvements in common control arrangements. *Issue 1: Terms and Conditions to be Considered* ASC 842 requires entities to classify and account for a lease arrangement based on the legally enforceable terms and conditions of the lease. ASU No. 2023-01 provides a practical expedient for private companies and not-for-profit entities that are not conduit bond obligors to use the written terms and conditions of a common control arrangement. The written terms and conditions may be used to determine: (1) whether a lease exists and, if so (2) the classification of and accounting for that lease. If no written terms and conditions exist, the practical expedient is prohibited from being applied and the entity must use the arrangement's legally enforceable terms and conditions. This practical expedient may be applied on an arrangement-by-arrangement basis. **This practical expedient is available to all entities that are not: (1) public business entities; (2) not-for-profit conduit bond obligors; and (3) employee benefit plans that file or furnish financial statements with or to the US Securities and Exchange Commission.** *Issue 2: Accounting for Leasehold Improvements* ASC 842 generally requires that leasehold improvements have an amortization period consistent with the shorter of the useful life of those leasehold improvements and the remaining lease term. In practice, these common control arrangements are typically short-term in nature and therefore this amortization approach is not representative of the economics of the leasehold improvements associated with common control arrangements. Under ASU No. 2023-01, lessees will amortize leasehold improvements over the useful life of the improvements to the common control group, regardless of the lease term, as long as the lessee controls the use of the underlying asset through a lease. If the lessor obtained the right to control the use of the underlying asset through a lease with another entity not within the same common control group, the amortization period may not exceed the amortization period of the common control group.	**P/PBE/NP:** Fiscal years beginning after December 15, 2023, including interim periods within those fiscal years Early adoption is permitted.

2023-02, Investments – Equity Method and Joint Ventures (Topic 323)	ASU No. 2014-01 previously introduced the option to apply the proportional amortization method to account for investments made primarily for the purpose of receiving income tax credits and other income tax benefits when certain requirements are met; however, this guidance limited the proportional amortization method to investments in low-income-housing tax credit structures. The proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other benefits received, with the amortization of the investment and the income tax credits being presented net in the statements of income as a component of income tax expense. Equity investments in other tax credit structures are typically accounted for using the equity method, which results in investment income, gains and losses, and tax credits being presented gross on the statements of income in their respective line items. ASU No. 2023-02 permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met.	**P/PBE:** Fiscal years beginning after December 15, 2023, including interim periods within those fiscal years **NP:** Fiscal years beginning after December 15, 2024, including interim periods within those fiscal years Early adoption is permitted.

Previously Issued Accounting Pronouncements

Accounting Standards Update	Highlights	Effective Dates
2016-13, Financial Instruments – Credit Losses (Topic 326)	Under the new guidance, which will replace the existing incurred loss model for recognizing credit losses, organizations will be required to recognize the full amount of expected credit losses. The new guidance, which is referred to as the current expected credit loss model, requires that expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost be measured and recognized based on historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. A modified version of these requirements also applied to debt securities classified as available-for-sale.	**Pursuant to ASU No. 2019-10:** **P*:** Fiscal years beginning after December 15, 2019, including interim periods within those fiscal years **PBE/NP:** Fiscal years beginning after December 15, 2022, including interim periods within those fiscal years *Excludes entities eligible to be SRCs as defined by the SEC Early adoption is permitted.
2020-04, Reference Rate Reform (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*	The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this ASU only apply to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform.	**P/PBE/NP:** As of March 12, 2020, through December 31, 2022*. *As a result of ASU No. 2022-06, this date was extended to December 31, 2024.

2022-01, Derivatives and Hedging (Topic 815)	The ASU was issued in response to requests by entities and practitioners following the issuance of ASU No. 2017-12. Among other things, the ASU expands on the "last-of-layer" hedging method by allowing multiple hedged layers to be designated for a single closed portfolio of financial assets or one or more beneficial interests secured by a portfolio of financial instruments. As a result, an entity may be able to achieve hedge accounting for hedges of a greater proportion of its interest rate risk inherent in the assets included in the closed portfolio, further aligning hedge accounting with risk management strategies. The "last-of-layer" method has thus been renamed the "portfolio layer" method. The ASU also allows an entity to reclassify debt securities classified in the held-to-maturity category at the date of adoption of the ASU to the available-for-sale category. However, this reclassification may only occur if the entity applies portfolio layer method hedging to one or more closed portfolios that include those debt securities. The decision of which securities to reclassify must be made within 30 days after the date of adoption, and the securities must be included in one or more closed portfolios that are designated in a portfolio layer method hedge within that 30-day period.	**P/PBE:** Fiscal years beginning after December 15, 2022, including interim periods within those fiscal years **NP:** Fiscal years beginning after December 15, 2023, including interim periods within those fiscal years Early adoption is permitted for those entities that have adopted ASU No. 2017-12 for the corresponding period.
2022-02, Financial Instruments – Credit Losses (Topic 326)	The ASU eliminates the current troubled debt restructuring accounting guidance within ASC Subtopic 310-40 in its entirety. After adoption of the ASU, financial institutions will evaluate whether a loan modification represents a new loan or a continuation of an existing loan, in accordance with current ASC guidance (ASC 310-20-35-9 through 35-11). The ASU also modifies disclosure requirements. Rather than disclosing information on troubled debt restructurings, financial institutions will now be required to disclose information on loan modifications that were in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof) made to debtors experiencing financial difficulty. Lastly, the ASU amends ASC 326-20-50-6 to require public business entities to disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases within the scope of ASC Subtopic 326-20.	**P/PBE/NP:** Fiscal years beginning after December 15, 2022, including interim periods within those fiscal years Early adoption is permitted for those entities that have adopted ASU No. 2016-13. An entity may elect to early adopt the amendments about troubled debt restructurings and related disclosure changes separately from the amendments related to vintage disclosures.