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## Highlights of the CARES Act

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This publication was updated on September 18, 2020, to add disclosure considerations related to various provisions of the CARES Act. Text that has been added or amended since the publication's initial issuance has been marked with a ***boldface italic date*** in brackets. See the [appendix](#) for a list of affected sections.

### Overview

***[Section amended May 1, 2020]***

To date, the United States government has passed four primary pieces of legislation designed to help the nation's economy recover from the coronavirus disease 2019 ("COVID-19") pandemic.

The first is the [Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020](#) (enacted March 6, 2020), which provides \$7.8 billion in emergency funding for the development and manufacture of vaccines and other supplies; support to state, local, and tribal public health agencies; loans to affected small businesses; evacuations and emergency preparedness activities; and humanitarian assistance for affected countries. It also provides \$490 million for expanded telehealth options through the Medicare program.

The second is the [Families First Coronavirus Response Act](#) (enacted March 18, 2020), which is intended to give relief to individuals affected by COVID-19 by, for example:

- Giving state governments the flexibility to interpret unemployment insurance eligibility as well as \$1 billion in grants to pay for and process claims.

- Granting temporary emergency paid sick leave and paid family and medical leave for COVID-19-related reasons (primarily for employers with fewer than 500 employees and public agencies).
- Offering an employer payroll tax credit to offset the cost of paid leave.
- Increasing funding and expanding access to nutrition assistance for schools, low-income children, and seniors.
- Requiring private insurers, Medicare, and Medicaid to cover COVID-19 diagnostic testing at no cost and providing \$1 billion for uninsured individuals to receive access to free testing.

The third law (enacted March 27, 2020) is the [Coronavirus Aid, Relief, and Economic Security Act](#) (the “CARES Act” or the “Act”), which, from a monetary-relief perspective, dwarfs the prior two acts. The CARES Act provides \$2.2 trillion of economy-wide financial stimulus in the form of financial aid to individuals, businesses, nonprofit entities, states, and municipalities. Such stimulus includes emergency funding in the form of higher payments for hospitals that respond to COVID-19 by using existing mechanisms. The Act also increases the flexibility under various programs for the use of telemedicine.

Among the benefits intended primarily for individuals are clarifications to and expansions of the unemployment insurance provisions of the Families First Coronavirus Response Act. In addition, the CARES Act provides housing assistance, including mortgage forbearance, foreclosure relief, and eviction protection as well as direct payments to eligible individuals.



### Connecting the Dots

Several of the CARES Act’s provisions and programs are designed to assist small and large businesses and include billions of dollars in loan and grant allocations, regulatory relief for certain industries, and income tax relief. For most of those provisions, implementation action is required by the following agencies:

- *Small Business Administration* — See [Coronavirus \(COVID-19\): Small Business Guidance & Loan Resources](#).
- *U.S. Treasury* — [The CARES Act Works for All Americans](#).
- *Federal Reserve* — [COVID-19 resources](#).

The Federal Reserve has also taken actions under its authority in Section 13(3) of the Federal Reserve Act, with the approval of the U.S. Treasury Department, to provide up to \$2.3 trillion in loans to support the economy. For information about those actions, see the [Assistance to Small and Midsized Businesses and Nonprofit Entities \(Section 4003\)](#) discussion.

The fourth and most recent law (enacted April 24, 2020) is the [Paycheck Protection Program and Health Care Enhancement Act](#) (the “Enhancement Act”), which provides an additional \$484 billion in funding for CARES Act programs. This includes over \$321 billion of additional funding to support small businesses (of which \$60 billion is set aside for loans made by small banks, credit unions, minority-owned banks, and other small lenders); \$75 billion of additional funding for hospitals and health care providers; and \$25 billion for COVID-19 testing. The Enhancement Act generally does not change the terms of the programs under the CARES Act.

Titles I<sup>1</sup> and IV<sup>2</sup> of the CARES Act provide most of the economic support for American businesses. This *Heads Up* discusses key aspects of those titles and other significant sections and provisions of the CARES Act as supplemented by the Enhancement Act.

<sup>1</sup> CARES Act, Title I, “Keeping American Workers Paid and Employed Act.”

<sup>2</sup> CARES Act, Title IV, “Economic Stabilization and Assistance to Severely Distressed Sectors of the United States Economy.”

## Topics of Discussion

- Financial Instruments
  - Lending Initiatives
    - Loans and Other Support to Small Businesses
      - Paycheck Protection Program (Sections 1102 and 1106)
      - Entrepreneurial Development Programs (Section 1103)
      - Emergency Grants and Loans (Section 1110)
      - Subsidy for Certain Loan Payments (Section 1112)
    - Lending to Air Carriers and Businesses Critical to National Security (Section 4003)
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  - Debt Guarantee Authority (Section 4008)
  - Optional Temporary Accounting Relief
    - Application of TDR Guidance (Section 4013)
    - Adoption of CECL (Section 4014)
  - Mortgage Foreclosure Moratorium and Forbearance (Section 4022)
  - Regulatory Capital Relief for Banks (Section 4011)
- Income Taxes
  - Modifications to Limitations on Deductibility of NOLs (Section 2303)
  - Modifications to Limitations on Deductibility of Business Interest (Section 2306)
  - Alternative Minimum Tax Credit Acceleration (Section 2305)
  - Expensing of Qualified Improvement Property (Section 2307)
  - Other Tax Considerations
  - Interim Reporting Considerations
- Accounting Models for Government Assistance
  - Determination of the Appropriate Accounting Framework
  - IAS 20 Accounting Framework
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  - Revenue Transactions for Health Care Providers
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## Financial Instruments

### Lending Initiatives

The CARES Act appropriates \$876.3 billion for federal funding across three categories:

- An expansion of eligibility and other aspects of lending programs and grants administered by the Small Business Administration (\$376.3 billion).
- Grants and direct lending dedicated to specific nonfinancial industries, such as the airline and national security sectors (\$46 billion).
- Funding available to businesses, states, and municipalities through lending programs administered by the Federal Reserve Board (\$454 billion).

These programs authorize the Secretary of the U.S. Treasury Department and the Small Business Administration to make or facilitate loans, loan guarantees, and other investments in support of eligible businesses, states, and municipalities.

The Enhancement Act adds another \$321.3 billion of funds for lending programs and grants administered by the Small Business Administration. **[Paragraph added May 1, 2020]**

### Loans and Other Support to Small Businesses

The CARES Act addresses various programs that are intended to provide loans and other support to small businesses, including:

- *Paycheck Protection Program (Sections 1102 and 1106)* — Sections 1102 and 1106 of the CARES Act amend Section 7(a) of the Small Business Act (SBA) to create a new program that provides for up to \$349 billion in funding to small businesses through federally guaranteed loans. An additional \$310 billion was allocated under the Enhancement Act. **[Paragraph amended May 1, 2020]**
- *Entrepreneurial Development Programs (Section 1103)* — Section 1103 provides for a series of grants totaling \$275 million that are available to small businesses and their employees.
- *Emergency Grants and Loans (Section 1110)* — This program allocates up to \$10 billion for the expansion of the SBA's existing Economic Injury Disaster Loan (EIDL) program. An additional \$10 billion was allocated under the Enhancement Act. **[Paragraph amended May 1, 2020]**
- *Subsidy for Certain Loan Payments (Section 1112)* — This program allocates up to \$17 billion to pay principal and interest on certain SBA loans.

### Paycheck Protection Program (Sections 1102 and 1106)

**[Section last amended July 8, 2020]**

The Paycheck Protection Program (the “PPP”) is one of the centerpieces of the CARES Act. The provisions of the CARES Act addressing the PPP were amended by the Paycheck Protection Program Flexibility Act of 2020, which was signed into law on June 5, 2020. Overseen by the U.S. Treasury Department, the PPP offers cash-flow assistance to certain nonprofit and small business employers through guaranteed loans for expenses incurred between February 15, 2020, and December 31, 2020. Generally, the maximum loan amount per qualified borrower is the lesser of (1) 250 percent of average monthly payroll costs (e.g., salaries and wages up to \$100,000 and benefits) during the previous one-year period plus the outstanding amount of any existing SBA loan made on or after January 31, 2020, that is being refinanced under the PPP<sup>3</sup> and (2) \$10 million.

<sup>3</sup> The CARES Act permits borrowers to refinance EIDLs made between January 31, 2020, and the date on which loans under the PPP are made available.

Eligible borrowers include any of the following that were in operation on February 15, 2020:

- Businesses, including nonprofit organizations under Internal Revenue Code (IRC) Section 501(c)(3), veterans' organizations under IRC Section 501(c)(19), and tribal organizations, that have 500 or fewer employees (or the Small Business Administration's employee-based or revenue-based industry size standard, if higher).
- Businesses in the food and accommodations industry (as defined in NAICS 72<sup>4</sup>) with 500 or fewer employees **per location**.
- Sole proprietors, independent contractors, and self-employed individuals.

The Small Business Administration generally aggregates affiliated businesses when determining eligibility for SBA programs. The CARES Act waives certain affiliation rules for SBA programs but does not remove all the affiliate restrictions. Therefore, subsidiaries of larger companies and private equity portfolio companies should consider consulting with their professional advisers to determine whether they qualify for this program.

Under the PPP, borrowers must certify that all of the following apply:

- The uncertainty of current economic conditions makes the loan necessary to support ongoing operations. Note that the Small Business Administration has clarified that to meet this condition, borrowers must "[take] into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business." See the Small Business Administration's [frequently asked questions](#) on PPP loans (PPPLs) for additional information.
- The funds will be used to (1) retain workers and maintain payroll and group health care benefits or (2) make certain interest, rent, or utility payments.
- The business did not receive an SBA Section 7(a)<sup>5</sup> loan between February 15, 2020, and December 31, 2020, for the same expenses.

The significant terms of PPPLs are as follows:<sup>6</sup>

- Fixed interest rate of 1 percent per annum.
- Minimum maturity date of five years, with the ability to prepay earlier with no fees.
- Ability to have a substantial portion of the principal amount forgiven.
- Deferral of repayments until the date on which the amount of forgiveness under Section 1106 of the CARES Act is determined.
- Waiver of "credit elsewhere" requirement.<sup>7</sup>
- No collateral or personal guarantees required.
- No borrower fees charged to obtain such loans.

Under Section 1106 of the CARES Act, borrowers are eligible for forgiveness of principal and accrued interest on PPPLs to the extent that the proceeds are used to cover eligible payroll costs, interest costs, rent, and utility costs over a period of up to 24 weeks after the loan is made as long as certain conditions are met regarding employee retention and compensation levels. However, no more than 40 percent of loan forgiveness may be attributable to nonpayroll costs. Further, the forgiven amount may be reduced on the basis of reductions in

<sup>4</sup> North American Industry Classification System Code 72, "Accommodation and Food Services."

<sup>5</sup> As stated on the Small Business Administration's [Web site](#), its Section 7(a) loan program is its "primary program for providing financial assistance to small businesses. The terms and conditions, like the guaranty percentage and loan amount, may vary by the type of loan." The PPP is a new Section 7(a) loan option.

<sup>6</sup> The Small Business Administration has also issued an [interim final rule](#) and an [FAQ document](#) that provide more information on PPPLs.

<sup>7</sup> The [requirement](#) that a borrower "[u]se alternative financial resources . . . before seeking financial assistance" is often referred to as the credit elsewhere requirement.

employees or wages. However, to encourage entities to rehire employees who were laid off because of COVID-19, the program does not penalize borrowers that meet certain conditions. In addition, loans qualifying for forgiveness will not be included in the borrower's taxable income. Borrowers under this program may not be eligible for the employee retention tax credits or payroll tax deferral discussed below.

PPPLs will be made by existing lenders approved under Section 7(a) of the SBA and other lenders as allowed under the CARES Act. Lenders making these loans will be paid a fee of 1–5 percent of the loan amount by the Small Business Administration on the date the loans are made. The Small Business Administration provides a 100 percent guarantee on such loans, which is an increase to the existing guarantee percentages under current SBA loan programs. In the event that a lender sells a PPPL on the secondary market, the guarantee will transfer with the loan.

Lenders will generally be held harmless if they rely on documentation that borrowers submit to support loan forgiveness. Section 1106 of the CARES Act indicates that any lender or purchaser of PPPLs may report to the Small Business Administration an expected forgiveness amount, and the Small Business Administration will purchase the expected forgiveness amounts, plus any interest accrued to date, within 15 days after such requests are received. In the absence of receiving advances for expected forgiveness amounts, lenders or purchasers of PPPLs are expected to be paid the forgiven amounts from the Small Business Administration within 90 days of their submission of supporting documentation and will also receive interest accrued up to the payment date.

Section 1102(a) of the CARES Act also provides guidance for investors in PPPLs regarding the risk weights on PPPLs for regulatory capital purposes. In addition, it provides temporary relief from the application of the accounting guidance in ASC 310-40<sup>8</sup> by insured depository institutions or insured credit unions that modify a PPPL associated with COVID-19-related difficulties in a troubled debt restructuring (TDR) that occurs on or after March 13, 2020.

Note that the Federal Reserve has established a Paycheck Protection Program Liquidity Facility (PPPLF) to facilitate lending to small businesses via the PPP. Under the PPPLF, the Federal Reserve will lend to depository institutions, banks, and other eligible entities that originate PPPLs under Section 1102 of the CARES Act. For more information, see the PPPLF [term sheet](#).

There are a number of accounting and reporting considerations that apply to borrowers and lenders (or investors) of PPPLs.

### ***Borrower Accounting Considerations***

#### ***[Section last amended July 8, 2020]***

There is no guidance in U.S. GAAP that specifically addresses the accounting by an entity that obtains a forgivable loan from a government entity. In the absence of specific guidance in U.S. GAAP, we believe that it is acceptable for borrowers to account for PPPLs as debt under ASC 470 on the basis of their legal form. We expect that if PPPLs are treated as debt instruments, borrowers would apply the interest method in ASC 835-30, which should take into consideration the payment deferrals allowed for these loans. Entities would not, however, impute additional interest on these loans by using a market rate even though the stated interest rate may be considered below market. Such determination would be made

<sup>8</sup> For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."



on the basis that ASC 835-30-15-3(e)<sup>9</sup> excludes such loans from the scope of ASC 835-30. However, a borrower applying debt accounting should be mindful of the guidance in ASC 405-20-40-1, which indicates that “a debtor shall derecognize a liability if and only if it has been extinguished.” In accordance with ASC 405-20-40-1(b), the portion of the principal payments to be forgiven on PPPLs would be extinguished for accounting purposes only when the “debtor is legally released from being the primary obligor under the liability.”

Alternatively, a borrower may consider whether it is appropriate to account for the PPPL it received as an in-substance government grant. See the [Accounting Models for Government Assistance](#) section for further discussion. For additional information on the accounting and reporting of PPPLs by the borrower, see Deloitte’s [Heads Up](#), “Accounting and Reporting Considerations for Forgivable Loans Received by Business Entities Under the CARES Act’s Paycheck Protection Program,” and the AICPA’s related technical question and answer ([TQA](#)).



### Disclosure Considerations

**[Added September 18, 2020]**

As discussed in the TQA, “[n]ongovernmental entities with material PPP loans should adequately disclose their accounting policy for such loans and the related impact to the financial statements.” Such disclosures may include the following:

- The accounting policy applied to the borrower’s accounting for the PPPL, including the government grant model applied if the PPPL is not accounted for as debt, in accordance with ASC 235-10-50-1.
- The income statement line item(s) for which PPPL-related amounts are recognized. (Note that the income statement classification of government grants is not specifically addressed in U.S. GAAP. However, ASC 470-50-40-2 states that gains or losses on extinguishment of debt “shall be recognized currently in income of the period of extinguishment as losses or gains and identified as a separate item.”)
- The amount of any portion of a PPPL that has been forgiven or that may be forgiven in the future, as well as any risks and uncertainties related to amounts that have been or may be forgiven (see ASC 275).

In addition, SEC registrants should consider whether disclosures are warranted in their MD&A, including discussions of any risk factors (e.g., risks related to an entity’s eligibility for the PPPL and other uncertainties) and how the PPPL affects their liquidity (e.g., potential repayment of the loan or other concerns). Further, registrants should consider disclosing how the PPPL affects their ability to operate and whether they are at risk for being unable to continue to operate without the PPPL.

### Lender/Investor Accounting Considerations

We believe that lenders (investors) in PPPLs will account for them as loan receivables from the small business entity borrowers.<sup>10</sup> The 100 percent guarantee of principal and interest payments from the Small Business Administration appears to represent a guarantee embedded in the loan as opposed to a freestanding financial instrument. **[Paragraph amended May 1, 2020]**

<sup>9</sup> ASC 835-30-15-3 states, in part, that “[w]ith the exception of guidance in paragraphs 835-30-45-1A through 45-3 addressing the presentation of discount and premium in the financial statements, which is applicable in all circumstances, and the guidance in paragraphs 835-30-55-2 through 55-3 regarding the application of the interest method, the guidance in this Subtopic does not apply to . . . (e) [t]ransactions where interest rates are affected by the tax attributes or legal restrictions prescribed by a governmental agency (for example, industrial revenue bonds, tax exempt obligations, government guaranteed obligations, income tax settlements).”

<sup>10</sup> After a PPPL’s origination, a lender or investor may determine that the loan has met the conditions for forgiveness and becomes a loan receivable from the Small Business Administration. However, we believe that this determination would only affect presentation and disclosure. **[Footnote added May 1, 2020]**

Lenders of PPPLs that do not elect the fair value option (FVO) under ASC 825-10 should initially recognize such loans at the principal amount lent less the amount of fees received plus direct loan origination costs incurred that are capitalizable under ASC 310-20 (i.e., the initial “cost”). We believe that the amount of fees receivable from the Small Business Administration upon origination of these loans should be capitalized into the initial carrying amount of the loans as origination fees, as opposed to being recognized immediately in earnings as revenues. Investors purchasing PPPLs on the secondary market that do not elect the FVO under ASC 825-10 would initially recognize such loans at the amount paid to the seller plus any fees paid or less any fees received in accordance with ASC 310-20-30-5.

