



Financial Institutions Roundtable

A complimentary webinar series for financial institutions.

Accounting and Auditing Update

June 24, 2015

Presented by: **David Wood, Partner, Porter Keadle Moore**

Agenda



- ▲ Accounting Update
- ▲ Project Update
- ▲ Auditing Update

Intangibles – Goodwill and Other



ASU 2014-02	Accounting for Goodwill – a consensus of the Private Company Council
Scope	All entities except public business entities, not-for profit entities, and employee benefit plans
Effective	Beginning after December 15, 2014 (Early adoption is permitted)
Highlights	Entities may elect to amortize goodwill over 10 years (or shorter if appropriate)

Receivables – Troubled Debt Restructurings by Creditors



ASU 2014-04	Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure
Scope	All creditors
Effective	Beginning after December 15, 2014 (Early adoption is permitted)
Highlights	Clarifies when an in-substance repossession or foreclosure of residential real estate collateral occurs (that is, when the creditor is deemed to have possession)

Acquisition of Other Real Estate



- ▲ **Creditor is deemed to have possession of residential real estate collateral and therefore must reclassify the loan as other real estate when either:**
 - 1) Creditor obtains legal title to the property upon completion of a foreclosure
 - Legal title may be obtained even if there is a right of redemption period for the borrower to reclaim the property by paying required amounts due
 - 2) Borrower conveys interest in property through deed in lieu of foreclosure or similar legal agreement
 - This agreement is completed when all agreed-upon terms and conditions have been satisfied by the borrower and the creditor

Acquisition of Other Real Estate



▲ Practice Points

- Most of the time legal title will be deemed to have transferred at sheriff's sale
- Does not apply to non-residential real estate foreclosures, though the concepts could be considered on a case-by-case basis for other collateral types

Polling Question #1



Revenue Recognition



ASU 2014-09	Revenue from Contracts with Customers
Scope	Contracts to sell goods, services, or a nonfinancial asset, excluding certain contracts, such as insurance and leases
Effective	PBE: Beginning after December 15, 2017 NON-PBE: Beginning after December 15, 2018 (Early adoption is permitted for non-PBE, but not before PBE effective date)
Highlights	Broad principles-based standard for recognizing revenue from contracts

Revenue Recognition



▲ Does not impact most financial services revenue

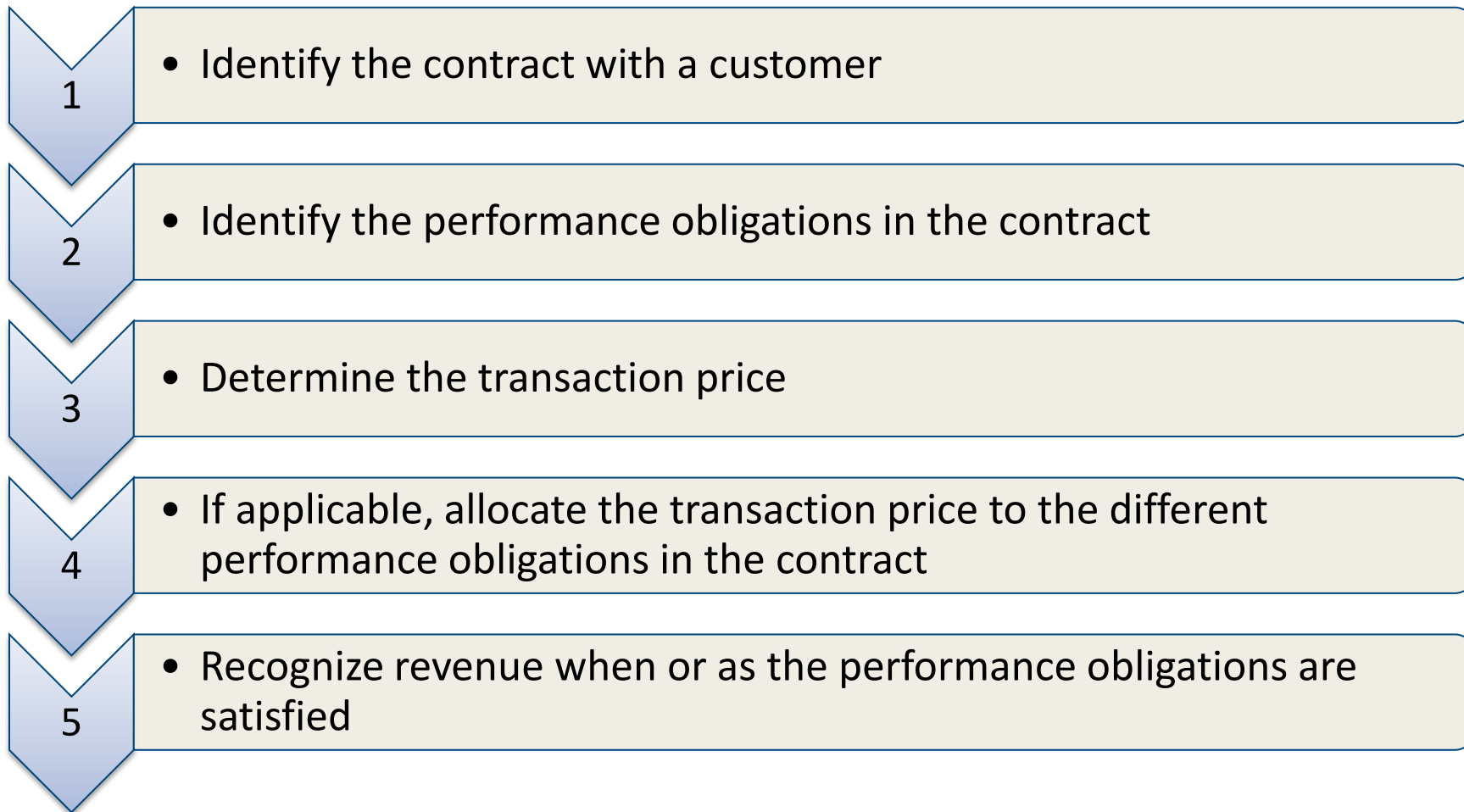
- Lending related fees (interest income, rebates on receivables, prepayment charges, delinquency charges, commitment fees, origination fees and costs)
- Mortgage servicing rights

