The US CARES Act

IFRS® compared to US GAAP

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Contents

Foreword 1

About this publication 2

1. CARES Act: Executive summary 4

2. Government grants 6
   - 2.1 Overview 6
   - 2.2 Not-for-profit entities 6
   - 2.3 For-profit business entities 7

3. Income taxes 12
   - 3.1 Recognizing the changes in tax law 12
   - 3.2 Net operating losses 14
   - 3.3 Interest deductibility 15
   - 3.4 Alternative minimum tax 15
   - 3.5 Tax accounting method changes 16
   - 3.6 PPP loan forgiveness 17

4. Payroll taxes 18
   - 4.1 Payroll tax deferral 18
   - 4.2 Payroll tax credits 18

5. Paycheck Protection Program 21
   - 5.1 Overview 21
   - 5.2 Borrower accounting 22
   - 5.3 Lender accounting 23

6. Debt and equity instruments issued 27
   - 6.1 Overview 27
   - 6.2 Classification of debt and equity instruments 28
   - 6.3 Earnings per share 30

7. Mortgage relief: Forbearances 32
   - 7.1 Lender accounting 32
   - 7.2 Borrower accounting 36

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8. Deferral and suspension of select guidance 37
8.1 Compliance with US GAAP 37
8.2 Credit impairment standard 37
8.3 Troubled debt restructurings 38
9. Lease eviction moratorium 40
10. Subsequent events and going concern 42
10.1 Subsequent events 42
10.2 Going concern 43
COVID-19: Resources 45
Acknowledgments 46

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Accounting for the largest relief bill – ever

As we entered 2020, 'coronavirus' was not something we searched the internet for, and COVID-19 was not yet in the dictionary. Now, COVID-19 has transformed our lives and our economy, and together we are facing the unprecedented challenges of a rapidly changing landscape to establish clarity, emerge with strength, and inspire the future of business.

To help mitigate COVID-19's far-reaching effects, the CARES Act – officially known as the Coronavirus Aid, Relief, and Economic Security Act – was signed into law on March 27 and subsequently amended on June 4. It was the third federal law enacted to date in an effort to mitigate COVID-19's far-reaching effects.

The numbers are staggering. Over $2 trillion and the largest fiscal stimulus in US history, the relief includes $900 billion in loans to business and nearly $600 billion in corporate tax relief.

As CEOs look to manage the business and systemic risks that COVID-19 has exposed, CFOs and controllers are focused on what it means to run the finance function in the midst of a pandemic – from employee safety and the implications of remote working, to reporting responsibilities and deadlines that may be more flexible but do not disappear.

In providing this guide on the accounting implications of the CARES Act under US GAAP and IFRS Standards, we hope to ease some of the accounting burden – letting you spend more time on execution.

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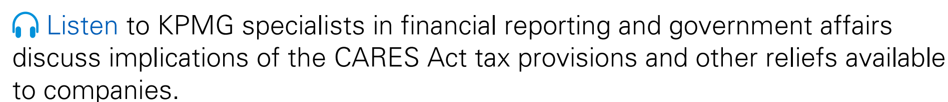
About this publication

This publication considers the primary accounting and reporting impacts of a number of provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law on March 27, 2020 and subsequently amended on June 4.

The CARES Act was expanded and amended by the Paycheck Protection Program and Health Care Enhancement Act and the Paycheck Protection Program Flexibility Act, signed into law on April 24 and June 5, respectively. All references to the CARES Act in this publication include these subsequent acts.

CARES Act focus

This publication focuses on the requirements (and relief) of the CARES Act. It does not consider relief provided separately by the Financial Accounting Standards Board or the International Accounting Standards Board. And it does not include all of the accounting guidance that we have published related to COVID-19.



Listen to KPMG specialists in financial reporting and government affairs discuss implications of the CARES Act tax provisions and other reliefs available to companies.

And for access to our full suite of guidance under both US GAAP and IFRS Standards, see the links provided in COVID-19 resources.

Guidance is evolving

The guidance in this publication reflects our current understanding of the CARES Act. The Act's provisions may be subject to clarification or amendment by the US Federal Government. We will update this guidance as further information becomes available.

Organization of the text

This publication summarizes the accounting requirements under US GAAP, followed by a high-level comparison to IFRS Standards; this is intended to provide directional guidance rather than deal with every difference related to the application of IFRS Standards. As such, it is a companion to our Handbook, IFRS compared to US GAAP. We refer to this Handbook for additional discussion on the differences between US GAAP and IFRS Standards, as well as to more detailed guidance published by KPMG that discuss the accounting in greater detail.