After initial recognition, lenders and investors in PPPLs that do not elect the FVO and that classify the loans as held for investment, as opposed to held for sale, would account for these loans at amortized cost and recognize interest income by using the interest method as discussed in ASC 310-20. The interest method should be applied on the basis of the initial carrying amount of the loans and the stated interest rates (i.e., there is no need to further impute interest). Since interest on the PPPLs is guaranteed by the Small Business Administration, the payment deferrals provided to borrowers would not be expected to affect the lender’s (investor’s) application of the interest method. Entities may, however, elect to estimate prepayments on PPPLs in their application of the interest method in accordance with ASC 310-20-35-26 through 35-32 (i.e., the prepayment method). We generally believe that when entities make such an election, each PPPL could be grouped into a single portfolio of PPPLs. Further, because PPPLs are a new loan product, entities will be able to elect, as an initial accounting policy choice, whether to apply the prepayment method under ASC 310-20 to these loans. However, before electing to apply the prepayment method, an entity should ensure that prepayments are probable and the timing and amount of prepayments can be reasonably estimable, as required by ASC 310-20-35-26. Entities that do not apply the prepayment method under ASC 310-20 must account for prepayments as they occur. We believe that under either method of accounting for prepayments, it is reasonable to conclude that amounts paid by the Small Business Administration on behalf of borrowers as a result of the forgiveness provisions of Section 1106 of the CARES Act represent prepayments. This is consistent with the interpretive guidance in the AICPA’s [TQAs](#) on the lender’s accounting for PPPLs. **[Paragraph amended July 8, 2020]**

Some originated PPPLs may include the refinancing of EIDLs. We believe that in these circumstances, entities will generally evaluate whether the existing EIDL has been modified or constitutes a new loan. It is expected that entities will conclude that the refinanced EIDL into the PPPL constitutes a new loan under ASC 310-20-35-9 through 35-11 because of the significant differences in terms between EIDLs and PPPLs (i.e., differences in interest rates, forgiveness provisions, and maturity dates). However, some refinancings of EIDLs into PPPLs could represent TDRs.

It would generally be appropriate for lenders and investors that do not elect the FVO to refrain from recognizing any allowance for credit losses on PPPLs since the Small Business Administration guarantees 100 percent of the principal and interest amounts on PPPLs. However, other loss provisions may be necessary if lenders incur losses as a result of loans originated or administered under this program (e.g., ineligible PPPLs disqualified, or inappropriate servicing activities identified, by the Small Business Administration). **[Paragraph amended May 1, 2020]**



Lenders and investors that choose to elect the FVO for PPPLs will initially and subsequently recognize the PPPLs at fair value, with changes in fair value reported in earnings. Those that choose to classify PPPLs as held for sale will initially recognize the loans at cost and subsequently recognize them at the lower of cost or fair value. If a lender or an investor is a public business entity that accounts for PPPLs as held for investment, it must disclose their fair values under ASC 820 even though the PPPLs are accounted for at amortized cost. Thus, the fair values of PPPLs will generally be a relevant consideration for lenders of and investors in these loans.

Fair value is determined under ASC 820. In accordance with ASC 820, an entity determines fair value on the basis of the amount that would be received on the measurement date in an orderly transaction with a market participant in the entity's principal or most advantageous market. Since market participants in the principal or most advantageous market for PPPLs would most likely be other PPPL lenders that would also demand fees for originating such loans, the election of the FVO will not necessarily allow lenders to immediately recognize in earnings the fees received from the Small Business Administration on origination of such loans.



### **Disclosure Considerations**

***[Added September 18, 2020]***

Lenders of PPPLs may consider disclosing the following matters regarding their participation in lending activities under this aspect of the CARES Act:

- The amount of PPPLs originated.
- The accounting for PPPLs (1) at amortized cost, (2) classified as held for sale, or (3) at fair value under the FVO. (Note that if the FVO is applied to these loans, the lender should consider the disclosures required by ASC 825-10.)
- The method used to initially and subsequently account for fees received or receivable from the Small Business Administration.
- The effect these loans have had or may have on the allowance for credit losses.

In a review of the Forms 10-Q filed for the second quarter of 2020 by 10 of the largest U.S. banks, we noted the following:

- All of the banks classified the PPPLs as held for investment.
- Nine of the ten banks disclosed the dollar amount of PPPLs originated. Two disclosed this information in the footnotes to the financial statements, whereas seven disclosed it only in MD&A.
- Five of the ten banks disclosed their accounting policy for recognition of fees received or receivable from the Small Business Administration. Two disclosed this information in the footnotes to the financial statements, whereas three disclosed it only in MD&A.
- Five of the ten banks disclosed the effect these loans had on the allowance for credit losses. Two disclosed this information in the footnotes to the financial statements, whereas three disclosed it only in MD&A.

## **Entrepreneurial Development Programs (Section 1103)**

Section 1103 of the CARES Act authorizes the Small Business Administration to provide grants to certain small business concerns that have been negatively affected as a result of COVID-19. The grants are to be used for educating, training, and advising the employees of those entities. Matching funds are not required for these grants. The CARES Act appropriates \$275 million that will be available for grants to small business development centers, women's business centers, associations representing resource partners in several languages other than English,

and minority business centers. Entities that receive grants under Section 1103 of the CARES Act would account for such monies received as government grants. See the [Accounting Models for Government Assistance](#) section for further discussion of considerations related to the accounting for government grants.

## Emergency Grants and Loans (Section 1110)

Section 1110 of the CARES Act allocates \$10 billion to the Small Business Administration for the expansion of its existing EIDL program by (1) relaxing the eligibility requirements under the program to allow participation by additional eligible entities that have suffered economic injury as a result of COVID-19 and (2) increasing the funding available to the Small Business Administration until the funding is expended. The total amount allocated under Section 1110 of the CARES Act was increased by \$10 billion under the Enhancement Act. The Small Business Administration will provide an initial emergency advance to eligible businesses of up to \$10,000 within days of receiving an application, and repayment of the advance is not required even if the applicant is ultimately denied an EIDL loan. Such initial advances will only be provided if the recipient intends to use the funds for allowable purposes (e.g., to maintain payroll to retain employees during business interruptions caused by the COVID-19 pandemic). **[Paragraph amended May 1, 2020]**

Amounts lent under EIDLs that exceed the initial advance are not forgivable and have terms that are consistent with the terms of EIDLs made under the Small Business Administration's existing authority. EIDLs of up to \$2 million are offered to certain small business concerns and nonprofit organizations located in declared disaster areas. They provide for repayment terms of up to 30 years, with maximum annual interest rates of 3.75 percent. An entity that obtains an EIDL under Section 1110 of the CARES Act is also eligible to obtain a PPPL under Section 1102 of the CARES Act provided that both loans are not used for the same purpose. If an entity obtains an EIDL and then refinances it into a PPPL, the amount of potential loan forgiveness under the PPPL is reduced by the advanced amount forgiven under the EIDL.

### *Borrower Accounting Considerations*

We believe that the amount of any advance of up to \$10,000 should be accounted for as a government grant as opposed to a loan. While Section 1110 of the CARES Act specifies the allowable use of these advances, there is no subsequent compliance requirement for recipients to retain such amounts (i.e., for the advances to be forgivable). Therefore, unlike the forgiveness provisions applicable to PPPLs, these advances appear to clearly represent government grants. With respect to the portion of EIDLs that exceeds the advance amount, borrowers should account for those loans by using the interest method under ASC 835-30 unless the FVO in ASC 825-10 is applied. In accordance with ASC 835-30-15-3(e), borrowers should recognize interest on the basis of the stated contractual terms, taking into account the stated repayment terms. Borrowers should not impute interest on the basis of market rates.

### *Lender Accounting Considerations*

Unlike PPPLs, EIDLs are made directly by the Small Business Administration; therefore, the accounting considerations focus on those of the borrower.

## Subsidy for Certain Loan Payments (Section 1112)

Section 1112 of the CARES Act allocates \$17 billion to the Small Business Administration for payment of six months of principal, interest, and fees on certain SBA loans that are not PPPLs.<sup>11</sup> For covered loans made before the enactment of the CARES Act, the six-month period begins on the date the next payment is due. For covered loans made during the period beginning on the date of enactment of the CARES Act and ending six months after the enactment date, the six-month period begins on the date the first payment is due.

<sup>11</sup> This does not include EIDLs; however, EIDLs may be refinanced into PPPLs that are forgivable.

Section 1112(d) of the CARES Act provides additional requirements instructing the Small Business Administration to do the following:

- (1) communicate and coordinate with the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and State bank regulators to encourage those entities to not require lenders to increase their reserves on account of receiving payments made by the Administrator under [Section 1112(c)];
- (2) waive statutory limits on maximum loan maturities for any covered loan durations where the lender provides a deferral and extends the maturity of covered loans during the 1-year period following the date of enactment of this Act; and
- (3) when necessary to provide more time because of the potential of higher volumes, travel restrictions, and the inability to access some properties during the COVID-19 pandemic, extend lender site visit requirements to —
  - (A) not more than 60 days (which may be extended at the discretion of the Administration) after the occurrence of an adverse event, other than a payment default, causing a loan to be classified as in liquidation; and
  - (B) not more than 90 days after a payment default.

### ***Borrower Accounting Considerations***

Because all borrowers with SBA loans subject to Section 1112 of the CARES Act receive the payment subsidies without regard to any specific evaluation of their financial condition, we do not believe that borrowers would have to account for the receipt of these subsidy payments as TDRs under ASC 470-60. If, however, there are other modifications made to these loans, the borrower would need to assess whether such modifications represent TDRs under ASC 470-60.

There is no guidance in U.S. GAAP that specifically addresses how a borrower should account for a payment subsidy like the one being provided under Section 1112 of the CARES Act. In the absence of specific guidance, there may be multiple views on the accounting by the borrower. Two potential views are as follows:

- *Modification accounting* — Given the nature of this program, a borrower is unlikely to view the original loan as having been extinguished under ASC 470-50 as a result of the receipt of payment subsidies from the government. However, a borrower may determine that it is appropriate to consider the loan to have been modified under ASC 470-50 and, therefore, to recalculate the stated interest yield on the loan by taking into account the payments of principal and interest that the Small Business Administration is making on the borrower's behalf. Under this approach, there would be no initial accounting consequence for these payment subsidies. Rather, the borrower would reflect the government assistance received by recognizing lower future interest costs on the loan. Additional consideration would be necessary in the unlikely situation in which this approach would result in negative future interest expense.
- *Government grant accounting* — A borrower may decide to account for the receipt of the payment subsidies as a government grant. A borrower applying this accounting should be mindful of the guidance in ASC 405-20-40-1, which indicates that “a debtor shall derecognize a liability if and only if it has been extinguished.” In accordance with ASC 405-20-40-1(b), the portion of the principal payments to be made by the Small Business Administration would be considered to have extinguished a portion of the total outstanding obligation only when the “debtor is legally released from being the primary obligor under the liability.” Thus, notwithstanding how the borrower accounts for the government grant, the borrower would not be allowed to derecognize a portion of the principal amount outstanding until the requirement in ASC 405-20-40-1(b) is met (i.e., the principal amounts on these loans should not be reduced for principal payments before those payments are made by the Small Business Administration). A borrower that applies this view would also need to consider the implications on the

statement of cash flows. See the [Accounting Models for Government Assistance](#) discussion for more information on government grant accounting.

There may be further discussions with standard setters and regulators regarding (1) acceptable accounting approaches that may be applied by borrowers that receive these payment subsidies and (2) the disclosures that should be made for borrowers that obtain these payment subsidies.

### ***Lender Accounting Considerations***

SBA loans subject to Section 1112 of the CARES Act are owned by either the bank (financial service company) that originated such loans or purchasers of such loans in the secondary market. Since the payment subsidies are available to all borrowers on such loans, we do not believe that the holder of the loans would account for the payment subsidies as TDRs regardless of the borrower's credit condition on the effective date of the CARES Act. In a manner consistent with the discussion in Section 1112(d)(1) of the CARES Act, we would also not expect this program to result in an increase in the allowance for credit losses.

We believe that it would be appropriate for holders of these SBA loans to account for the payments received from the Small Business Administration in the same manner as if they had been received from the borrowers. It would not be acceptable for the holders to accelerate the recognition of interest income as a result of these subsidies. However, to the extent that these payments are received before the payment due dates on the loans, holders that do not apply the FVO to the loans will need to consider how to incorporate such prepayments into their accounting under the interest method.

### ***Lending to Air Carriers and Businesses Critical to National Security (Section 4003)***

#### **Loans and Loan Guarantees**

Section 4003(b) of the CARES Act allocates \$46 billion for the U.S. Treasury Department to provide loans and loan guarantees for various entities (collectively, "Eligible Loan Participants") as follows:

- \$25 billion for (1) passenger air carriers; (2) eligible businesses certified to perform inspection, repair, replace, or overhaul services; and (3) ticket agents.
- \$4 billion for cargo air carriers.
- \$17 billion for businesses that are critical to national security.

The loans and loan guarantees are intended to be short-term (i.e., not longer than five years) and granted to companies that, according to the secretary of the U.S. Treasury Department, have losses that jeopardize continued business operations. Section 4003(c) states, in part, that any loans should be made at "a rate . . . based on the risk and the current average yield on outstanding marketable obligations of the United States of comparable maturity." Further, the principal amount of any such loans cannot be reduced for forgiveness. However, the CARES Act does not include any of the specific terms of such loans or loan guarantees, which will be determined by the U.S. Treasury Department at a later date.

To obtain a loan or loan guarantee, a borrower must also agree to adhere to the following terms and conditions in Section 4003(c)(2) of the CARES Act, among others:

- The loan must be necessary to support the ongoing operations of the recipient.
- Until September 30, 2020, the recipient must maintain its employment levels as of March 24, 2020, “to the extent practicable,” and in any case must not reduce its workforce by more than 10 percent of its March 24 levels.
- The borrower must be created or organized in the United States or under U.S. laws and have significant operations and a majority of employees in the United States.
- Credit is not reasonably available from other sources.
- The loan or loan guarantee must be sufficiently secured or at a rate that reflects the risk of the loan or loan guarantee.
- The borrower must not engage in stock buybacks (unless contractually obligated), capital distributions, or dividend payments while the loan or loan guarantee is outstanding and for one year thereafter.

Eligible Loan Participants will be subject to restrictions on executive compensation and severance payments.

In accordance with Section 4003(c)(1)(B) of the CARES Act, the Treasury Department issued a [procedures and requirements document](#),<sup>12</sup> which is intended to enable potential Eligible Loan Participants to prepare for submitting loan applications to the U.S. Treasury Department. The document indicates that the U.S. Treasury Department will promptly issue supplemental procedures to address the loans and loan guarantees made under this section of the CARES Act. In addition, the document specifies that in accordance with Section 4005 of the CARES Act, a borrower that is an air carrier must comply with requirements to maintain scheduled air transportation service that the secretary of the U.S. Treasury Department deems necessary to ensure services to any point served by the air carrier before March 1, 2020.

The accounting for loans or loan guarantees made under this aspect of the CARES Act will depend on the specific terms and conditions of such arrangements. However, it does not appear that the loans made under this section of the CARES Act would contain any government grant component that a borrower would need to account for separately. See below for further discussion of initial recognition by a borrower that obtains a loan under this section of the CARES Act. **[Paragraph amended May 1, 2020]**

## Financial Protection Provisions Related to Loans and Loan Guarantees

Section 4003(d) of the CARES Act contains financial protection provisions that apply to any loan or loan guarantee made to an Eligible Loan Participant under Section 4003(b) of the CARES Act. (Note that these financial protection provisions do not apply to lending arrangements under Federal Reserve programs discussed below.) These financial protection provisions require any Eligible Loan Participant to also issue a warrant, other equity interest, or senior debt instrument to the U.S. Treasury Department in conjunction with any loan or loan guarantee obtained.<sup>13</sup>

<sup>12</sup> *Procedures and Minimum Requirements for Loans to Air Carriers and Eligible Businesses and National Security Businesses Under Division A, Title IV, Subtitle A of the Coronavirus Aid, Relief, and Economic Security Act.*

<sup>13</sup> This is in addition to any such interests issued under Section 4117 of the CARES Act, which indicates that the U.S. Treasury Department “may receive warrants, options, preferred stock, debt securities, notes, or other financial instruments issued by recipients of financial assistance under [Subtitle B of the CARES Act] which, in the sole determination of the Secretary [of the U.S. Treasury Department], provide appropriate compensation to the Federal Government for the provision of the financial assistance.”

The terms and conditions of any warrant, equity interest, or senior debt instrument received from an Eligible Loan Participant must meet certain requirements, as specified in Section 4003(d)(2) of the CARES Act, including the following:

- The instrument allows for a reasonable participation by the U.S. Treasury Department for the benefit of taxpayers in equity appreciation of the issuer or a reasonable interest rate premium.
- The U.S. Treasury Department has the ability to sell, exercise, or surrender a warrant or any senior debt instrument received and will not exercise voting power with respect to any shares of common stock acquired.

### ***Borrower Accounting Considerations — Loans Obtained Under Section 4003(b) of the CARES Act***

In the absence of electing the FVO in ASC 825-10, an Eligible Loan Participant that obtains a loan under this program should account for it at amortized cost. Under amortized cost accounting, the initial amount recognized for the loan liability will be affected by any value attributable to warrants, equity interests, or senior debt instruments issued in conjunction with the loan. On the basis of the information available to date, as further discussed below, we believe that any warrants, equity interests, or senior debt instruments issued in conjunction with these loans will represent separate freestanding financial instruments (i.e., separate units of accounting). The examples below illustrate three potential scenarios involving the allocation of proceeds to the loans and related instruments issued under this program.

#### **Example 1**

##### **Loan Accounted for at Amortized Cost and Warrant Classified in Equity**

Entity A obtains a \$100 million loan under Section 4003(b) of the CARES Act and, in conjunction with the loan, issues a warrant on its common stock. Assume that A accounts for the loan at amortized cost and classifies the warrant in stockholders' equity.

Entity A should allocate the \$100 million of proceeds received between the loan liability and the warrant on a relative fair value basis in accordance with ASC 470-20-25-2. For further discussion of the relative fair value method of allocation, see [Section 3.3.4.3](#) of Deloitte's *A Roadmap to Distinguishing Liabilities From Equity*.

Note that the same relative fair value method of allocation would apply if, instead of issuing an equity-classified warrant, A had issued common stock or preferred stock that is classified in equity.

#### **Example 2**

##### **Loan Accounted for at Amortized Cost and Warrant Classified as a Liability**

Entity B obtains a \$100 million loan under Section 4003(b) of the CARES Act and, in conjunction with the loan, issues a warrant on its common stock. Assume that B accounts for the loan at amortized cost and classifies the warrant as a liability instrument that is subsequently measured at fair value, with changes in fair value reported in earnings.

Entity B should allocate the \$100 million of proceeds received between the loan liability and the warrant by using a with-and-without approach under which B first recognizes the liability for the warrant at its fair value and then assigns the remaining proceeds (i.e., the residual proceeds) to the loan liability. For further discussion of the with-and-without method of allocation, see [Section 3.3.4.2](#) of Deloitte's *A Roadmap to Distinguishing Liabilities From Equity*.

Note that the same with-and-without method of allocation would apply if, instead of issuing a liability-classified warrant on common stock, B had issued a warrant on preferred stock that is classified as a liability.



### Example 3

#### Loan and Senior Debt Instrument Accounted for at Amortized Cost

Entity C obtains a \$100 million loan under Section 4003(b) of the CARES Act and, in conjunction with the loan, issues a senior debt instrument. Assume that both loans are accounted for at amortized cost.