▲ Will impact

- Other real estate sales
- Interchange revenue
- Credit card loyalty programs
- Fees and fee waivers

▲ AICPA industry task force

Revenue Recognition



Revenue Recognition



- ▲ **Certain criteria must be met, including:**
 - It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer
- ▲ **If this isn't met, amounts received are recognized as a liability (analogous to the deposit method)**
- ▲ **No provision to recognize revenue over time if property is transferred (e.g., installment method)**

Transfers and Servicing



ASU 2014-11	Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures
Scope	Entities with repurchase transactions/financings
Effective	Beginning after December 15, 2014 (Early adoption is generally NOT permitted)
Highlights	Consistent accounting for all repurchase transactions/financings (generally secured borrowing transactions) Two new disclosure requirements

Repurchase Agreements



▲ New disclosure requirements

- Agreements qualifying for sale treatment – information about the assets derecognized, proceeds received, and ongoing exposure
- Agreements accounted for as secured borrowings
 - Disaggregation of liability by class of collateral pledged
 - Remaining contractual maturity
 - Risks associated with the agreements (e.g., obligations arising from declines in fair value of collateral)

Receivables - TDRs



ASU 2014-14	Classification of Certain Government – Guaranteed Mortgage Loans Upon Foreclosure
Scope	Creditors with gov't-guaranteed mortgage loans
Effective	PBE: Beginning after December 15, 2014 Non-PBE: Ending after December 15, 2015 (Early adoption is permitted if the entity has adopted ASU 2014-04)
Highlights	Clarifies accounting when an institution receives property that will be conveyed to a government agency as part of a guarantee claim

Certain Government-Guaranteed Loans



- ▲ Applies to residential mortgage collateral
 - FHA
 - VA
- ▲ Loan is derecognized and other receivable is recognized when:
 - Loan has a gov't guarantee that is not separable
 - Creditor intends to convey property to guarantor
 - Amount of claim is fixed

Presentation of FS – Going Concern



ASU 2014-15	Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern
Scope	All entities
Effective	Annual periods ending after December 15, 2016 (Early adoption is permitted)
Highlights	Management should evaluate whether there are conditions or events to raise substantial doubt about going concern issues

Going Concern



- ▲ Management should evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern within one year **after the date that the financial statements are issued** (or available to be issued)
 - Standard provides definition of “substantial doubt” and principles to consider during evaluation

Going Concern



- ▲ If substantial doubt is raised, management then evaluates its mitigating plans
- ▲ Disclosures are required when substantial doubt is raised but is alleviated through management plans
- ▲ Different disclosures are required when substantial doubt is raised and not alleviated

Business Combinations



ASU 2014-18	Accounting for Identifiable Intangible Assets in a Business Combination -a consensus of the Private Company Council
Scope	Non-public business entities
Effective	Beginning after December 15, 2015 (Early adoption is permitted; Must also elect goodwill amortization alternative)
Highlights	Acquirers may elect not to separately recognize certain intangible assets in a business combination

Identifiable Intangible Assets



- ▲ Limited application to financial institutions since the following intangible assets must still be identified and recognized separately:
 - Mortgage servicing assets
 - Core deposit premiums
 - Customer information (e.g., names and contact information)