Our commentary is referenced to current requirements of IFRS Standards and the FASB's Accounting Standards Codification® as follows:

— For US GAAP, references in square brackets identify any relevant paragraphs of the Codification. For example, 740-10-25-6 is paragraph 25-6 of ASC Subtopic 740-10.

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- For IFRS Standards, references in square brackets identify any relevant paragraphs of the standards or IFRS Interpretations Committee decisions, addressed in its publication IFRIC® Update. For example, IAS 20.3 is paragraph 3 of IAS 20, and IU 05-16 is IFRIC Update May 2016.

Abbreviations

We use the following abbreviations in this publication:

Act	Coronavirus Aid, Relief, and Economic Security Act
AMT	Alternative minimum tax
CARES	Coronavirus Aid, Relief, and Economic Security (Act)
EPS	Earnings per share
ISLP	Industry-specific loan program
LPLB	Loan programs for other larger businesses
NOL	Net operating loss
PPP	Paycheck Protection Program
PRAW	Pandemic relief for aviation workers
SBA	Small Business Administration
TCJA	Tax Cuts and Jobs Act
TDR	Troubled debt restructuring

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1. CARES Act: Executive summary

COVID-19 has transformed our lives and our economy, and businesses and individuals need a transformative response to ensure the nation emerges from this episode efficiently, effectively, and sustainably.

The CARES Act – officially known as the Coronavirus Aid, Relief, and Economic Security Act – was signed into law by the president on March 27, 2020 and subsequently amended on June 4. It was the third federal law enacted to date in an effort to mitigate COVID-19's far-reaching effects.

The CARES Act was expanded and amended by the Paycheck Protection Program and Health Care Enhancement Act and the Paycheck Protection Program Flexibility Act, signed into law on April 24 and June 5, respectively

Major nontax provisions

The CARES Act provides a broad range of emergency funding benefits, including:

— A $349 billion Small Business Administration-administered Paycheck Protection Program (PPP), subsequently increased by another $321 billion, under which eligible business borrowers can receive guaranteed loans during a prescribed period that, in some cases, can be forgiven and become grants. On June 4 the Paycheck Protection Program Flexibility Act of 2020 was signed into law, which revised certain provisions of the Paycheck Protection Program created by the CARES Act

— A $500 billion authorization for the Treasury Department (through the Federal Reserve) to make loans and guarantees and provide other financial support to eligible businesses and nonprofits, as well as state and local governments (The Federal Reserve subsequently established a credit facility for financial institutions that originate PPP loans.)

— Modifications to the emergency paid sick leave programs created in earlier COVID-19 relief legislation

— Establishment of a $150 billion state, local, and tribal government Coronavirus Relief Fund

— $175 billion for hospitals and healthcare providers responding to COVID-19 and $1.3 billion for community health centers, plus various provisions relating to Medicare, health insurance, drugs, medical devices, and other healthcare-related matters

— Various relief provisions focused on the financial services sector

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Major tax provisions

The CARES Act includes substantial changes to the tax law, most (but not all) temporary. The tax provisions were estimated to represent approximately $591 billion over a 10-year period.

The CARES Act includes significant tax 'relief' provisions for individuals, the centerpiece of which is a program designed to provide cash quickly to many Americans through an advance credit mechanism. For businesses, the legislation provides an array of benefits and incentives, including:

- A rule allowing 2020, 2019 and 2018 losses to be carried back five years to provide cash to taxpayers
- Deferral of payment of certain 2020 employer and self-employment payroll taxes
- A refundable employee retention payroll tax credit for some employers that have been significantly adversely affected by COVID-19
- Temporary changes to interest expense deduction, noncorporate loss limitation, 80% taxable income limitation, and corporate alternative minimum tax credit rules
- Technical fixes to a handful of provisions in the 2017 tax law overhaul (commonly referred to as the Tax Cuts and Jobs Act), including one relating to 'qualified improvement property'
- Temporary relief provisions relevant to particular industries or issues

For more information, read the KPMG report about the tax provisions in the CARES Act.

Interactions between nontax and tax provisions

Interactions between the PPP and the rules relating to both deferral of payroll taxes and the employee retention tax credit might affect decisions as to whether to use the PPP or the CARES Act's broader tax provisions. Read the KPMG summary of the CARES Act's lending programs for more information on this interaction.