Entity C should allocate the \$100 million of proceeds received between the two loan liabilities on a relative fair value basis. For further discussion of the relative fair value method of allocation, see [Section 3.3.4.3](#) of Deloitte's [A Roadmap to Distinguishing Liabilities From Equity](#).

Note that if the senior debt instrument is convertible into C's common stock, C may need to separate the embedded conversion option. See Deloitte's [A Roadmap to the Issuer's Accounting for Convertible Debt](#) for discussion of the various accounting models that apply to an issuer of convertible debt.



#### Connecting the Dots

In addition to the funds available under Section 4003 of the CARES Act, Eligible Loan Participants may be entitled to payments under the Payroll Support Program in Section 4113. Generally, participants in the program receive cash in return for the issuance of a loan and warrants. Because the aggregate fair value of the loan and warrants issued is significantly less than the cash received, these transactions include a government grant element. Participants will need to exercise judgment in determining how to allocate the cash proceeds among the government grant, loan payable, and warrants or other instruments involved in the transaction since the guidance in U.S. GAAP does not specifically address the allocation method to apply. **[Paragraph amended September 18, 2020]**

After initial recognition, under the assumption that the FVO is not elected, the borrower should account for the loan issued to the U.S. Treasury Department by using the interest method in ASC 835-30. While the loan liability will be initially recognized at a discount that arises from the allocation of the proceeds to the other instrument(s) issued in conjunction with the loan (i.e., warrants, equity interests, or senior debt instruments), we do not believe that the borrower would be required to further impute interest on the loan because ASC 835-30-15-3(e) exempts entities from imputing interest on loans whose interest rates have been affected because the loans were issued by a governmental entity. We believe that ASC 835-30-15-3(e) applies even if a borrower concludes that the terms and conditions of the loan do not reflect market terms. As a result, we would not expect borrowers to recognize any "inception" gains or losses as result of issuing loans and related instruments to the U.S. Treasury Department under Section 4003(b) of the CARES Act.<sup>14</sup> Entities should apply the interest method by using the stated interest rate terms of the loan, taking into account the discount recognized at inception of the loan that results from the allocation of proceeds to the other instrument(s) issued in the transaction and any direct and incremental costs incurred to issue the loan. **[Paragraph amended May 1, 2020]**

The borrower should also evaluate whether the loan contains any embedded derivative features that must be separated as derivatives under ASC 815-15 when the FVO is not elected for the loan. As discussed above, the allocation of proceeds is expected to result in the initial recognition of the loan liability at an amount that reflects a discount to its principal amount. Under the interest method, entities amortize this discount to interest expense over the life of the loan by using a constant effective interest rate. However, if the discount is considered significant (i.e., generally 10 percent or more of the principal amount of the obligation), any contingent put or call options embedded in such loan agreements would require bifurcation as embedded derivatives. Entities must consider the guidance in ASC 815-15-25-41 through 25-43 when determining whether a contingent put or call option requires separation under

<sup>14</sup> We do not believe that these loans have any government grant components. Rather, the impact of any interest or other terms that do not reflect market terms would be reflected in the subsequent measurement of interest expense.

ASC 815-15. They must also consider any other terms and conditions embedded in such loans that may constitute embedded derivatives requiring bifurcation under ASC 815-15 (e.g., terms that adjust the interest rates on such loans, loan extension terms).



### Connecting the Dots

The subsequent accounting guidance discussed above would also be relevant to any senior debt instrument that an Eligible Loan Participant may issue to the U.S. Treasury Department in conjunction with the issuance of loans under Section 4003(b) of the CARES Act. These senior debt instruments would also be accounted for under the interest method in ASC 835-30 (if the FVO is not elected). Only discounts that result from the allocation of proceeds and any direct and incremental issue costs would affect the interest cost recognized under the interest method. Entities should also consider the need to evaluate any senior debt instruments for potential embedded derivative or conversion features that may not similarly exist in the loans. See below for discussion of the accounting for warrants or other equity interests that may be issued in conjunction with loans made under Section 4003(b) of the CARES Act.

In lieu of accounting for loans issued to the U.S. Treasury Department under Section 4003(b) of the CARES Act at amortized cost, borrowers may elect the FVO in ASC 825-10. Application of the FVO to such loans (or to senior debt instruments issued in conjunction with such loans) could potentially result in an “inception gain” if the stated rate on the loan is less than a market rate. Inception gains generally do not arise when entities issue debt in arm’s-length transactions with unrelated third parties. Further, any inception gain that may exist as a result of initially recognizing a loan liability at fair value under the FVO could potentially result from an element of the lending transaction that is akin to a government grant. Therefore, it may be viewed as inappropriate to recognize any such amount in earnings immediately. Accordingly, borrowers should exercise caution if they elect the FVO under ASC 825-10, and consultation with an entity’s accounting advisers is recommended.



### Disclosure Considerations

**[Added September 18, 2020]**

In addition to providing general disclosures about debt instruments, entities that obtain debt and issue warrants or other instruments under Section 4003 or Section 4013 of the CARES Act should consider disclosing the method they used to allocate the proceeds among the elements of such transactions. Funds received under Section 4013 will include a government grant element (see the [Government Grants](#) section below for discussion of the disclosures that may be relevant when an entity obtains a government grant).

## ***Borrower Accounting Considerations — Loan Guarantees Obtained Under Section 4003(b) of the CARES Act***

While the lending that occurs under Section 4003(b) of the CARES Act may primarily involve loans, the CARES Act allows the U.S. Treasury Department to also issue loan guarantees. There are additional accounting considerations of relevance to borrowers that obtain loan guarantees from the U.S. Treasury Department or another government agency. The accounting considerations applicable to the borrower depend on whether the guaranteed loan is accounted for at amortized cost or at fair value in accordance with the FVO.

### **Amortized Cost Accounting**

We do not believe that a borrower is required to impute additional interest on a loan for which the interest rate is affected by a government-provided guarantee (e.g., the interest rate on the obligation is lower than it would have been in the absence of the guarantee). That is, the borrower is not required to recognize the receipt of an asset for the guarantee (which would

create a discount on the debt) as a government grant because it may apply ASC 835-30-15-3(e). The borrower would recognize interest under the interest method on the basis of the stated terms of the loan even though those terms are affected by the guarantee.

## Fair Value Accounting

ASC 825-10-25-13 states:

For the issuer of a liability issued with an inseparable third-party credit enhancement (for example, debt that is issued with a contractual third-party guarantee), the unit of accounting for the liability measured or disclosed at fair value does not include the third-party credit enhancement. This paragraph does not apply to the holder of the issuer's credit-enhanced liability or to any of the following financial instruments or transactions:

- a. A credit enhancement granted to the issuer of the liability (for example, deposit insurance provided by a government or government agency)
- b. A credit enhancement provided between reporting entities within a consolidated or combined group (for example, between a parent and its subsidiary or between entities under common control).

The guidance in ASC 825-10-25-13 on inseparable third-party credit enhancements does not specifically apply to a guarantee provided by a government entity, but it may inform the borrower's accounting. We believe that there are two acceptable views regarding the impact of government-provided guarantees on a loan for which the FVO is elected (or for which fair value amounts are disclosed). These two views are premised on the notion that if the government entity makes a payment on an obligation, the borrower is required to reimburse the government entity that made the guarantee payment.

The two views are as follows:

- *View A — Exclude the guarantee in measuring or disclosing the debt's fair value* — This view is premised on an analogy to the guidance in ASC 825-10-25-13 on inseparable third-party credit enhancements. This analogy is made because the guarantee represents an arrangement that is consistent with third-party credit enhancements. If the occurrence of a triggering event requires the government entity to make unpaid principal and interest payments to holders of the obligation, the government entity effectively becomes a creditor to the issuer. The issuer's debt obligation continues with the government entity, and the issuer is required to reimburse the government entity for insured payments made on its behalf. Therefore, from the issuer's perspective, the debt issued is not considered to be guaranteed and is treated as a unit of account that is separate from the guarantee (i.e., under the contractual obligation, the issuer is not released from its debt obligation; rather, the issuer's obligation in connection with the debt liability transfers to the government entity that provided the guarantee if the guarantee is triggered).

This view is appropriate because when the guidance in ASC 825-10-25-13 was developed, the scope exception in ASC 825-10-25-13(a) was created with a focus on government guarantees that are inherent in all instruments of a specific type, usually as a result of statutory requirements. The background materials for EITF Issue 08-5<sup>15</sup> (which is codified in ASC 825-10-25-13) listed deposit insurance as an example of a guarantee that meets this criterion. Deposits held at U.S. depository institutions are required under law to be insured by the Federal Deposit Insurance Corporation (FDIC). In addition, rather than simply paying out the guarantee if the depository institution fails, the FDIC may take other actions to ensure that depositors are paid. Unlike liabilities that are insured or guaranteed under statutory rules that cover all such liabilities, debt issued with a government-provided guarantee as a result of the CARES Act is guaranteed under a contractual arrangement with a government entity that is specific to the debt instrument.

<sup>15</sup> EITF Issue No. 08-5, "Issuer's Accounting for Liabilities Measured at Fair Value With a Third-Party Credit Enhancement."

- *View B — Include the guarantee in measuring or disclosing the debt's fair value* — The debt issued with the government-provided guarantee is outside the scope of ASC 825-10-25-13 since the guarantee is issued by a government entity. Thus, in accordance with ASC 820-10-35-16B and 35-16BB, the borrower would determine the fair value of the loan on the basis of the fair value as determined by an investor that holds the identical item as an asset. However, the issuing entity must still analyze the economic substance of the guarantee to determine how to apply the guidance in ASC 820 when determining the debt's fair value.



### Connecting the Dots

Borrowers that elect the FVO in ASC 825-10 and apply View B will most likely not recognize an “inception gain” on the debt obligation. However, borrowers that apply View A may find that when the guarantee is ignored, the debt's initial fair value is less than the proceeds received. This may suggest that an “inception gain” should be recognized. However, any “inception gain” that may exist as a result of initially recognizing a loan liability at fair value could potentially result from an element of the lending transaction that is akin to a government grant. Therefore, it may be viewed as inappropriate to recognize any such amount in earnings immediately. Accordingly, Eligible Loan Participants that elect the FVO under ASC 825-10 and apply View A should exercise caution in determining the appropriate accounting and disclosure regarding any “inception gain.” Consultation with an entity's accounting advisers is therefore encouraged.

Entities should consider disclosing their accounting policy in accordance with ASC 235. For entities that have previously adopted one of the two views discussed above, that accounting policy should not change unless the change complies with the accounting and disclosure requirements of ASC 250. Entities should also consider the disclosures required under ASC 820 and ASC 825-10 for liabilities that are measured or disclosed at fair value. See Deloitte's [A Roadmap to Fair Value Measurements and Disclosures \(Including the Fair Value Option\)](#) for more information.

Note that the guidance on inseparable credit enhancements discussed above applies only to the debtor. Investors in debt obligations that are entitled to an inseparable government-provided guarantee would always consider the guarantee in their accounting for the investment in the loan regardless of whether that investment is accounted for at amortized cost or at fair value. Investors would not separately account for any benefit received in the form of credit support as a result of the U.S. Treasury Department's guarantee of the borrower's obligation under Section 4003(b) of the CARES Act (i.e., the guarantee would be considered embedded in the investment). **[Paragraph amended May 1, 2020]**

### ***Borrower Accounting Considerations — Warrants or Other Equity Interests Issued Under Section 4003(d) of the CARES Act<sup>16</sup>***

Section 4003(d) of the CARES Act indicates that the terms of any warrant or other equity interest issued to the U.S. Treasury Department in conjunction with loans or loan guarantees obtained under Section 4003(b) of the CARES Act must “provide for a reasonable participation . . . in equity appreciation.” However, additional details of the nature or terms and conditions of such instruments have not yet been specified. Therefore, it is uncertain whether such instruments will be largely standardized or will differ for each Eligible Loan Participant. The accounting guidance applicable to warrants is significantly different from the accounting guidance applicable to shares. Further, the accounting may vary significantly depending on whether issued shares, or shares underlying warrants, are in the form of common stock or preferred stock. Therefore, the nature, as well as the terms and conditions, of any instruments issued under Section 4003(d)

<sup>16</sup> Although this section focuses on warrants and other equity interests issued to the U.S. Treasury Department under Section 4003(d) of the CARES Act, it is also relevant to any such instruments issued under Section 4117 of the CARES Act.

of the CARES Act could significantly affect the classification of such instruments on an entity's balance sheet (i.e., as liabilities, equity, or temporary equity). The entity's classification of such instruments affects their subsequent measurement.

As more specific details of these instruments become available, a more in-depth analysis of the potential accounting and financial reporting implications can be performed. In the meantime, we have summarized certain accounting and financial reporting considerations that may be relevant to these instruments. Note that in forming a view on the appropriate accounting for a warrant or other equity interest, an entity will need to carefully evaluate the instrument's contractual terms and the relevant facts and circumstances in light of the applicable accounting requirements. Instruments that contain redemption features (whether conditional or unconditional) or net cash settlement features are more likely to be classified outside of permanent equity. Whereas instruments classified in permanent equity are not subsequently remeasured, instruments classified as liabilities or in temporary equity (for SEC registrants) are subject to specific remeasurement requirements, which may affect both an entity's reported net income and its earnings per share (EPS).

## Warrants

The accounting analysis for warrants begins with an evaluation of whether the warrant represents a separate unit for accounting purposes (i.e., a separate freestanding financial instrument). Because Section 4003(d) of the CARES Act indicates that any such warrants may be separately exercised, sold, or transferred by the U.S. Treasury Department independently of the related loan, we believe that such warrants will represent separate freestanding financial instruments as opposed to features embedded in the related loans. For further discussion of whether a financial instrument that is entered into in conjunction with some other transaction is considered to be a freestanding financial instrument, see [Section 3.3](#) of Deloitte's *A Roadmap to Distinguishing Liabilities From Equity* or [Section 3.2](#) of Deloitte's *A Roadmap to Accounting for Contracts on an Entity's Own Equity*.

Freestanding warrants on equity shares must be evaluated under ASC 480, ASC 815-10, and ASC 815-40 for classification, measurement, and disclosure purposes. A freestanding warrant on equity shares that contains any redemption feature that is not solely within the issuer's control must be classified as a liability under ASC 480-10-25-8 (see [Chapter 5](#) of Deloitte's *A Roadmap to Distinguishing Liabilities From Equity*). If, at inception, a freestanding warrant on a variable number of equity shares has a monetary value that is either solely or predominantly based on (1) a fixed amount, (2) variations in something other than the fair value of the issuer's equity shares, or (3) variations inversely related to changes in the fair value of the issuer's equity shares, it must be classified as a liability under ASC 480-10-25-14 (see [Chapter 6](#) of Deloitte's *A Roadmap to Distinguishing Liabilities From Equity*). When a freestanding warrant does not need to be classified as a liability under ASC 480, an entity should determine the appropriate classification by evaluating the instrument's indexation and settlement terms under ASC 815-40<sup>17</sup> (see Deloitte's *A Roadmap to Accounting for Contracts on an Entity's Own Equity*). A freestanding warrant is classified as a liability under ASC 815-40 if it (1) is not indexed to the issuer's stock or (2) could be net cash settled at the election of the holder or upon the occurrence of an event that is outside the issuer's control. Warrants that meet the conditions in ASC 815-40 to be classified as equity instruments are not subsequently remeasured; however, warrants that are classified as liabilities under ASC 480, ASC 815-10, or ASC 815-40 must generally be subsequently remeasured at fair value, with changes in fair value reported in earnings.

<sup>17</sup> This guidance applies regardless of whether the warrant meets the definition of a derivative instrument in ASC 815-10.



## Connecting the Dots

In 2008, many banks issued warrants to the U.S. Treasury Department as part of the Troubled Asset Relief Program Capital Purchase Program. The terms of these warrants were largely standard across issuers. As a result, there was a common analysis of the accounting classification (generally as an equity instrument) that was agreed to by the SEC. If the terms of warrants issued under Section 4003(d) of the CARES Act are standard, a similar common analysis of the accounting classification may occur.

In addition to evaluating the classification and measurement of warrants, entities that present EPS should be mindful of the impact that warrants may have on such calculations under ASC 260. Although the potential common shares underlying warrants are generally not considered to be outstanding shares in the calculation of basic EPS, entities would generally apply the treasury stock method under ASC 260-10-45-23 to determine the effect, if any, on diluted EPS. If an entity classifies warrants as liabilities, it would also need to make an adjustment to the numerator in accordance with ASC 260-10-45-46 to reflect that the accounting classification of the warrants differs from their assumed settlement for EPS purposes. In addition, entities should evaluate warrants to determine whether they represent participating securities to which the two-class method of calculating basic and diluted EPS must be applied. For further discussion of these matters, see Deloitte's [A Roadmap to the Presentation and Disclosure of Earnings per Share](#).

## Other Equity Interests

If an Eligible Loan Participant issues shares of its capital stock to the U.S. Treasury Department under Section 4003(d) of the CARES Act, it should evaluate whether those shares are classified as equity instruments or as liability instruments under ASC 480. If an entity issues convertible preferred shares, it would also need to evaluate the accounting for the embedded conversion option under ASC 815-15 and ASC 815-40. If an entity issues redeemable equity shares (in the form of either common stock or preferred stock) and is subject to the accounting guidance that applies to SEC registrants, it should also evaluate whether the shares must be presented in temporary equity under ASC 480-10-S99-3A. For further discussion of these requirements, see Deloitte's [A Roadmap to Distinguishing Liabilities From Equity](#).

Equity shares could also affect reported EPS amounts. The impact will depend on whether the shares are in the form of common stock, preferred stock, or preferred stock convertible to common stock. Outstanding shares of common stock are included in the denominator of both basic and diluted EPS. Nonconvertible preferred stock generally affects only the numerator in the calculation of basic and diluted EPS. Convertible preferred stock could have further dilutive effects in the calculation of diluted EPS under the if-converted method. For further discussion of these matters, see Deloitte's [A Roadmap to the Presentation and Disclosure of Earnings per Share](#).



## Disclosure Considerations

**[Added September 18, 2020]**

Entities that issue shares or equity-linked instruments (e.g., warrants) must consider the disclosure requirements in ASC 260, ASC 480, ASC 505, and ASC 815-40. The guidance in ASC 260-10-50-1(c) is often overlooked and states that an entity must disclose:

Securities (including those issuable pursuant to contingent stock agreements) that could potentially dilute basic EPS in the future that were not included in the computation of diluted EPS because to do so would have been antidilutive for the period(s) presented. Full disclosure of the terms and conditions of these securities is required even if a security is not included in diluted EPS in the current period.