Interest – Imputation of Interest



ASU 2015-03	Simplifying the Presentation of Debt Issuance Costs
Scope	Entities with debt issuance costs
Effective	Beginning after December 15, 2015 (Early adoption is permitted)
Highlights	Debt issuance costs are to be presented as a reduction of the debt liability (consistent with debt discounts)

Accounting Update



▲ Other ASUs:

- ASU No. 2014-12: *Stock Compensation with Performance Targets*
- ASU No. 2015-01: *Extraordinary Items*
- ASU No. 2015-02: *Amendments to Consolidation Analysis (for VIEs)*
- ASU No. 2015-08: *Pushdown Accounting*



Project Update

Financial Instruments



▲ Classification and Measurement

- FASB has decided to retain current fair value option with certain modifications related to accounting for entity's own credit risk for liabilities measured at FV
- FASB has decided to retain current U.S. GAAP classifications and measurement models for financial instruments, except for certain equity investments

Financial Instruments



▲ Classification and Measurement

- Equity investments would be measured at fair value with changes in fair value recognized in net income (FVNI) (similar to current trading category)
 - Equity method investments would be excluded
 - Practicability exception when there is no readily determinable FV (will still have to adjust if you see an observable change in price.)

Financial Instruments



▲ Impairment

- Looks like there will be 2 impairment models:
 - CECL – Financial assets measured at amortized cost (loans, securities held to maturity)
 - Modified OTTI – Debt securities classified as available for sale
 - *Write downs due to OTTI will be charged to an allowance which could be reversed if credit quality improves*

Current Expected Credit Loss Model



▲ Impact of CECL on:

- ASC 450 (FAS 5) loans – Significant
- ASC 310-10 (FAS 114) impaired loans – Maybe not so much
 - Discounted cash flows and collateral values already used today
 - Methodologies may be expanded beyond impaired loans
- TDRs – Not much
- PCI (ASC 310-30) loans – Significant

Current Expected Credit Loss Model



▲ Methodologies

- Loss estimation methods may include:
 - Discounted cash flows
 - Loss rate methods
 - Probability-of-default methods
 - Provision matrix using loss factors
- New disclosures, too



Getting Ready for CECL



- ▲ Expected to be finalized in 2015
(likely 2016?)
- ▲ Effective date – ???
- ▲ Expect the transition will be a cumulative-effect adjustment to retained earnings
- ▲ Implementation guidance still to come



Getting Ready for CECL



▲ Begin Collecting Data

- How good is our data?
- What data should we collect? How far back?
 - Vintage analysis
 - Credit scores
 - Risk ratings
 - LTV ratios
 - Past due loans

Getting Ready for CECL



- ▲ Key challenges between now and implementation:
 - Gather appropriate data
 - Clean up data / new processes
 - Determine appropriate methodology(ies)
 - FASB and regulatory guidance



Other Projects



- ▲ Standards expected soon:
 - Leases



Auditing Update

PCAOB Auditing Update



AS No. 17	Auditing Supplemental Information Accompanying Audited Financial Statements
Scope	PCAOB audit with supplemental information accompanying audited financial statements
Effective	Fiscal years ending after June 1, 2014
Highlights	Specific audit procedures designed to support the auditor's reporting requirements to test the supplemental information

PCAOB Auditing Update



- ▲ Specifies audit procedures to be applied to test supplemental information
- ▲ Risk-based
- ▲ Requires procedures on the supplemental information to be “planned and performed” in conjunction with the audit work on the financial statement audit and other engagements (if applicable)

PCAOB Auditing Update



AS No. 18	Related Parties, Significant Unusual Transactions, and Other Amendments
Scope	All PCAOB audits
Effective	Fiscal years beginning after December 15, 2014
Highlights	Requires specific audit procedures when auditing related party and significant unusual transactions

PCAOB Auditing Update



- ▲ Specific procedures for the auditor's evaluation of a company's identification of, accounting for, and disclosure of relationships and transactions between the company and its related parties
- ▲ Specific procedures designed to improve the auditor's identification and evaluation of a company's significant unusual transactions and, in particular, to enhance the auditor's understanding of the business purpose (or the lack thereof) of such transactions

PCAOB Auditing Update



- ▲ Specific procedures, as part of the auditor's risk assessment process, to obtain an understanding of the company's financial relationships and transactions with its executive officers
 - Amendments do not require the auditor to make any determination regarding the reasonableness of compensation arrangements or recommendations regarding compensation arrangements
- ▲ New requirements relating to the auditor's communications with the audit committee

PCAOB Auditing Update



Release 2015-002	Reorganization of PCAOB Audit Standards
Scope	All PCAOB audits
Effective	In process
Highlights	Reorganize PCAOB standards by topics that generally follow the flow of the audit process



Questions?



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