## ***Lending Under Federal Reserve Facilities and Programs***

Section 4003(b)(4) of the CARES Act authorizes the U.S. Treasury Department to provide \$454 billion (plus any unused amounts under the Act's provisions for airlines and critical businesses) to be used by the Federal Reserve to provide liquidity to support lending programs available to businesses, states, and municipalities that do not otherwise receive support under the Act. The Federal Reserve can use these funds to make loans, loan guarantees, and other investments. Support under this provision will be in the form of (1) purchases of obligations or other interests directly from issuers, (2) purchases of obligations or other interests in secondary markets, or (3) making loans to companies that are secured by collateral. Thus, this section of the Act is designed to allow eligible businesses, states, and municipalities to have access, directly or indirectly, to certain funding sources that are generally made available by the Federal Reserve only to certain bank and financial services entities. For example, the Federal Reserve could provide liquidity or credit support to banks so that they can lend to eligible businesses.<sup>18</sup>

Section 4003(c)(3) of the CARES Act discusses Federal Reserve programs and facilities for (1) small and midsize businesses and nonprofit entities, including the Federal Reserve Main Street Lending Program (Sections 4003(c)(3)(D)(i) and 4003(c)(3)(D)(ii)), and (2) states and municipalities (Section 4003(c)(3)(E)). ***[Paragraph amended May 1, 2020]***

Requirements otherwise applicable to facilities under Section 13(3)<sup>19</sup> of the Federal Reserve Act will apply under Section 4003(b)(4) of the CARES Act. Further, companies receiving assistance under Section 4003(b)(4) of the CARES Act:

- Must be created or organized in the United States or under U.S. laws and have significant operations and a majority of employees in the United States.
- May not engage in stock buybacks (unless contractually obligated), capital distributions, or dividend payments until one year after repayment of the loan or the expiration of the loan guarantee.
- Are subject to restrictions on executive compensation and severance payments in accordance with Section 4004 of the CARES Act.

These conditions may be waived by the secretary of the U.S. Treasury Department if the rationale for a waiver is provided in testimony before Congress.

Note that unlike Section 4003(d) of the CARES Act, Section 4003(b)(4) of the CARES Act does not require any entity that takes advantage of its programs to issue warrants, equity interests, or other instruments. In addition, unlike PPPLs made under Section 1002 of the CARES Act, loans made under these programs are not subject to forgiveness.

## **Assistance to Small and Midsize Businesses and Nonprofit Entities (Section 4003)**

***[Section last amended July 8, 2020]***

Section 4003(c)(3)(D)(i) of the CARES Act directs the secretary of the U.S. Treasury Department to endeavor to implement a program that provides financing to banks and other lenders that make loans to eligible small and midsize businesses and nonprofit organizations (i.e., those with 500 to 10,000 employees). This provision further indicates that such loans should be subject to a per annum interest rate not to exceed 2 percent and that payments of principal or interest should not be required for loans made under the program for the first six months. In addition to the general requirements that apply to companies receiving assistance under

<sup>18</sup> While it is expected that loans or debt obligations will be made under this provision of the CARES Act, there is no specific prohibition on the issuance of equity securities.

<sup>19</sup> Section 13(3) of the Federal Reserve Act (12 U.S.C. Section 344) allows the Federal Reserve to extend credit to nonbank financial firms under certain conditions.

Section 4003(b)(4) of the CARES Act, a recipient must comply with other requirements in Section 4003(c)(3)(D)(i) of the Act, including, but not limited to, the following:

- The uncertainty of economic conditions makes it necessary to obtain a loan to support the ongoing operations of the recipient.
- The recipient is not a debtor in a bankruptcy proceeding.
- The funds must be used to retain at least 90 percent of the recipient's workforce, at full compensation and benefits, until September 30, 2020.
- The business must restore not less than 90 percent of the workforce that existed as of February 1, 2020, and restore all compensation and benefits to all workers no later than four months after the termination date of the health emergency.
- The recipient may not outsource jobs offshore until two years after repayment of the loan.

Section 4003(c)(3)(D)(ii) of the CARES Act authorizes the Federal Reserve to establish a Main Street Lending Program to support lending to eligible small and midsize businesses (i.e., those with 500 to 10,000 employees). On April 9, 2020, the Federal Reserve issued a [press release](#) announcing additional actions it is taking under its authority in Section 13(3) of the Federal Reserve Act, with the approval of the U.S. Treasury Department. Such actions include the purchase up to \$600 billion in loans through the Main Street Lending Program that was established under Section 4003(c)(3)(D)(ii) of the CARES Act and authorized under Section 13(3) of the Federal Reserve Act.

In a separate [press release](#) issued on April 30, 2020, the Federal Reserve announced that it is establishing three different programs in connection with the Main Street Lending Program, each of which are intended to facilitate lending to small and midsize businesses whose financial standing was good before the COVID-19 pandemic. The April 30, 2020, press release also notes that the Federal Reserve is expanding the pool of eligible borrowers to include businesses with up to 15,000 employees or up to \$5 billion in annual revenues. The three programs can be summarized as follows:

- *Main Street New Loan Facility (MSNLF)* — According to the [term sheet](#), the Federal Reserve will lend to a single common special-purpose vehicle (SPV), which will purchase a 95 percent participation interest in each loan made by eligible lenders under the MSNLF. Eligible lenders must retain a 5 percent interest in each loan made. The U.S. Treasury Department will make an initial \$75 billion equity investment in the single common SPV. Additional details include the following:
  - *Lenders* — Eligible lenders are “a U.S. federally insured depository institution (including a bank, savings association, or credit union), a U.S. branch or agency of a foreign bank, a U.S. bank holding company, a U.S. savings and loan holding company, a U.S. intermediate holding company of a foreign banking organization, or a U.S. subsidiary of any of the foregoing.”
  - *Borrowers* — Eligible borrowers include businesses that meet “at least one of the following two conditions: (i) has 15,000 employees or fewer, or (ii) had 2019 annual revenues of \$5 billion or less.” To be eligible, borrowers must, among other conditions, be “created or organized in the United States or under the laws of the United States with significant operations in and a majority of [their] employees based in the United States.” Furthermore, eligible borrowers may not participate in the MSPLF, MSELF, or PMCCF (see definitions and discussions of these terms below).

- *Loan terms* — Eligible loans are secured or unsecured term loans that are originated by an eligible lender to an eligible borrower after April 24, 2020, and have the following features:
  - A five-year maturity (with a two-year deferral of principal payments and a one-year deferral of interest payments such that principal amortization occurs at a rate of 15 percent at the end of the third year, 15 percent at the end of the fourth year, and a balloon payment of 70 percent at maturity at the end of the fifth year) and prepayable at any time without penalty. Unpaid interest will be capitalized, including interest during the deferral period.
  - An adjustable interest rate based on LIBOR (one- or three-month) plus 300 basis points.
  - A minimum loan size of \$250 thousand and a maximum loan size of \$35 million.
- *Fees* — Lenders must pay, or may require borrowers to pay, the SPV a transaction fee equal to 100 basis points of the principal amount of each loan at the time of origination. In addition, borrowers must pay lenders an origination fee of up to 100 basis points of the principal amount of each loan. The SPV will pay lenders 25 basis points per annum of the principal amount of its participation interest for loan servicing activities.
- *Other requirements* — Borrowers may not use the proceeds to repay other loan balances unless the debt or interest payment on such other loans is mandatory and becomes due. They must also meet certain other requirements, including (1) committing to make reasonable efforts to maintain payroll and retain employees during the term of the loan and (2) adhering to the conditions that apply to direct loans made under Section 4003(c)(3)(A)(ii) of the CARES Act (e.g., compensation, stock buyback, and dividend restrictions).
- *Main Street Expanded Loan Facility (MSELF)* — According to the [term sheet](#), the MSELF permits eligible lenders to increase the outstanding principal amount of existing loans with eligible borrowers (i.e., the “upsized tranche”). Under the MSELF, the Federal Reserve will lend to the single common SPV (that also lends to the MSNLF and MSPLF), and the SPV will purchase a 95 percent participation interest in each upsized tranche of a loan made by eligible lenders. Eligible lenders must retain a 5 percent interest in each upsized tranche of a loan. Additional details include the following:
  - *Lenders* — Eligible lenders are a “U.S. federally insured depository institution (including a bank, savings association, or credit union), a U.S. branch or agency of a foreign bank, a U.S. bank holding company, a U.S. savings and loan holding company, a U.S. intermediate holding company of a foreign banking organization, or a U.S. subsidiary of any of the foregoing.”
  - *Borrowers* — Eligible borrowers include businesses that meet “at least one of the following two conditions: (i) has 15,000 employees or fewer, or (ii) had 2019 annual revenues of \$5 billion or less.” To be eligible, borrowers must, among other conditions, be “created or organized in the United States or under the laws of the United States with significant operations in and a majority of [their] employees based in the United States.” Furthermore, eligible borrowers may not participate in the MSPLF, MSNLF, or PMCCF (see definition and discussion of the [PMCCF](#) below).

- *Loan terms* — Eligible loans are secured or unsecured term loans or revolving credit facilities that were originated by an eligible lender on or before April 24, 2020, and that have a remaining maturity of at least 18 months, provided that the upsized tranche of the loan is a term loan that contains the following features:
  - A five-year maturity (with a two-year deferral of principal payments and a one-year deferral of interest payments such that principal amortization occurs at a rate of 15 percent at the end of the third year, 15 percent at the end of the fourth year, and a balloon payment of 70 percent at maturity at the end of the fifth year) and prepayable at any time without penalty. Unpaid interest will be capitalized, including interest during the deferral period.
  - An adjustable interest rate based on LIBOR (one- or three-month) plus 300 basis points.
  - A minimum loan size of \$10 million and a maximum loan size of \$300 million.
- *Fees* — Lenders must pay, or may require borrowers to pay, the SPV a transaction fee of 75 basis points of the principal amount of the upsized tranche of the loan. In addition, borrowers must pay lenders an origination fee of up to 75 basis points of the principal amount of the upsized tranche of each loan. The SPV will pay lenders 25 basis points per annum of the principal amount of its participation interest for loan servicing activities.
- *Other requirements* — Borrowers may not use the proceeds to repay other loan balances unless the debt or interest payment on such other loans is mandatory and becomes due. They must also meet certain other requirements, including (1) committing to make reasonable efforts to maintain payroll and retain employees during the term of the loan and (2) adhering to the conditions that apply to direct loans made under Section 4003(c)(3)(A)(ii) of the CARES Act (e.g., compensation, stock buyback, and dividend restrictions).
- *Main Street Priority Loan Facility (MSPLF)* — According to the [term sheet](#), the MSPLF permits eligible lenders to lend to eligible borrowers. Under the MSPLF, the Federal Reserve will lend to the single common SPV (that also lends to the MSNLF and MSELF), and the SPV will purchase an 95 percent participation interest in each loan made by eligible lenders. Eligible lenders must retain a 5 percent interest in each loan. Additional details include the following:
  - *Lenders* — Eligible lenders are a “U.S. federally insured depository institution (including a bank, savings association, or credit union), a U.S. branch or agency of a foreign bank, a U.S. bank holding company, a U.S. savings and loan holding company, a U.S. intermediate holding company of a foreign banking organization, or a U.S. subsidiary of any of the foregoing.”
  - *Borrowers* — Eligible borrowers include businesses that meet “at least one of the following two conditions: (i) has 15,000 employees or fewer, or (ii) had 2019 annual revenues of \$5 billion or less.” Among other conditions, to be eligible the borrower must be “created or organized in the United States or under the laws of the United States with significant operations in and a majority of [their] employees based in the United States.” Furthermore, eligible borrowers may not participate in the MSNLF, MSELF, or PMCCF (see definition and discussion of the [PMCCF](#) below).

- *Loan terms* — Eligible loans are secured or unsecured term loans that were originated by an eligible lender after April 24, 2020, and contain the following features:
  - A five-year maturity (with a two-year deferral of principal payments and a one-year deferral of interest payments such that principal amortization occurs at a rate of 15 percent at the end of the third year, 15 percent at the end of the fourth year, and a balloon payment of 70 percent at maturity at the end of the fifth year) and prepayable at any time without penalty. Unpaid interest will be capitalized, including interest during the deferral period.
  - An adjustable interest rate based on LIBOR (one- or three-month) plus 300 basis points.
  - A minimum loan size of \$250 thousand and a maximum loan size of \$50 million.
  - At the time of origination and at all times thereafter, the loan must be senior to, or pari passu with, in terms of priority and security, the borrower's other loans or debt instruments, other than mortgage debt.
- *Fees* — Lenders must pay, or may require borrowers to pay, the SPV a transaction fee of 100 basis points of the principal amount of each loan at the time of origination. In addition, borrowers must pay lenders an origination fee of up to 100 basis points of the principal amount of each loan. The SPV will pay lenders 25 basis points per annum of the principal amount of its participation interest for loan servicing activities.
- *Other requirements* — Borrowers may not use the proceeds to repay other loan balances unless the debt or interest payment on such other loans is mandatory and becomes due. They must also meet certain other requirements, including (1) committing to make reasonable efforts to maintain payroll and retain employees during the term of the loan and (2) adhering to the conditions that apply to direct loans made under Section 4003(c)(3)(A)(ii) of the CARES Act (e.g., compensation, stock buyback, and dividend restrictions).

The Federal Reserve released a Frequently Asked Questions [document](#) that provides additional details regarding these three programs, including an explanation of the differences between them.

### ***Borrower Accounting Considerations***

***[Section amended May 1, 2020]***

Entities that obtain loans under the MSNLF or MSPLF are eligible to apply the guidance in ASC 835-30-15-3(e) and therefore should not impute any additional interest beyond the stated contractual terms. In applying the interest method, borrowers should calculate an effective yield that incorporates the impact of (1) the origination fee paid to the lender, (2) any direct and incremental costs incurred to issue the loan, and (3) the contractual principal payment terms (including the initial deferral feature). Interest cost should be recognized ratably in each financial reporting period, including the period for which payments are deferred. Unless they elect to apply the FVO to the loans, borrowers should also evaluate whether any such loans contain any embedded derivative features that must be separated as derivatives under ASC 815-15 (e.g., contingent put or call options, interest rate adjustment features, term extension features).

Entities that obtain financing under the MSELF must evaluate whether the lending arrangement involves the modification or exchange of an existing debt instrument with the lender. Any existing loan that is refinanced into a new loan would be considered modified or extinguished for accounting purposes (unless treated by the borrower as a TDR under ASC 470-60). ASC 470-50 provides guidance on whether an exchange of debt instruments with the same creditor constitutes an extinguishment and whether a modification of a debt instrument should be accounted for in the same manner as an extinguishment. Deloitte's [470-50-40 \(Q&A 01\) — Debt Modifications and Exchanges: Cash Flows in the 10 Percent Test](#), which is available to DART subscribers, discusses how to incorporate increases in the principal amount of debt in the evaluation of whether a modification or extinguishment of debt has occurred.

In the discussion below, it is assumed that the new proceeds are associated with a modification or an exchange of an existing debt instrument with the lender and that the borrower did not elect the FVO for the old debt instrument or new debt instrument.<sup>20</sup>

If a borrower determines that the refinancing transaction results in a modification of the old debt instrument, in accordance with ASC 470-50, it should recognize the carrying amount of the new debt instrument as the sum of (1) the carrying amount of the old debt instrument and (2) the net proceeds of the new debt instrument (i.e., the principal amount of the new debt less any origination fee paid to the lender). Under ASC 470-50-40-18(b), any fees or costs paid to third parties would be expensed as incurred. After initial recognition of the modified loan, the borrower would apply the interest method described in ASC 835-30; that is, it would calculate an effective yield by considering the contractual terms of the new debt instrument, the initial carrying amount of the new debt instrument, and the payment deferral feature (i.e., it would not impute additional interest). Interest cost would be recognized ratably in each financial reporting period, including any period for which payments are deferred. The borrower should also evaluate whether there are any features in the new debt instrument that require separation under ASC 815-15.

If a borrower determines that the refinancing results in an extinguishment of the old debt instrument, it would derecognize the old debt instrument, recognize the new debt instrument, and recognize an extinguishment gain or loss in accordance with ASC 470-50-40-2. While new debt instruments in extinguishment transactions are generally recognized at fair value, we believe that the borrower may recognize the new debt instrument at its total principal amount less any origination fee paid to the lender. We believe that this is appropriate because ASC 835-30-15-3(e) does not require the imputation of interest on loans for which the interest rate terms are prescribed by a government agency. Likewise, we believe that a borrower may recognize the new loan at its fair value. In this situation, the origination fee paid to the lender would be associated with the extinguishment of the old debt instrument and therefore would affect the gain or loss on extinguishment of the old debt. Any amounts paid to third parties should be capitalized in accordance with ASC 470-50-40-18(a). The borrower would apply the interest method to the new debt instrument (see discussion above of the application of the interest method to loans made under the MSNLF and MSPLF).



### Disclosure Considerations

**[Added September 18, 2020]**

ASC 470-50-40-2 requires entities to recognize an extinguishment of debt “currently in income of the period of extinguishment as losses or gains and identified as a separate item.” In practice, entities disclose pertinent details of debt issuances that are treated as extinguishments of existing debt instruments.

<sup>20</sup> In a modification that is not accounted for as an extinguishment, the borrower does not have a new eligible date to elect the FVO under ASC 825-10.



Although ASC 470-50 does not contain any specific disclosure requirements for a new debt issuance that is treated as a modification of an existing debt instrument, entities should be mindful of the general disclosure guidance applicable to debt. Accordingly, they should consider disclosing the significant terms of any transaction involving the modification or exchange of debt, including the fact that no extinguishment gain or loss was recognized, and the pertinent terms of the new debt instrument involved in the transaction.

## ***Lender Accounting Considerations***

### ***[Section added May 1, 2020]***

Lenders may be subject to a number of accounting requirements. For loans made under the MSNLF and MSPLF, lenders should consider the following (not all-inclusive):

- *The initial classification of the loan as held for investment or held for sale, or the election of the FVO* — The initial classification may depend on whether the lender expects to sell a participation interest in the loan to the Federal Reserve's SPV and whether that transfer would qualify for sale accounting under ASC 860.
- *The initial carrying amount of the loan* — The initial carrying amount would equal the principal amount loaned plus any loan origination costs that are capitalizable under ASC 310-20 less the loan origination fee received from the borrower unless the FVO is elected. Lenders would not be required to impute additional interest on these loans even if the stated rate was less than the market rate of interest at issuance. If the FVO is elected, the initial carrying amount would equal the fair value of the loan under ASC 820. Any costs incurred or fees received would be recognized in income immediately.
- *Whether any transfer of a participation interest in the loan to the Federal Reserve's SPV meets the conditions in ASC 860 for sale accounting* — Lenders should determine whether the participation interest sold meets ASC 860's definition of a participating interest and, if so, whether the three conditions for sale accounting in ASC 860-10-40-5 are met.<sup>21</sup> If sale accounting is achieved, lenders would derecognize the carrying amount of the interest sold (determined as an allocated carrying amount of the total loan) and recognize any gain or loss on extinguishment. That gain or loss would be affected by the 100-basis-point fee payable to the Federal Reserve's SPV. If sale accounting is not achieved, lenders would recognize the proceeds received from the transfer of the participation interest as a secured borrowing and apply the accounting and disclosure provisions of ASC 860-30. In this situation, the 100-basis-point fee payable to the Federal Reserve's SPV would represent a debt issue cost.
- *Subsequent accounting for the loan receivable* — For the loan receivable balance it recognizes (which would be reduced after any transfer of a participation interest to the Federal Reserve's SPV that qualifies for sale accounting), the lender would apply the interest method under ASC 310-20 unless the loan is classified as held for sale or the FVO is elected. Interest imputation is not required even if the stated interest rate is less than the market rate of interest at issuance. However, in applying the interest method, a lender must consider the payment deferral period. The lender would also need to establish appropriate provisions for credit losses if the loan is classified as held for investment. Loans classified as held for sale would be subsequently recognized at the lower of cost or fair value. Loans for which the FVO is elected would be subsequently recognized at fair value, with changes in fair value recognized in earnings.

<sup>21</sup> To meet the conditions for sale accounting, the transfer of a participating interest must represent a "true sale." Furthermore, the transferee (or beneficial interest holder in the transferred financial asset) must have the ability to pledge or exchange its interest. Lastly, the transferor cannot maintain effective control over the transferred financial asset or any beneficial interest in that asset.

- *Accounting for servicing fees* — The 25-basis-point-per-annum fee paid to the lender to service any participation interest sold to the single common SPV would be accounted for under ASC 860-50 provided that the transfer is treated as a sale. If the transfer of a participation interest is accounted for as a secured borrowing, this 25-basis-point fee would affect the interest expense recognized on the obligation for that borrowing.

Lenders that originate loans under the MSELF must further consider whether a modification or exchange of an old debt instrument has occurred in conjunction with the lending arrangement (as opposed to merely the extension of an incremental loan). They should evaluate any such modification or exchange to determine whether it constitutes a TDR and, if not, whether new loan accounting is required under ASC 310-20-35-9 through 35-12. We generally would not expect these arrangements to represent TDRs.



### Disclosure Considerations

**[Added September 18, 2020]**

ASC 860-10 includes numerous disclosure requirements related to transfers of financial assets. Further, ASC 860-20 contains additional requirements for transfers that are accounted for as sales, and ASC 860-30 addresses transfers accounted for as secured borrowings. If transfers of loans under these programs are accounted for as sales, the lender must provide the disclosures required by ASC 860-10 and ASC 860-20 that apply to transfers accounted for as sales for which the transferor has continuing involvement with the transferred financial assets. The disclosures discussed above for PPPLs may also be relevant for lenders of loans made under these programs.

## Municipal Liquidity Facility (Section 4003)

**[Section added May 1, 2020; amended July 8, 2020]**

In accordance with the Federal Reserve's [term sheet](#) issued on April 9, 2020, and updated on June 3, 2020, the Municipal Liquidity Facility (MLF) will offer up to \$500 billion in lending under Section 4003(c)(3)(E) of the CARES Act. The MLF will lend to eligible issuers that include U.S. states, the District of Columbia, U.S. counties with a population exceeding two million residents, and multistate entities. Under the MLF, an SPV established by the Federal Reserve will purchase eligible notes directly from eligible issuers. These lending arrangements will be between eligible issuers and the SPV directly (i.e., no financial institutions will act as agents to administer them). Eligible issuers will need to apply U.S. GAAP to account for any debt issued under the MLF to state and local government entities.

## Other Federal Reserve Programs

**[Section amended May 1, 2020]**

Before the CARES Act was enacted, the Federal Reserve announced several facilities in accordance with its authority under Section 13(3) of the Federal Reserve Act. These facilities were announced in response to the COVID-19 pandemic and are intended to support the flow of credit and liquidity to business and consumers. Additional funding to these programs is allowed from the appropriated amounts under Section 4003(b) of the CARES Act. These facilities include, but are not limited to, the following:

- *Commercial Paper Funding Facility (CPFF)* — The CPFF will provide a liquidity backstop to U.S. issuers of commercial paper through a special-purpose vehicle (SPV) that will purchase unsecured and asset-backed commercial paper rated A1/P1/F1 by a nationally recognized statistical rating organization (as of March 17, 2020) directly from eligible companies. Such purchases are intended to eliminate the risk that eligible issuers will be unable to repay investors by rolling over their maturing commercial

paper obligations, which is intended to encourage investors to engage in term lending in the commercial paper market. The U.S. Treasury Department will provide \$10 billion of credit protection to the Federal Reserve in connection with the CPFF, which will be obtained from the Treasury's Emergency Stabilization Fund (ESF). The Federal Reserve will then provide financing to the SPV under the CPFF. Its loans will be secured by all the assets of the SPV.

- *Primary Dealer Credit Facility (PDCF)* — The PDCF offers overnight and term funding with maturities of up to 90 days to primary dealers.<sup>22</sup> It will be in place for at least six months and may be extended. Credit extended to primary dealers under this facility may be collateralized by a broad range of investment-grade debt securities, including commercial paper and municipal bonds, and a broad range of equity securities. The interest rate charged will be the primary credit rate, or discount rate, at the Federal Reserve Bank of New York.
- *Money Market Mutual Fund Liquidity Facility (MMLF)* — The MMLF provides for the Federal Reserve Bank of Boston to make loans to eligible financial institutions secured by high-quality assets purchased by the financial institution from money market mutual funds. The MMLF is intended to help money market funds meet demands for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy. Thus, eligible borrowers (which include all U.S. depository institutions, U.S. bank holding companies [parent companies incorporated in the United States or their U.S. broker-dealer subsidiaries], or U.S. branches and agencies of foreign banks) may obtain nonrecourse loans from the Federal Reserve for qualifying assets purchased from money market mutual funds. Those loans are collateralized by the assets purchased. On March 19, 2020, the Federal Reserve issued an [interim final rule](#) to allow banking organizations to neutralize the effects on risk-based and leverage capital ratios from purchasing assets pursuant to the MMLF.

Note that Section 4015 of the CARES Act temporarily lifts the restriction on the use of the ESF to support money market funds. In doing so, Section 4015 helps the U.S. Treasury Department provide guarantees and support for certain money market funds, including the implementation of the MMLF.

- *Term Asset-Backed Securities Loan Facility (TALF)* — The TALF enables the issuance of (1) asset-backed securities (ABS) backed by student loans, auto loans and leases, credit card loans, equipment loans and leases, floor plan loans, insurance premium finance loans, loans guaranteed by the Small Business Administration, and leveraged loans, and (2) certain commercial mortgage-backed securities (CMBS). Under the TALF, the Federal Reserve will lend on a nonrecourse basis to holders of certain highly rated ABS backed by newly and recently originated consumer and small business loans and certain CMBS. The Federal Reserve will lend an amount equal to the fair value of the ABS or CMBS less a haircut, and each loan will be secured by the ABS or CMBS that are posted as collateral. The U.S. Treasury Department will also make an equity investment in the SPV established by the Federal Reserve for this facility. The TALF will initially make up to \$100 billion of loans available. All U.S. companies that own eligible collateral and maintain an account relationship with a primary dealer are eligible to borrow under the TALF. **[Paragraph amended July 8, 2020]**
- *Primary Market Corporate Credit Facility (PMCCF)* — The PMCCF will allow investment-grade companies access to credit providing for bridge financing for up to four years. Borrowers may elect to defer interest and principal payments during the first six months of the loan, extendable at the Federal Reserve's discretion, to have additional cash on hand that can be used to pay employees and suppliers. The Federal Reserve will finance an SPV to make loans from the PMCCF to companies. The Treasury, using the ESF, will make an equity investment in the SPV.

<sup>22</sup> A primary dealer is a bank or broker-dealer that is permitted to trade directly with the Federal Reserve.

- *Secondary Market Corporate Credit Facility (SMCCF)* — In the secondary market, the SMCCF will purchase corporate bonds issued by investment-grade U.S. companies and U.S.-listed exchange-traded funds whose investment objective is to provide broad exposure to the market for U.S. investment-grade corporate bonds. Using the ESF, the U.S. Treasury Department will make an equity investment in the SPV established by the Federal Reserve for this facility.
- *Foreign and International Monetary Authorities (FIMA) Repo Facility* — The Federal Reserve established a temporary repurchase agreement facility for foreign and international monetary authorities to help maintain the supply of credit to U.S. households and businesses. The FIMA Repo Facility will allow FIMA account holders, which consist of central banks and other international monetary authorities with accounts at the Federal Reserve Bank of New York, to enter into repurchase agreements with the Federal Reserve.

Businesses that obtain loans as a result of these Federal Reserve programs will not be required to impute interest beyond the stated contractual interest rate terms in accordance with ASC 835-30-15-3(e) but should take into account any payment deferral feature in applying the interest method. The MMLF and TALF programs, under which an entity purchases assets and posts them as collateral on a loan received from the Federal Reserve, may present some challenging accounting considerations. Additional details regarding these programs and the accounting considerations are discussed below.

### ***Accounting Considerations — MMLF***

The Federal Reserve issued a [term sheet](#) that provides additional details on the MMLF. The term sheet discusses eligible collateral and the terms of the financing. It indicates that for certain eligible collateral, the valuation will be based on the debt security's amortized cost. The maturity date of loans made under this program will equal the maturity date of the eligible collateral pledged to secure the advance made under this facility, except that in no case will the maturity date of an advance exceed 12 months. The interest rate on loans will be based on the rate equal to the primary credit rate in effect at the Federal Reserve Bank that is offered to depository institutions at the time the advance is made, plus, for certain loans, 25 or 100 basis points (depending on the collateral). There are no special fees associated with this facility.

Entities that purchase securities from money market funds under the MMLF will most likely account for the securities purchased as assets and the loans obtained from the Federal Reserve as liabilities (i.e., it is not expected that the pledge of the assets as collateral on the loans will represent a transfer that meets the conditions in ASC 860 for sale accounting). Because money market funds are designed to have a net asset value of \$1 per share, we believe that unique considerations may arise under the MMLF because sponsors of such funds may purchase securities from those funds at their amortized cost (e.g., principal or stated amount) even if that amount exceeds the fair value of those securities on the purchase date. Purchasers may be willing to pay amounts in excess of fair value because they are able to obtain a nonrecourse loan from the Federal Reserve in an amount equal to the purchase price of those securities.

The Federal Reserve's [Money Market Mutual Fund Liquidity Facility FAQs](#), which were issued on March 21, 2020, and amended on May 26, 2020, include the following guidance on the MMLF: **[Paragraph amended July 8, 2020]**

**E1. How should the eligible borrower account for the facility?**

Consistent with GAAP, the Federal Reserve would expect borrowers to report purchased eligible collateral as an investment security (i.e., held-to-maturity or available-for-sale) on their balance sheets. These assets would be reflected at the time of purchase at the amortized cost or fair value, as applicable. The nonrecourse nature of the transaction would impact the valuation of the liability to the Federal Reserve. After reflecting any appropriate discounts on the assets and associated liabilities, organizations are not expected to report any material net gains or losses (if any) at the time of purchase. Any discounts generally would be accreted over time into income and expense. The Federal Reserve staff, in connection with providing the above guidance, has consulted with staff of the SEC's Office of the Chief Accountant.

In accordance with this guidance, we believe that regardless of whether the FVO in ASC 825-10 is elected for the assets purchased or obligations incurred with the Federal Reserve, it would be acceptable for investors in such securities to initially record the securities purchased and the related loan obligations at their fair values. Recognition of the assets and related liabilities at fair value will result in an "inception loss" on the assets purchased and an "inception gain" on the liabilities incurred if the assets are purchased at an amortized cost amount that exceeds fair value. However, these "inception gains" and "inception losses" would be expected to substantially offset one another. This guidance is specific to the accounting for transactions involving the MMLF and should not be applied by analogy.

After initial recognition, entities should account for the assets purchased as trading, available-for-sale, or held-to-maturity securities. Any discount recognized on initial recognition should be amortized under the interest method in accordance with ASC 310-20. We believe that when assets classified as available for sale or held to maturity are subsequently evaluated for impairment, it would be inappropriate to consider the related loans obtained from the MMLF as representing collateral on the assets notwithstanding that those loans are nonrecourse (i.e., the assets and loans are separate units of accounting).

Entities should subsequently account for the liabilities incurred to purchase the assets either at amortized cost (i.e., by applying the interest method under ASC 835-30) or at fair value under the FVO in ASC 825-10. Entities that apply amortized cost accounting are not required to impute interest for any below-market element of the loans (i.e., ASC 835-30-15-3(e) applies). For entities that apply the FVO, the fair value measurements under ASC 820 should take into consideration that market participants for such loans are likely to be other entities that have the ability to participate in the MMLF. Because these liabilities are recourse only to the assets purchased from the money market fund, we would generally not expect any instrument-specific credit risk components of the change in fair value of those liabilities that would require separate presentation in other comprehensive income in accordance with ASC 825-10-45-5 through 45-7.

Sponsors of money market mutual funds that purchase assets from those funds in accordance with the MMLF would not be required to consolidate the funds. This is because under ASC 810-10-15-12(f), a legal entity that is required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 (the "1940 Act") for registered money market funds should not be evaluated for consolidation under either the variable interest entity (VIE) consolidation model or the voting interest entity consolidation model. See [Section 3.3.4](#) of Deloitte's [A Roadmap to Consolidation — Identifying a Controlling Financial Interest](#) for additional discussion of the consolidation scope exception for registered money market funds and other similar entities.

If a sponsor of a fund that does not qualify for the scope exception in ASC 810-10-15-12(f) purchases assets from the fund or provides other forms of support to the fund that were not explicitly required, the entity would need to evaluate whether it needs to consolidate the fund under the VIE consolidation model in ASC 810 (see [Section 4.3.10](#) of Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest* for a discussion of implicit variable interests).



### Disclosure Considerations

**[Added September 18, 2020]**

A reporting entity that qualifies for the use of the consolidation scope exception that applies to certain registered money market funds and other similar entities is required by ASC 810-10-15-12(f)(2) to disclose any explicit arrangements to provide financial support to the legal entity as well as any instances of such support provided for the periods presented in the performance statement. For more information, see [Section 11.2.5.2](#) of Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest*.

When a reporting entity provides noncontractual financial support to a money market fund that does not qualify for the consolidation scope exception in ASC 810-10-15-12(f) and the money market fund is deemed to be a VIE, the reporting entity is subject to the VIE disclosure requirements, including those in ASC 810-10-50-5A(c) regarding the type and amount of support and the primary reasons for providing the support. For more information, see [Section 11.2](#) of Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest*.

### Accounting Considerations — TALF

The Federal Reserve issued a [term sheet](#) providing additional details on the TALF (the “initial term sheet”), and an [updated term sheet](#) was subsequently issued on May 12, 2020. The initial term sheet discusses eligible collateral, which was amended in the updated term sheet, and the terms of the financing. Whereas the initial term sheet states that “[t]o be eligible collateral, all or substantially all of the underlying credit exposures must be newly issued [ABS],” the updated term sheet expands eligible collateral to include certain CMBS issued before March 23, 2020. The valuation of eligible collateral for purposes of making loans will be based on a haircut to the fair value of the collateral. The maturity date of each loan made under this program will be three years. The interest rate on loans depends on the tenor of the underlying credit exposures and whether the underlying credit exposures have a government guarantee. Loans made under the TALF will be prepayable in whole or in part at the option of the borrower, but substitution of collateral during the term of the loan generally will not be allowed. An administrative fee equal to 10 basis points of the loan amount will be assessed to borrowers under this program. **[Paragraph amended July 8, 2020]**

While the TALF program has some similarities to the MMLF program, there are some key differences that result in different accounting considerations. Unlike loans made under the MMLF program, loans made under the TALF program are not expected to exceed the fair value of the securities posted as collateral. Thus, the special considerations related to initial recognition under the MMLF program, which are discussed above, are not expected to be relevant under the TALF program. Entities should initially and subsequently account for the securities posted as collateral under the relevant guidance (e.g., ASC 320 or ASC 325-40), which requires entities to designate the securities as trading, available for sale, or held to maturity. In determining any credit losses on such securities, entities should not consider the related loans as representing a source of collateral (i.e., the assets and loans are separate units of accounting).



Entities should account for loans issued under the TALF at either amortized cost or fair value (i.e., if the FVO is elected). The fees assessed under the TALF program should be considered fees associated with the origination of the loans and should not be associated with the purchase of the securities that serve as collateral on such loans. Therefore, the fees should be capitalized and taken into account in the application of the interest method under ASC 835-30 if the loans are accounted for subsequently at amortized cost and expensed as incurred if the FVO under ASC 825-10 is applied. For entities that apply the FVO, the fair value measurements under ASC 820 should take into consideration that market participants for such loans are likely to be other entities that are able to participate in the TALF program.

It is not expected that securities posted as collateral for TALF loans will be purchased from existing VIEs. However, in the event that an entity did purchase securities from another entity that it sponsored, it would need to consider the implications for its consolidation analysis under ASC 810.



### **Disclosure Considerations**

**[Added September 18, 2020]**

ASC 860-30-50-1A(b) requires entities to disclose the carrying amount and classification of any assets pledged as collateral that are not reclassified and separately reported on the balance sheet in accordance with ASC 860-30-25-5(a). Entities should ensure that they have provided this disclosure with respect to the securities posted as collateral for TALF loans.

## **Debt Guarantee Authority (Section 4008)**

Section 4008 of the CARES Act authorizes the FDIC to establish a program to guarantee obligations of solvent insured depository institutions or holding companies, provided that any such guarantee program will terminate no later than December 31, 2020. This section of the CARES Act essentially expands the FDIC's authority under the Temporary Liquidity Guarantee Authority, which was created by Section 1105 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as a result of the last financial crisis. It specifically allows the FDIC to guarantee deposits that are held in noninterest-bearing accounts without setting any maximum amount that may be guaranteed. Section 4008 of the CARES Act also authorizes the National Credit Union Administration's (NCUA's) board to authorize unlimited share insurance coverage on noninterest-bearing transaction accounts at a federally insured credit union through December 31, 2020. We would not expect these provisions to have any accounting consequences for the depository institutions and credit unions for which such guarantees are being provided.

## **Optional Temporary Accounting Relief**

Sections 4013 and 4014 of the CARES Act provide certain optional deferrals of the application by certain entities of (1) the TDR accounting and disclosure guidance applicable to lenders under ASC 310-40 and (2) the requirement to adopt the FASB's current expected credit losses standard<sup>23</sup> ("CECL") beginning in 2020.

## **Application of TDR Guidance (Section 4013)**

**[Section amended May 1, 2020]**

Section 4013 of the CARES Act provides temporary relief from the accounting and reporting requirements for TDRs regarding certain loan modifications related to COVID-19 that are offered by "financial institutions."<sup>24</sup>

<sup>23</sup> FASB Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments*.

<sup>24</sup> A financial institution is not a defined term in the CARES Act or GAAP. Entities may need to discuss whether they are within the scope of Section 4013 of the CARES Act with their legal counsel.

Specifically, the CARES Act provides that a financial institution may elect to suspend (1) the requirements under U.S. GAAP for certain loan modifications that would otherwise be categorized as a TDR and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes. The modifications that would qualify for this exception include any modification involving a loan that was not more than 30 days past due as of December 31, 2019, that occurs during the “applicable period,”<sup>25</sup> including any of the following:

- A forbearance arrangement.
- An interest rate modification.
- A repayment plan.
- Any other similar arrangement that defers or delays the payment of principal or interest.

The exception does not apply to any adverse impact on the credit of a borrower that is not related to the COVID-19 pandemic. Furthermore, even when the exception is applied, an entity may determine that it is appropriate to place the loan on nonaccrual status.

On April 3, 2020, SEC Chief Accountant Sagar Teotia issued a [statement](#) regarding actions that the SEC has been taking in response to COVID-19. In his statement, Mr. Teotia indicates that for those financial institutions that are eligible to apply the provision of the CARES Act related to the modification of loans, an election to apply that provision would be in accordance with GAAP.

In addition to the relief provided by the CARES Act in Section 4013, a group of banking agencies<sup>26</sup> issued a statement (which was subsequently revised) that offers some practical expedients for evaluating whether loan modifications that occur in response to the COVID-19 pandemic are TDRs. Specifically, the [revised interagency statement](#)<sup>27</sup> indicates that a TDR does not exist if either (1) short-term (e.g., six months) modifications are made, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented or (2) the modification or deferral program is mandated by the federal government or a state government (e.g., a state program that requires all institutions within that state to suspend mortgage payments for a specified period). Although this guidance was directed at entities that are regulated by the banking agencies that issued the revised statement, we believe that it may be applied as an accounting policy by entities that are not regulated by such agencies.

For a loan modification to be considered a TDR in accordance with ASC 310-40, **both** of the following conditions must be met:

- The borrower is experiencing financial difficulty.
- The creditor has granted a concession (except for an insignificant delay in payment).

Accordingly, any loan modification that meets a practical expedient described above would not be considered a TDR because the borrower is not experiencing financial difficulty (or in the case of government-mandated modification programs, the creditor did not choose to grant a concession). However, if a loan modification does not meet the conditions for a practical expedient, the modification is not necessarily a TDR. The creditor must evaluate whether, under ASC 310-40, the borrower is experiencing financial difficulty and whether a concession,

<sup>25</sup> The applicable period for loan modifications means the period beginning on March 1, 2020, and ending on the earlier of (1) December 31, 2020, or (2) the date that is 60 days after the termination date of the national emergency declared by President Trump under the National Emergencies Act on March 13, 2020, related to the outbreak of COVID-19.

<sup>26</sup> The Board of Governors of the Federal Reserve System, the FDIC, the NCUA, the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau, and the State Banking Regulators.

<sup>27</sup> *Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working With Customers Affected by the Coronavirus* (revised April 7, 2020).

other than an insignificant delay in payment, has been made. Note that in the discussion above on short-term modifications, we are not interpreting the meaning of an insignificant delay in payment; ASC 310-40 provides guidance on determining whether a delay in payment is insignificant. Further, the FASB issued a [statement](#) on March 22, 2020, noting that the interagency statement “was developed in consultation with the staff of the FASB who concur with this approach.”



### Connecting the Dots

The CARES Act and the interagency statement overlap in many areas, but they are not consistent. For example, the interagency statement requires an evaluation of whether the borrower is less than 30 days past due at the time a modification program is implemented, as opposed to the CARES Act, under which that determination is made as of December 31, 2019. In addition, the CARES Act allows interest rate modifications to occur on the loans, whereas the interagency statement only provides relief for modifications associated with the timing of payments (e.g., deferrals).

The [revised interagency statement](#) clarifies the relationship between the TDR guidance developed by the banking agencies and Section 4013 of the CARES Act. It explains that while financial institutions may account for eligible loan modifications under Section 4013 of the CARES Act, any loan modification that does not meet the conditions in Section 4013 of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR under the revised interagency statement’s guidance. For more information about the TDR guidance in Section 4013 of the CARES Act and the revised interagency statement, including disclosures that entities should provide when applying such guidance, see Deloitte’s [Heads Up](#), “Frequently Asked Questions About Troubled Debt Restructurings Under the CARES Act and Interagency Statement.”



### Disclosure Considerations

**[Added September 18, 2020]**

In a review of the Forms 10-Q filed for the second quarter of 2020 by 10 of the largest U.S. banks, we noted the following:

- All of the banks disclosed, in the accounting policy section of the footnotes, their application of the CARES Act and interagency statement to their COVID-19-related modifications. (Note that all entities with material amounts of loan modifications that are not accounted for as TDRs as a result of Section 4013 of the CARES Act or the interagency statement would be expected to disclose such information in accordance with the requirements in ASC 235 related to disclosing accounting policies.)
- All of the banks disclosed how COVID-19-related modifications that were not accounted for as TDRs affected their reporting of the delinquency (past-due) status of loans. Eight of these ten banks included this disclosure in the footnotes to the financial statements, whereas two included it only in MD&A. (Note that all entities with material amounts of loan modifications that are not accounted for as TDRs as a result of Section 4013 of the CARES Act or the interagency guidance would be expected to disclose such information in accordance with the requirements in ASC 310 and ASC 326 related to disclosing nonaccrual and past-due loans.)

- All of the banks disclosed the principal amount of loans subject to COVID-19 modifications that were not accounted for as TDRs and generally provided such information by loan type. Three of these ten banks included this disclosure in the footnotes to the financial statements, whereas seven included it only in MD&A. (Note that although entities are not specifically required to disclose this information, we understand that the SEC's Division of Corporation Finance believes that it would be relevant to users of the financial statements.)

### ***Adoption of CECL (Section 4014)***

Section 4014 of the CARES Act offers optional temporary relief from applying CECL only for the following qualifying entities:

- Insured depository institutions,<sup>28</sup> as defined in Section 3 of the Federal Deposit Insurance Act.
- Credit unions regulated by the NCUA.

Qualifying entities are not required to comply with CECL during the period beginning on the date of enactment of the CARES Act and ending on the earlier of the following:

- The termination date of the national emergency declared by President Trump under the National Emergencies Act on March 13, 2020, related to the outbreak of COVID-19.
- December 31, 2020.



### **Connecting the Dots**

In his April 3, 2020, statement, Mr. Teotia indicated that for those entities that are eligible to apply the provision of the CARES Act related to the deferral of CECL, an election to apply that provision would be in accordance with GAAP.

In addition, on the basis of discussions with the SEC staff, we understand that the SEC would object to the application of the CARES Act's provisions by an entity that is not eligible to apply them. In other words, the optional deferral of CECL under Section 4014 of the CARES Act is limited to insured depository institutions and credit unions regulated by the NCUA.

It is also our understanding that if an insured depository institution or credit union intends to elect to defer CECL under Section 4014 of the CARES Act, the entity must make that election before its first filing of financial statements with the SEC that include the reporting period that contains the effective date of the CARES Act (March 27, 2020). In addition, the entity should not apply CECL to any of its filings for that reporting period. For example, a qualifying entity with a December 31 year-end may elect to defer CECL under the CARES Act's provisions in its Form 10-Q filing for the quarter ending March 31, 2020. As a result, the entity would not have adopted CECL as of January 1, 2020.

Further, we understand that an entity that elects to defer CECL under the CARES Act's provisions would be required to adopt CECL on the date the deferral expires under the CARES Act. Accordingly, an entity would not have the ability to elect to defer CECL and then subsequently elect to adopt CECL before the date the deferral expires under the CARES Act. The entity's application of CECL should be retrospective to the beginning of the fiscal year of adoption. For example, if an end to the national emergency is declared on September 1, 2020, an entity with a December 31 year-end would adopt CECL in the third quarter and apply it retrospectively as of January 1, 2020.

<sup>28</sup> The CARES Act states that the relief applies to an "insured depository institution, bank holding company, or any affiliate thereof."

Note that on April 16, 2020, U.S. Senators Jerry Moran and Thom Tillis sent a [letter](#) to SEC Chairman Jay Clayton requesting that the SEC extend the optional relief in Section 4014 of the CARES Act to all financial institutions “in order to ensure a level playing field” among depository and nondepository institutions. The letter also states that the “interpretations of Section 4014 that the SEC staff has expressed to major auditing firms and registrants [have] undermined the intent of the CARES Act.” It is unclear what, if any, action the SEC staff will take in response to this letter. **[Paragraph amended May 1, 2020]**



### **Disclosure Considerations**

**[Added September 18, 2020]**

Entities that avail themselves of the temporary relief from applying CECL that is offered by Section 4014 of the CARES Act will need to disclose their election to defer application of ASC 326-20 as part of the disclosures required by SAB 74.<sup>29</sup> Such disclosures should include the anticipated adoption date of ASC 326-20 as well as the transition method.

## **Mortgage Foreclosure Moratorium and Forbearance (Section 4022)**

Under Section 4022 of the CARES Act, through the earlier of the termination date of the COVID-19 emergency or December 31, 2020, a borrower with a federally backed mortgage loan (e.g., a loan insured or guaranteed by the Federal Housing Authority, Department of Veterans Affairs, Department of Agriculture, Federal Home Loan Mortgage Corporation, or Federal National Mortgage Association) that is experiencing a financial hardship due to COVID-19 may request a forbearance (i.e., payment deferral), regardless of delinquency status, for up to 180 days, which must be extended for an additional 180 days at the borrower’s request. During this period, no fees, penalties, or interest beyond those scheduled or calculated as if the borrower had made all contractual payments on time and in full will accrue. Except for a vacant or abandoned property, a servicer of a federally backed mortgage loan is precluded from initiating or executing any foreclosure process, foreclosure judgment or order of sale, or foreclosure-related eviction or foreclosure sale for not less than the 60-day period beginning on March 18, 2020.

Under Section 4023 of the CARES Act, through the earlier of the termination date of the COVID-19 emergency or December 31, 2020, a multifamily borrower with a federally backed multifamily mortgage loan (e.g., a mortgage loan on residential multifamily real property that is insured or guaranteed by any agent of the federal government, the Federal Home Loan Mortgage Corporation, or the Federal National Mortgage Association) that was current as of February 1, 2020, and is experiencing a financial hardship due to COVID-19 may request forbearance on the loan for up to 30 days, which may be extended for up to two additional 30-day periods at the borrower’s request. Borrowers who obtain such forbearances are restricted from evicting tenants and charging fees or penalties for late payment of rent.

## **Lender/Investor Accounting Considerations**

**[Section last amended July 8, 2020]**

The holder of a mortgage loan for which a forbearance is granted under Section 4022 or Section 4023 of the CARES Act should consider the impact of such forbearance on its calculation of the allowance for credit losses. The calculation of the allowance for credit losses may also be affected by the foreclosure moratorium in Section 4022 of the CARES Act.

For any forbearance that is not subject to the optional temporary accounting relief related to TDRs (discussed above in the [Optional Temporary Accounting Relief](#) section), the holder

<sup>29</sup> SEC Staff Accounting Bulletin (SAB) No. 74 (codified in SAB Topic 11.M, “Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period”).

would also need to evaluate whether the forbearance represents a TDR. For example, a forbearance granted on a mortgage loan that was more than 30 days past due as of December 31, 2019, and not less than 30 days past due on the date the forbearance modification program was implemented would not be subject to any TDR accounting relief. The forbearance period on mortgage loans subject to Section 4022 of the CARES Act is six months, which would generally not represent a payment delay period that is insignificant under ASC 310-40-15-17 through 15-19. Therefore, since interest and fees do not accrue on the delayed payments, a concession would be deemed to have occurred. Borrowers that were delinquent on their payments before the impact of COVID-19 would most likely be considered to have been experiencing financial difficulties; therefore, such modifications to those borrowers' payments would generally represent TDRs.

In addition to the impact on credit losses, holders of mortgage loans subject to forbearances under Sections 4022 and 4023 of the CARES Act would need to evaluate the impact of such forbearances on the recognition of interest income. In some situations, mortgage loans subject to forbearances may be classified as nonaccrual assets in accordance with an entity's nonaccrual policies. An entity that does not classify such loans as nonaccrual assets must consider the interest income recognition guidance in ASC 310-20.

ASC 310-20-35-18(a) addresses the application of the interest method to loan receivables for which the stated interest rate is not constant throughout the loan's term. It states:

If the loan's stated interest rate increases during the term of the loan (so that interest accrued under the interest method in early periods would exceed interest at the stated rate), interest income shall not be recognized to the extent that the net investment in the loan would increase to an amount greater than the amount at which the borrower could settle the obligation. Prepayment penalties shall be considered in determining the amount at which the borrower could settle the obligation only to the extent that such penalties are imposed throughout the loan term. (See Section 310-20-55.) Accordingly, a limit is imposed on the amount of periodic amortization that can be recognized. However, that limitation does not apply to the capitalization of costs incurred (such as direct loan origination costs and purchase premiums) that cause the investment in the loan to be in excess of the amount at which the borrower could settle the obligation. The capitalization of costs incurred is different from increasing the net investment in a loan through accrual of interest income that is only contingently receivable.

A lender must consider ASC 310-20-35-18(a) if it defers contractually due payments of principal and interest for a loan and the loan that does not accrue interest during the deferral period. For example, if a lender modifies a mortgage loan to defer six months of payments of principal and interest, adds those deferred payments to the end of the loan's term, and does not increase the amounts owed for interest that would have accrued during the deferral period, the borrower may be able to prepay its loan at an amount equal to the outstanding principal amount due as of the beginning of the deferral period. If an entity applies the limitation in ASC 310-20-35-18(a), no interest would be accrued by the lender during the deferral period. However, if the entity does not apply ASC 310-20-35-18(a), the lender could continue to accrue interest during the deferral period even though the carrying amount of the loan could be increased to an amount that exceeds the amount for which the borrower could prepay its loan without a prepayment penalty. (However, in recognizing interest income, the lender would need to recalculate the loan's effective yield to take into account the payment deferral.)

In response to a technical inquiry sent to the FASB by an industry group that had determined that the scope of ASC 310-20-35-18(a) was ambiguous, the FASB staff noted that two interpretations of the guidance are acceptable for loans that are granted a payment deferral that results in neither a TDR nor a new loan for accounting purposes (as opposed to loans that are modified in a TDR because they are generally placed on nonaccrual). Under one interpretation, the guidance in ASC 310-20-35-18(a) applies and therefore no interest is accrued during the deferral period (however, entities would continue to amortize any discounts or premiums). Under the other interpretation, ASC 310-20-35-18(a) does not apply and therefore entities would continue to accrue interest and amortize discounts and



premiums during the deferral period. An entity that chooses not to apply ASC 310-20-35-18(a) is not required to estimate prepayments in determining the effective yield; however, estimated prepayments must be considered in the calculation of the allowance for credit losses for entities that have adopted ASU 2016-13. Prepayments are included in the calculation of the effective yield used to recognize interest income only when the guidance in ASC 310-20-35-26 through 35-32 is applied.

In both scenarios, except for loans that are classified as held for sale, lenders would generally be required to recalculate the loan's effective yield. Under the first alternative, that recalculation is necessary for the application of the interest method once the deferral period ends. Under the second alternative, that recalculation is necessary for the application of the interest method during the deferral period and in periods thereafter. Such calculations may be complex for loans with variable interest rates. Entities that apply the second alternative and accrue interest income during the deferral period should evaluate the need to provide an allowance for credit losses on any such accrued interest. Interest income on loans classified as held for sale is generally recognized on the basis of the contractually stated coupon.



### Connecting the Dots

Although the FASB staff's response to the technical inquiry addressed a specific fact pattern, we understand from informal discussions with the staff that its intention was to establish an accounting model that applies broadly to all loans with payment deferrals. The election of either of the two interpretations constitutes an accounting policy decision that must be applied consistently to all loans for which there are payment deferrals. While some entities may have already elected an accounting policy (i.e., entities that had a preexisting accounting policy that addressed similar situations encountered in prior reporting periods), those entities that have not done so will need to make their election in the first financial statements issued after the FASB announcement.

The AICPA has issued a [TQA](#) that provides additional considerations related to loan restructurings that result in periods of reduced payments.



### Disclosure Considerations

**[Added September 18, 2020]**

In accordance with ASC 235, entities should disclose their elected accounting policy and consider providing additional information about how the policy elected affects the amounts of interest accrued.

## ***Borrower Accounting Considerations***

Borrowers on multifamily mortgage loans that receive forbearances under Section 4023 of the CARES Act would need to evaluate whether such forbearances represent TDRs under ASC 470-60.<sup>30</sup> If such forbearances do not represent TDRs, borrowers would need to consider whether such forbearances represent a modification or extinguishment of their mortgage loans under ASC 470-50. In addition, borrowers would need to consider the impact of such forbearances on their recognition of interest under the TDR guidance in ASC 470-60 or the interest method guidance in ASC 835-30.

## **Regulatory Capital Relief for Banks (Section 4011)**

Section 4011 of the CARES Act provides a temporary elimination of certain limits regarding the total credit exposure a national banking association may have to a single counterparty. This exception allows a bank to make unsecured loans to a single counterparty that would exceed

<sup>30</sup> The optional temporary accounting relief related to TDRs that is discussed in the [Optional Temporary Accounting Relief](#) section may not be applied by borrowers.

15 percent of unimpaired capital and surplus of the institution with the prior approval of the OCC. This exception ends on the earlier of the termination date of the national emergency concerning the COVID-19 outbreak or December 31, 2020. If a bank enters into a large unsecured lending arrangement with a customer, it should consider the concentrated risk exposure in its allowance for credit losses.

Section 4012 of the CARES Act requires the federal banking agencies to adopt an interim rule relaxing certain capital requirements applicable to qualifying community banks. This interim rule would reduce the Community Bank Leverage Ratio to 8 percent and provide a qualifying community bank that falls below this leverage ratio a reasonable grace period to restore compliance. This provision also expires on the earlier of the termination date of the national emergency concerning the COVID-19 outbreak or December 31, 2020. On April 6, 2020, the federal bank agencies issued a [press release](#) announcing the issuance of two interim final rules related to Section 4012 of the CARES Act. **[Paragraph amended May 1, 2020]**

In addition to the above capital relief, the banking regulators have issued other guidance that provides regulatory capital relief in response to the COVID-19 pandemic, including, but not limited to, the following:

- *Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances* — The OCC, Federal Reserve System, and FDIC (the “Agencies”) issued an [interim final rule](#) that delays the estimated impact on regulatory capital stemming from the implementation of CECL. Specifically, the interim final rule states that it “provides banking organizations that implement CECL before the end of 2020 the option to delay for two years an estimate of CECL’s effect on regulatory capital, relative to the incurred loss methodology’s effect on regulatory capital, followed by a three-year transition period.” On March 31, 2020, the Agencies issued a [joint statement](#) that explains the interaction between the interim rule and Section 4014 of the CARES Act.
- *Regulatory Capital Rule: Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks From the Supplementary Leverage Ratio* — In light of recent disruptions in economic conditions caused by COVID-19 and current strains in U.S. financial markets, the Federal Reserve issued an [interim final rule](#) that, as stated in its summary, “revises, on a temporary basis for bank holding companies, savings and loan holding companies, and U.S. intermediate holding companies of foreign banking organizations, the calculation of total leverage exposure, the denominator of the supplementary leverage ratio in the Board’s capital rule, to exclude the on-balance sheet amounts of U.S. Treasury securities and deposits at Federal Reserve Banks. This exclusion has immediate effect and will remain in effect through March 31, 2021.”
- *Standardized Approach for Calculating the Exposure Amount of Derivative Contracts* — In light of the recent economic disruptions caused by COVID-19, the Agencies issued a [notice](#) whose stated purpose is “to allow depository institutions and depository institution holding companies to implement the final rule titled Standardized Approach for Calculating the Exposure Amount of Derivative Contracts (SA-CCR rule) for the first quarter of 2020, on a best efforts basis.”

## Income Taxes

**[Section amended May 1, 2020]**

The CARES Act contains several significant business tax provisions that could affect a company’s accounting for income taxes. Under ASC 740, the effects of new legislation are recognized upon enactment, which (for U.S. federal legislation) is the date the president signs a bill into law. Accordingly, entities will need to account for the effects of the CARES Act in the quarter that includes March 27, 2020.

## Modifications to Limitations on Deductibility of NOLs (Section 2303)

The Tax Cuts and Jobs Act (TCJA) amended IRC Section 172(a) so that net operating losses (NOLs) arising in taxable years ending after December 31, 2017, could not be carried back to reduce taxable income in prior years but could be carried forward indefinitely. In addition, IRC Section 172(a), as amended by the TCJA, limits the amount of the NOL deduction to 80 percent of taxable income, which is computed without regard to the NOL deduction. The CARES Act repeals the 80 percent limitation for taxable years beginning before January 1, 2021. It further specifies that NOLs arising in a taxable year **beginning after December 31, 2017, and before January 1, 2021**, are allowed as a **carryback** to each of the **five taxable years** preceding the taxable year of such losses.

Temporary repeal of the 80 percent limitation and the new five-year NOL carryback period afford corporations the ability (1) to use NOLs in taxable years beginning as early as in 2013 (for an NOL experienced in a taxable year beginning in 2018), (2) to offset taxable income in those prior years that had been subject to tax at a 35 percent rate, and (3) use more NOLs in taxable years beginning after December 31, 2017.

Accordingly, entities will need to consider the impact of these tax law changes on their income tax payables/receivables, annual effective tax rate (AETR), deferred tax assets (DTAs), deferred tax liabilities (DTLs), and associated valuation allowances, if any. For example:

- A calendar-year-end entity may choose to carry back a loss generated in a 21 percent tax rate year and receive a refund for taxes paid on income that was subject to a 35 percent tax rate. In those instances, the carryback may result in the release of a valuation allowance, the refund of an amount greater than the NOL DTA, or both.
- An entity that anticipates current-year losses may now expect to carry back such losses to prior years, which could change the realizability assessment. Further, an entity that decides to carry back a current-year loss may be required to remeasure existing DTAs and DTLs that are scheduled to reverse in 2020 to the 35 percent tax rate and benefit current-year losses at 35 percent in the AETR.
- An NOL carryback might “dislodge” credits used on the originally filed return, resulting in a DTA for the tax credit carryforwards that must be assessed for realization (i.e., valuation allowance). Consider the following example:

Company A estimates that it will generate a \$100 operating loss and NOL for tax purposes in calendar year 2020 that it will carry back to 2015, a 35 percent tax year. The NOL carryback will, however, “dislodge” \$10 of previously used credits that will instead be carried forward, yielding a \$25 “net” current tax benefit from the carryback of the \$100 operating loss and the recognition of a \$10 DTA that would need to be assessed for realizability.

- Entities anticipating current-year losses may now expect to carry back the losses to prior years, changing the realizability assessment.
- Entities with taxable income in a prior year or anticipating taxable income in the current year may now be able to use more NOLs to reduce their income taxes payable than previously anticipated because the NOLs are no longer subject to an 80 percent limitation.

## Modifications to Limitations on Deductibility of Business Interest (Section 2306)

The CARES Act amends IRC Section 163(j) as applied to taxable years beginning in 2019 and 2020. IRC Section 163(j) limits the deduction for business interest expense to the sum of (1) the taxpayer’s business interest income, (2) 30 percent of the taxpayer’s adjusted taxable income, and (3) the taxpayer’s floor plan financing interest expense for the taxable year. The CARES Act increases the 30 percent adjusted taxable income threshold to 50 percent for

taxable years beginning in 2019 and 2020. In addition, the CARES Act allows taxpayers to elect to use their 2019 adjusted taxable income as their adjusted taxable income in 2020.<sup>31</sup>

The increase in the percentage of adjusted taxable income that can be offset by interest expense deductions in an entity's tax year beginning in 2019 or 2020, as well as the ability to use 2019 adjusted taxable income for 2020, could affect taxes currently payable or refundable for the current and prior years. Certain companies that are in an NOL position for 2019 and 2020 may find that they have a reduced IRC Section 163(j) carryforward and an increased NOL. These changes may affect an entity's valuation allowance assessment.

### **Alternative Minimum Tax Credit Acceleration (Section 2305)**

In 2017, the TCJA repealed the corporate alternative minimum tax (AMT), which operated in parallel with the regular tax system. The CARES Act amends Section 53(e) of the TCJA so that all prior-year minimum tax credits are potentially available for refund for the first taxable year of a corporation beginning in 2018. Companies will need to adjust the classification of any remaining AMT credits as a result of the AMT credit acceleration.

### **Expensing of Qualified Improvement Property (Section 2307)**

The TCJA inadvertently failed to include qualified improvement property (QIP) in the 15-year property classification. Accordingly, QIP was classified by default as 39-year property and was consequently ineligible for the additional first-year bonus depreciation. To fix these inadvertent oversights, the CARES Act includes technical amendments that are retroactive to the effective date of the TCJA. Companies will need to consider (1) how the QIP technical correction affects their assessment of uncertain tax positions, including the impacts of interest and penalties; (2) the possibility of having to file amended tax returns; and (3) the related impact on current taxes payable and DTAs and DTLs.

Consider the following examples:

- Company A, a calendar-year-end company, placed in service QIP in 2018 but did not place in service any QIP in 2019. It treated the QIP as 39-year property when it filed its 2018 tax return and recorded a DTA for the book/tax difference in the QIP (because the book life was shorter than the tax life). Upon enactment of the CARES Act, A's tax return position is no longer more likely than not to be sustained upon examination. Company A has not filed its 2019 tax return and plans to amend its 2018 tax return to properly treat the QIP as 15-year property and take bonus depreciation. Further, A will carry back the 2018 NOL resulting from the accelerated depreciation to a 35 percent tax year. Company A will need to (1) adjust the DTA because the 2018 tax return position is no longer more likely than not to be sustained upon examination and (2) record the effects of the 2018 NOL carryback, including the additional bonus depreciation on QIP.
- Company B, a calendar-year-end company, placed in service QIP in 2018 but did not place in service any QIP in 2019. Company B treated the QIP as 15-year property when it filed its 2018 tax return and took bonus depreciation. Company B recorded (1) an unrecognized tax benefit (UTB) because its tax return position was not more likely than not to be sustained upon examination and (2) a DTA related to the difference between the carrying value of the QIP and the tax basis that meets the more-likely-than-not threshold. Company B will need to adjust the DTA related to the QIP, UTB, and any related interest and penalties.

<sup>31</sup> Special rules also apply for partnerships and short taxable years in 2019 and 2020. For additional information, see Deloitte's [COVID-19 Stimulus: A Taxpayer Guide](#).

## Other Tax Considerations

Depending on an entity's facts and circumstances, certain of the aforementioned sections of the CARES Act (e.g., those related to the NOL carryback and the QIP technical correction) could also affect various other aspects of an entity's tax provision (e.g., global intangible low-taxed income, base erosion and anti-abuse tax, foreign-derived intangible income). Accordingly, an entity will need to carefully consider its facts and circumstances to determine the appropriate accounting.

## Interim Reporting Considerations

An entity uses an estimated AETR to compute its taxes for interim periods related to ordinary income (or loss). Generally, the provisions of the CARES Act that affect ordinary income (e.g., credits that are not related to income taxes) should be considered and estimated as part of an entity's estimated AETR.

Under ASC 740-270-25-5, the effects of a change in tax law (e.g., the carryback provisions) on a DTL or DTA (and related valuation allowance) is included in continuing operations and recognized discretely in the period of enactment (i.e., "shall not be apportioned among interim periods through an adjustment of the annual effective tax rate"). Similarly, under ASC 740-270-25-6, "[t]he tax effect of a change in tax laws or rates on taxes payable or refundable for a prior year shall be recognized as of the enactment date of the change as tax expense (benefit) for the current year." The tax effect of a change in tax law or rates on taxes payable or refundable for the current year, or on temporary differences originating after enactment, are reflected in the computation of the AETR. Since the NOL and tax law changes to the business interest deduction limitation discussed above are retroactively effective, all entities should reflect the effects of the changes on taxes currently payable or refundable for the current year in the computation of the AETR beginning in the period of enactment, regardless of whether they have adopted [ASU 2019-12](#).<sup>32</sup>

## Accounting Models for Government Assistance

### Determination of the Appropriate Accounting Framework

As described above, the CARES Act provides assistance in the form of loans, grants, tax credits, or other forms of government aid. Although some forms of assistance may be referred to as "grants" or "credits," entities should carefully look at the form and substance of the assistance to determine the appropriate accounting framework to apply. To make that determination, entities may consider the matters discussed below as they evaluate the various aspects of the CARES Act.

The government assistance provided by the CARES Act includes tax credits and other forms of government aid that do not depend on taxable income (e.g., payroll tax credits). Government assistance that does not depend on taxable income would most likely be viewed and accounted for as a government grant (see the [Government Grants](#) discussion below for further details). For further information about significant business tax provisions in the CARES Act, see Deloitte's [COVID-19 Stimulus: A Taxpayer Guide](#).

### Exchange Transaction Versus Contribution

The nature and form of government assistance provided by the CARES Act may vary (e.g., grants, payroll tax credits, forgivable loans, price adjustments, reimbursements of lost revenues, reimbursements of expenses). In performing its accounting analysis, an entity should first consider whether the government assistance it receives represents an exchange transaction (i.e., a reciprocal transfer in which each party receives and pays commensurate value) or a contribution, which is defined in the ASC master glossary as an "unconditional

<sup>32</sup> FASB Accounting Standards Update No. 2019-12, *Simplifying the Accounting for Income Taxes*.

transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner.” To determine whether the government assistance represents an exchange transaction, an entity should consider the factors in the table below, which is adapted from ASC 958-605-15-5A and 15-6 (as amended by ASU 2018-08).

An Exchange Transaction May Not Exist if:	An Exchange Transaction May Exist if:
(1) The benefit provided by the entity is received by the general public, (2) the government only received indirect value from the entity, or (3) the value received by the government is incidental to the potential public benefit derived from using the goods or services transferred from the entity.	The transfer of assets from a government entity is part of an existing exchange transaction between the receiving entity and an identified customer (e.g., payments under Medicare and Medicaid programs). In this circumstance, “an entity shall apply the applicable guidance (for example, Topic 606 on revenue from contracts with customers) to the underlying transaction with the customer, and the payments from the [government] would be payments on behalf of” the customer, rather than payments for benefits that were received by the general public.
The entity has provided a benefit that is related to “[e]xecution of the [government’s] mission or the positive sentiment from acting as a donor.”	The expressed intent was to exchange government funds for goods or services that are of commensurate value.
The entity solicited funds from the government “without the intent of exchanging goods or services of commensurate value” and the government had “full discretion in determining the amount of” assistance provided.	Both the entity and the government negotiated and agreed on the amount of government assistance to be transferred in exchange for goods and services that are of commensurate value.
Any penalties the entity must pay for failing “to comply with the terms of the [government assistance] are limited to the [goods] or services already provided and the return of the unspent amount.”	The entity contractually incurs economic penalties for failing to perform beyond the government assistance provided.

If an entity concludes that the government assistance it received represents an exchange transaction, it should account for such assistance in accordance with the applicable U.S. GAAP (e.g., ASC 606). As discussed further below, certain payments under the CARES Act, such as those made under Medicare and Medicaid programs, may be considered part of an exchange transaction between the recipient entity and its customers. Furthermore, if a not-for-profit entity concludes that the government assistance represents a contribution, such assistance would be accounted for pursuant to ASC 958-605.



### Connecting the Dots

The CARES Act includes several complex provisions; therefore, an entity should carefully apply judgment and consider consulting with its advisers when determining the appropriate accounting treatment. For example, an entity may conclude that it should account for certain provisions of the CARES Act (e.g., providing equity warrants and other financial instruments to the government in exchange for assistance) as (1) entirely exchange transactions (see discussion of Section 4003 above) or (2) partially exchange transactions and partially grants (see discussion of Section 4112 below). Further, some provisions may only provide for a right to defer payments (for which interest is not imputed in accordance with ASC 835-30-15-3(e)), while others may solely represent a grant from the government (e.g., reimbursement of incurred costs).



## Government Grants

**[Section last amended May 15, 2020]**

If the government assistance an entity receives is not accounted for under ASC 740 (e.g., an income-tax-based credit), an exchange transaction (e.g., loan, equity transaction, or revenue arrangement), or a contribution within the scope of ASC 958, it would most likely be viewed as a government contribution of assets and accounted for as a government grant. Provisions of the CARES Act that could potentially be accounted for as a government grant include, but are not limited to, the following:

- *Paycheck protection program (Sections 1102 and 1106)* — The CARES Act allows an eligible small business to apply to a lender approved by the Small Business Administration for a loan and receive loan forgiveness if certain conditions are met. See the [Loans and Other Support to Small Businesses](#) discussion above for more information about this program.
- *Entrepreneurial development (Section 1103)* — The CARES Act provides grants to certain resource partners to address education, training, and advising related to covered small business concerns. See the [Loans and Other Support to Small Businesses](#) discussion above for more information about this program.
- *Emergency EIDL grants (Section 1110)* — The CARES Act establishes an emergency grant that allows an eligible entity that has applied for an EIDL loan as a result of COVID-19 to request an advance on that loan (no more than \$10,000), which does not need to be repaid. See the [Loans and Other Support to Small Businesses](#) discussion above for more information about this program.
- *Subsidy for certain loan payments (Section 1112)* — The CARES Act allocates \$17 billion to the Small Business Administration to pay six months of principal, interest, and fees on certain Small Business Administration loans that are not PPPLs. See the [Loans and Other Support to Small Businesses](#) discussion above for more information about this program.
- *Employee retention credit for employers subject to closure due to COVID-19 (Section 2301)* — The CARES Act provides a tax credit to certain employers that either (1) fully or partially suspend operations because of government orders associated with COVID-19 or (2) experience a substantial decline in income but continue to pay employees their wages. The tax credit is equal to 50 percent of the qualified wages paid by a qualified employer to an employee, up to a maximum of \$10,000 in qualified wages per employee, and can be applied against payroll taxes, with any excess tax credit eligible for a cash refund. Special rules apply depending on the size of the business, as do various aggregation and anti-double-dipping rules. A company that obtains a 7(a) loan under the PPP is ineligible for this payroll tax credit.
- *Pandemic relief for aviation workers (Section 4112)* — The CARES Act offers relief to aviation workers and authorizes the Treasury to allocate the following: \$25 billion to passenger air carriers, \$4 billion to cargo air carriers, and \$3 billion to air carrier contractors. The payments should be used for wages, salaries, and benefits, and the amounts awarded will not exceed the salaries and benefits reported between April 1, 2019, and September 30, 2019.

To be eligible for this assistance, air carriers or contractors must certify that they will do all of the following:

- Refrain from conducting involuntary furloughs or reducing pay rates and benefits until September 30, 2020.
- Not engage in stock buy-backs, capital distributions, or dividend payments through September 30, 2021.

- Meet the requirements in Sections 4115 and 4116, which are intended to protect collective bargaining agreements and limit executive compensation.

The Treasury has discretion to receive warrants, options, preferred stock, debt securities, notes, or other financial instruments issued by recipients of this financial assistance. The Transportation secretary also may require recipients to maintain air service to certain areas.

- *Public health and social services emergency fund* — Title VIII in Division B of the CARES Act sets aside \$100 billion to be administered through grants and other mechanisms to hospitals, public entities, not-for-profit entities, and Medicare- and Medicaid-enrolled suppliers and institutional providers to cover any unreimbursed health-care-related expenses (e.g., construction of temporary structures or emergency operation centers, retrofitted facilities, increased staffing or training, personal protective equipment) or lost revenue attributable to the public health emergency resulting from COVID-19 (i.e., forgone revenue from cancelled procedures).

Not-for-profit entities should apply ASC 958-605 to the government grants they receive. However, government grants to business entities are explicitly excluded from the scope of ASC 958.<sup>33</sup> Other than the guidance in ASC 905-605-25-1 for income replacement and subsidy programs for certain entities in the agricultural industry, there is no explicit guidance in U.S. GAAP on the accounting for government grants to business entities.

In the absence of explicit guidance in U.S. GAAP for business entities, ASC 105 provides a hierarchy for entities to use in determining the relevant accounting framework for the types of transactions that are not directly addressed in sources of authoritative U.S. GAAP. According to ASC 105-10-05-2, an entity should “first consider [U.S. GAAP] for similar transactions” before considering “nonauthoritative guidance from other sources,” such as IFRS® Standards. As discussed further below, we understand that there may be diversity in practice, which will continue to be discussed in the context of the CARES Act.

When selecting the appropriate accounting model to apply to a government grant, a business entity should consider the specific facts and circumstances of the grant. If the entity has a preexisting accounting policy for accounting for similar government grants, it should generally apply that policy. However, if the entity does not have a preexisting accounting policy or the grant is not similar to grants it has received in the past, it should carefully consider applying a model that would faithfully depict the nature and substance of the government grant.

We believe that in the absence of either directly applicable or analogous U.S. GAAP, it may be appropriate to apply IAS 20,<sup>34</sup> which has been widely used in practice by business entities to account for government grants. Therefore, entities may conclude that IAS 20 represents an appropriate model to apply for many of the government assistance programs being provided under the CARES Act.



### Connecting the Dots

While we believe that IAS 20 has been widely applied in practice by business entities in accounting for government grants, the application of ASC 450-30 may also be acceptable since we are aware that some business entities may have applied a gain contingency model by analogy for certain grants (e.g., the Electronic Healthcare Records program under the American Recovery and Reinvestment Act of 2009). Under this model, income from a conditional grant is viewed as akin to a gain contingency; therefore, recognition of the grant in the income statement is deferred until all uncertainties are resolved and the income is “realized” or “realizable.” That is, an entity must meet all the conditions required for receiving the grant before recognizing income. For example, a grant that is provided on the condition that an entity cannot

<sup>33</sup> See ASC 958-605-15-6(d).

<sup>34</sup> International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

repurchase its own shares before September 30, 2021, may result in the deferral of income recognition until the compliance date lapses. Such a deferral may be required even if (1) the government funded the grant, (2) the entity incurred the costs that the funds were intended to defray, and (3) the remaining terms subject to compliance are within the entity's control and are virtually certain of being met. That is, it would not be appropriate under a gain contingency model for an entity to consider the probability of complying with the requirements of the government grant when considering when to recognize income from the grant. Therefore, for most of the grants under the CARES Act, the recognition of income under ASC 450-30 would most likely be later than the recognition of income under IAS 20.

In addition, it may be acceptable in practice to apply other U.S. GAAP for government grants. While government grants to business entities are explicitly excluded from the scope of ASC 958, the FASB staff has noted that such entities are not precluded from applying that guidance by analogy when appropriate. For example, a business entity may conclude that it is acceptable to analogize to that guidance if it receives a grant that is similar to one received by a not-for-profit entity (e.g., certain subsidies provided to both nonprofit and for-profit health care providers).

Further, loans obtained under the PPP may be accounted for as debt in their entirety under ASC 470, even if all or a portion of the loan is expected to be forgiven. Under ASC 405-20, income would not be recorded from the extinguishment of the loan until the entity is legally released from being the primary obligor. See the [Loans and Other Support to Small Businesses](#) section for further discussion. Alternatively, an entity may conclude that it is qualified for the PPPL and that it is probable that the PPPL it received will be forgiven. In that circumstance, the entity may account for the PPPL it received as an in-substance government grant. However, if the entity expects to repay the PPPL or does *not* conclude that (1) it is qualified for the PPPL and (2) it is probable that the entity will comply with the loan forgiveness conditions for all or a portion of the PPPL, it should account for that amount as debt. Given the Small Business Administration's guidance, we believe that there are significant uncertainties related to whether many entities that have received loans in excess of \$2 million, particularly public entities, are qualified for a PPPL and will meet the conditions for loan forgiveness. Therefore, entities that have received loans in excess of \$2 million should monitor any future developments in this area and consult with their advisers and auditors before applying the accounting for government grants. For additional information on the accounting and reporting of PPPLs by the borrower, see Deloitte's [Heads Up](#), "Accounting and Reporting Considerations for Forgivable Loans Received by Business Entities Under the CARES Act's Paycheck Protection Program."

## IAS 20 Accounting Framework

Government assistance can take many different forms. Therefore, entities will need to use judgment in determining which provisions in the CARES Act may be most appropriately accounted for by applying IAS 20.

An entity that elects an IAS 20 framework to account for government grants should consider that such grant cannot be recognized (even if payment is received up front) until there is reasonable assurance that the entity will (1) comply with the conditions associated with the grant and (2) receive the grant. While "reasonable assurance" is not defined in IAS 20, for a business entity that is subject to U.S. GAAP, we believe that reasonable assurance is generally the same threshold as "probable" as defined in ASC 450-20 (i.e., "likely to occur").

When an entity has met the reasonable assurance threshold, it applies IAS 20 by recognizing the government grant in its income statement on a "systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended

to compensate.” To help an entity meet this objective, IAS 20 provides guidance on two broad classes of government grants: (1) grants related to long-lived assets (capital grants) and (2) grants related to income (income grants).

### **Capital Grants**

A capital grant is a grant received by an entity with conditions tied to the acquisition or construction of long-lived assets (e.g., a grant provided to construct temporary medical facilities, which could be the case with the Public Health and Social Services Emergency Fund). An entity may elect an accounting policy to initially recognize such a grant as either deferred income or a reduction in the asset’s carrying amount. If the entity classifies the grant as deferred income, it will recognize the grant in the income statement over the useful life of the depreciable asset that it is associated with (e.g., as an offset against depreciation expense). If the entity classifies the grant as a reduction in the asset’s carrying amount, the associated asset will have a lower carrying value and a lower amount of depreciation over time. Further, with respect to nondepreciable assets, IAS 20 observes that “[g]rants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised in profit or loss over the periods that bear the cost of meeting the obligations. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise the grant in profit or loss over the life of the building.”

### **Income Grants**

Although the CARES Act provides both capital and income grants, many sections of the Act fall into the income grant category (e.g., the employee retention credit for employers subject to closure due to COVID-19 [Section 2301]). An income grant is a grant that is not related to long-lived assets. An entity may present the receipt of such a grant in the income statement either as (1) a credit to income (in or outside of operating income) or (2) a reduction in the related expense that the grant is intended to defray. As discussed above, the main objective of the accounting for government grants under IAS 20 is for an entity to recognize a grant in the same period or periods in which it recognizes the corresponding costs in the income statement. Therefore, an entity should assess the specific compliance requirements that it must meet to receive or retain any funds from the government.



#### **Connecting the Dots**

Income-related government grants that are intended to compensate for expenses incurred over time may also include over time compliance requirements. Applying IAS 20 could therefore allow for over time recognition of the grant if the entity can assert that it is likely to comply with the conditions (i.e., the grant is reasonably assured). However, if an entity instead applied the ASC 450-30 gain contingency framework to these types of grants, recognition of the government grant would generally be delayed until all conditions were met because the probability of compliance is not taken into consideration in the application of ASC 450-30.

While IAS 20 identifies two broad classes of grants, it is worth noting that some of the grants provided by the CARES Act may include multiple requirements and have aspects of both capital grants and income grants. That is, such grants may be intended to subsidize the purchase of long-lived assets and certain operating costs. For example, the \$100 billion Public Health and Social Services Emergency Fund aims to cover all nonreimbursable expenses attributable to COVID-19 — such as the costs of constructing temporary structures, retrofitting new ICUs, increasing staffing, and purchasing personal protective equipment — as well as to reimburse providers for lost revenue on forgone medical procedures. If an entity also receives reimbursement through other mechanisms, it will need to return the duplicated funds received through the CARES Act to the government. Therefore, an entity receiving a grant that is subject to multiple requirements should carefully assess how to allocate such a grant into components on a systematic and rational basis to accomplish the overall objective of matching recognition of the grant to recognition of the cost in the income statement.

## Statement of Cash Flows

When an entity receives a capital grant, the timing of the cash payment it receives from the government for long-lived assets could affect the cash flow classification. If the entity receives the cash after it has incurred the capital costs, it would be appropriate to present the cash inflow from the government in the same category (i.e., investing) as the original payment for those long-lived assets. However, if the government provides the funds before the expenditures have been incurred, it would be appropriate for the entity to present that cash inflow as a financing activity because receiving the cash before incurring the related cost would be similar to receiving a refundable loan advance. In addition, when the entity incurs the costs in accordance with the conditions of the government grant, it should disclose the existence of a noncash financing activity resulting from the fulfillment of the grant requirements.

Similarly, if an entity receives an income grant as reimbursement for qualifying operating expenses, the grant would be presented in the statement of cash flows as an operating activity if it was received after the operating expenses were incurred. However, some entities may believe that in cases in which cash is received before the qualifying operating expenses are incurred, it would be appropriate to present the cash inflow as a financing activity for the advance (e.g., forgivable loans) in a manner consistent with the guidance above. Alternatively, others may believe that it is acceptable to present the cash inflow as an operating activity if the entity expects to comply with the terms of the grant (e.g., an advance on future payroll taxes credit) so that both the inflow and outflow are presented in the operating category.



### Disclosure Considerations

Although there currently is no authoritative guidance in U.S. GAAP on disclosure requirements for government grants received by business entities, the FASB initiated a project in 2015 to address disclosures that entities should provide for government assistance they receive.

In 2015, the Board issued a [proposed ASU](#)<sup>35</sup> that described several disclosures that it considered relevant and useful to stakeholders. Such disclosures included a general description of the significant categories of government assistance and disclosures of (1) the form in which the assistance has been or will be received, (2) the financial statement line items that are affected (noting that such assistance may be presented as a separate line in the statement of operations), (3) significant terms and conditions of the government assistance, and (4) any government assistance received but not recognized directly in the financial statements. While the project continues to be listed on the FASB's active agenda, there is no scheduled date for further redeliberations. In the absence of authoritative guidance, we believe that it is critical for an entity to disclose its accounting policy for government grants, and the financial statement line items that are affected, if the grant amounts are material to its financial statements.

**[Paragraph amended May 15, 2020]**

## Impact of Receiving Government Assistance on an Entity's Going-Concern Analysis

If government assistance is not received, there may be substantial doubt about an entity's ability to continue as a going concern. Therefore, entities will need to carefully evaluate their eligibility to receive government assistance and their compliance with such assistance before treating it as part of management's plans to alleviate any substantial doubt in a going-concern analysis.

<sup>35</sup> FASB Proposed Accounting Standards Update, *Disclosures by Business Entities About Government Assistance*.



## Disclosure Considerations

**[Added September 18, 2020]**

In accordance with ASC 205-40, when an entity prepares financial statements for each annual and interim reporting period, management must evaluate whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or, if applicable, within one year after the date that the financial statements are available to be issued).

The conditions or events that give rise to substantial doubt about an entity's ability to continue as a going concern are based on an assessment of whether it is probable that the entity would not be able to meet its obligations as they become due. This assessment should be performed without consideration of management's plans to alleviate the concern.

An entity's receipt of or failure to receive government assistance associated with the CARES Act and, in particular, its compliance with PPPL forgiveness conditions may affect its assessment of whether management's plans alleviate substantial doubt about the entity's ability to continue as a going concern. Therefore, the entity should consider the applicable disclosure requirements in ASC 205-40-50-12 and 50-13.

## Revenue Transactions for Health Care Providers

As discussed above, payments under Medicare and Medicaid programs that are part of an existing exchange transaction between the recipient entity and an identified customer are recognized by health care providers under ASC 606 because such payments are made on behalf of the customer. The CARES Act includes several sections that may affect the amounts or timing of revenue recognition, or both. The discussion below summarizes some of the key provisions of the CARES Act for health care providers and the related accounting impacts. Many of the requirements to implement the CARES Act have not yet been written or published. Entities will need to further evaluate the requirements to determine the appropriate accounting treatment.

### ***Changes in Transaction Price***

Health care providers may need to consider whether historical models used to estimate contractual adjustments with third-party payors (e.g., Medicare and Medicaid) reflect future reimbursement expectations in light of certain provisions in the CARES Act that lead to a higher level of reimbursement for treating COVID-19 patients. For example, Section 3710 results in a 20 percent increase in the payment a health care provider would receive for treating a patient admitted with COVID-19 through the duration of the COVID-19 emergency period, and Section 3709 temporarily lifts the Medicare sequester (which reduces payments to health care providers by 2 percent) from May 1, 2020, through December 31, 2020. Because these types of provisions in the CARES Act could increase reimbursements to health care providers, affected entities may need to update their estimates of variable consideration in their determination of the transaction price for ASC 606 arrangements.

### ***Advance Payments From Medicare***

**[Section amended May 1, 2020]**

During the COVID-19 emergency period, Section 3719 of the CARES Act allows more health care providers to receive accelerated payments under an existing Medicare accelerated payment program. Rather than waiting until health care provider claims have been processed, Medicare will work with qualified health care providers to estimate their upcoming payments and provide those payments in advance of the health care provider's performing services.



Specifically, acute-care hospitals, critical-access hospitals, children's hospitals, and prospective payment system-exempt cancer hospitals will be able to request accelerated Medicare payments for inpatient hospital services. This is an expanded set of health care providers compared with those approved to participate in a preexisting accelerated payment program. Qualified health care providers can request a lump-sum or periodic payment that reflects up to six months of Medicare services. Accelerated payments will be recovered<sup>36</sup> by Medicare from future Medicare claims submitted by the health care provider. Since these payments are made on behalf of customers before the services are performed, the payments would typically be recorded as contract liabilities (e.g., deferred revenue) by the health care provider. However, if any material amounts of advance payments are expected to be refunded rather than applied to future services, such amounts would be recorded as refund-type liabilities.



### **Disclosure Considerations**

**[Added September 18, 2020]**

It is important for the entity to disclose any significant judgments it made in accounting for its revenue contracts, including (1) estimating and constraining variable consideration and (2) measuring obligations for refunds and other similar obligations.

## **Government Grants**

Health care entities may also receive consideration that is not part of their revenue contracts but is a government grant. Therefore, entities may need to apply judgment in distinguishing between payments received under the CARES Act that represent (1) adjustments to the transaction price for arrangements with their customers or (2) assistance from the government that should be accounted for as a government grant (e.g., if the payment is intended to subsidize long-lived asset costs).

## **Revenue Transactions for Federal Contractors**

**[Section added May 1, 2020]**

Section 3610 of the CARES Act allows federal agencies to reimburse federal contractors for paid leave and paid sick days given to their employees and subcontractors as a result of the contractors' inability to fulfill contractual work because of their lack of access to a federal facility due to facility closures or other restrictions attributable to COVID-19. Because this provision could increase reimbursements to federal contractors, affected entities may need to update their estimates of variable consideration in their determination of the transaction price for ASC 606 arrangements.



### **Disclosure Considerations**

**[Added September 18, 2020]**

It is important for the entity to disclose any significant judgments it made in accounting for its revenue contracts, including estimating and constraining variable consideration.

## **Subsequent Events**

The enactment of the CARES Act represents a current-period event for the first calendar quarter of 2020. Therefore, entities may have to recognize some of the effects of the different types of government assistance incorporated into the CARES Act in the current reporting period. Entities should determine the nature of the government assistance and the applicable accounting framework (e.g., income tax credits, grants, loans, or exchange transactions).

<sup>36</sup> Advance payments from Medicare will be recovered from the health care provider starting 120 calendar days after a payment is issued. Additional information is available at <https://www.cms.gov/files/document/accelerated-and-advanced-payments-fact-sheet.pdf>.

Such a determination will provide the basis for assessing the relevant events that may trigger recognition in the current financial reporting period on the basis of an entity's specific facts and circumstances (e.g., rules enacted for income taxes owed, grant conditions met, eligibility confirmed, funds received, or loans approved). Some of the conditions of the employee retention credit for employers subject to closure due to COVID-19 (Section 2301) or the direct assistance grants (e.g., pandemic relief for aviation workers [Section 4112]), for example, could have been met before March 31, 2020; if so, an entity might be required to recognize some of the grant in the first calendar quarter of 2020. Other programs, like the PPP (Sections 1102 and 1106), would not be recognized until the second quarter of calendar 2020 because entities are required to apply for the loans under that program.



### **Disclosure Considerations**

***[Added September 18, 2020]***

Under ASC 855, a nonrecognized subsequent event must be disclosed if it is "of such a nature that [it] must be disclosed to keep the financial statements from being misleading."

## Appendix — Summary of Changes

The table below lists sections in which substantive changes were made since this publication's original issuance.

Topic	Date of Change	Type of Change
Overview	May 1, 2020	Amended section
Lending Initiatives	May 1, 2020	Added paragraph
Loans and Other Support to Small Businesses	May 1, 2020	Amended paragraphs
Paycheck Protection Program (Sections 1102 and 1106)	May 1, 2020, May 15, 2020, and July 8, 2020	Amended section
Borrower Accounting Considerations	May 8, 2020, July 8, 2020, and September 18, 2020	Amended section and added disclosure considerations
Lender/Investor Accounting Considerations	May 1, 2020, and September 18, 2020	Amended paragraphs, added footnote, and added disclosure considerations
Emergency Grants and Loans (Section 1110)	May 1, 2020	Amended paragraph
Loans and Loan Guarantees	May 1, 2020	Amended paragraph
Borrower Accounting Considerations — Loans Obtained Under Section 4003(b) of the CARES Act	May 1, 2020, and September 18, 2020	Added Connecting the Dots, amended paragraph, and added disclosure considerations
Borrower Accounting Considerations — Warrants or Other Equity Interests Issued Under Section 4003(d) of the CARES Act	September 18, 2020	Added disclosure considerations
Fair Value Accounting	May 1, 2020	Amended paragraph
Lending Under Federal Reserve Facilities and Programs	May 1, 2020	Amended paragraph
Assistance to Small and Midsized Businesses and Nonprofit Entities (Section 4003)	May 1, 2020, and July 8, 2020	Amended section
Borrower Accounting Considerations	May 1, 2020, July 8, 2020, and September 18, 2020	Amended section and added disclosure considerations
Lender Accounting Considerations	May 1, 2020, and September 18, 2020	Added section and disclosure considerations
Municipal Liquidity Facility (Section 4003)	May 1, 2020, and July 8, 2020	Amended section
Other Federal Reserve Programs	May 1, 2020	Amended section
Accounting Considerations — MMLF	July 8, 2020, and September 18, 2020	Amended paragraph and added disclosure considerations
Accounting Considerations — TALF	July 8, 2020, and September 18, 2020	Amended paragraph and added disclosure considerations
Application of TDR Guidance (Section 4013)	May 1, 2020, and September 18, 2020	Amended section and added disclosure considerations
Adoption of CECL (Section 4014)	May 1, 2020, and September 18, 2020	Amended paragraph and added disclosure considerations

(Table continued)

Topic	Date of Change	Type of Change
Lender/Investor Accounting Considerations	May 1, 2020, July 8, 2020, and September 18, 2020	Amended section
Regulatory Capital Relief for Banks (Section 4011)	May 1, 2020	Amended paragraph
Income Taxes	May 1, 2020	Amended section
Government Grants	May 1, 2020, and May 15, 2020	Amended section
Statement of Cash Flows	September 18, 2020	Added disclosure considerations
Impact of Receiving Government Assistance on an Entity's Going-Concern Analysis	September 18, 2020	Added disclosure considerations
Advance Payments From Medicare	May 1, 2020, and September 18, 2020	Amended section and added disclosure considerations
Revenue Transactions for Federal Contractors	May 1, 2020, and September 18, 2020	Added section and disclosure considerations
Subsequent Events	September 18, 2020	Added disclosure considerations

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