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2. Government grants

2.1 Overview

The Act provides direct government assistance through new and repurposed existing programs. These programs target a variety of companies, including air carriers (passenger and cargo), airport operators, healthcare providers, higher education institutions and agricultural producers. The assistance may comprise varying forms of support, including payroll and payroll tax support, and reimbursement of healthcare-related expenses and/or lost revenue. In addition, certain loan programs provided under the Act may contain favorable rates of interest relative to what may be considered a market cost of funds.

For many forms of support provided for in the Act, there is specific guidance under US GAAP that prescribes the accounting – e.g. income taxes and the lease eviction moratorium. However, in some cases there are no specific requirements and the company will need to develop an accounting policy (to be applied consistently) – e.g. payroll and payroll tax support.

This section outlines the accounting by not-for-profit entities for contributions (section 2.2) and what we believe are acceptable accounting policies for for-profit business entities in the absence of specific guidance (see section 2.3). As a general caveat in analyzing government grants, if the government or another party in the transaction is a customer then the specific guidance in Topic 606 (revenue) applies.

Sections 3 to 11 deal with relevant areas of US GAAP where there is specific guidance. However, even within those sections there are certain elements of the accounting for which a company will need to develop an accounting policy based on the principles of government grant accounting; those areas are referred back to the general guidance in this section.

2.2 Not-for-profit entities

Not-for-profit entities need to carefully evaluate the provisions of the Act to determine whether consideration received represents a contribution or an exchange transaction that should be accounted for under Topic 606.

Subtopic 958-605 stipulates that an exchange transaction is a reciprocal transaction in which each party receives and sacrifices commensurate value; the public benefit of a government grant or the execution of the grantor's mission do not represent commensurate value. After the amendments in ASU 2018-08 (scope clarification), more transactions are considered contributions (accounted for under Subtopic 958-605) than were previously. [958-605-15-5A]

Revenue from conditional contributions is recognized when the conditions on which the contribution depends are substantially met. Most contributions under the Act will be conditional. Contributions are considered conditional if: [958-605-25-11]

— there is a right of return to the contributor for the transferred assets (or reduced, settled or canceled liabilities), or a right of release of the promisor

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from its obligation to transfer assets (or reduce, settle or cancel liabilities); and

- one or more barriers must be overcome before the recipient is entitled to the resources transferred or promised.

In assessing barriers that must be overcome, Subtopic 958-605 includes indicators. Although trivial stipulations (e.g. a requirement to provide an annual report) are not barriers to entitlement, the ease with which a barrier may be met or the entity's historical experience with meeting the barrier, are not relevant. Importantly, ASU 2018-08 eliminated the assessment of 'remote' as a separate step when determining whether a contribution is conditional. Therefore, a company cannot factor in the likelihood that a barrier will be overcome. Revenue is recorded based on whether the condition is substantially met – not on whether it is likely to be met. [958-605-25-5C – 25-5D]

2.3 For-profit business entities

The lack of US GAAP guidance on the accounting for government grants by for-profit businesses has historically resulted in diversity in practice. We expect diversity will continue to exist. However, before a company concludes that it should develop an accounting policy, it should confirm that there is indeed no specific guidance that applies.

Specific guidance applies

Companies should first consider whether specific industry guidance applies to the consideration to be received – e.g. Subtopic 905-605 for agricultural subsidies.

Next, it is important to assess whether either the government or another party in the transaction is a customer, such that the consideration to be received is actually a payment for a good or service. In this case, Topic 606 applies. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. [606 Glossary]

This Topic 606 scoping analysis may require careful consideration, and companies may conclude some provisions of the Act are in the scope of Topic 606 while others are not.

For example, a healthcare entity accounts for funds it receives from a government agency on behalf of a patient to whom it provides services, by applying the guidance in Topic 606. Although the patient is the customer under Topic 606, the payments the government makes on the patient's behalf are considered payments for the services provided to the patient.

The Act and other government initiatives provide relief to healthcare providers through several provisions that increase Medicare payments for certain services provided, including lifting the 2% Medicare sequestration through the end of the calendar year and providing hospitals treating COVID-19 patients with a 20% payment increase for all services provided. The payments are made for services a healthcare entity has provided or will provide to its Medicare patients who are the healthcare entity's customers. Therefore, they are accounted for under Topic 606.

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Developing an accounting policy

If the grant consideration is not in the scope of specific guidance, including Topic 606, a company should consider the nature of the grant and its historical accounting policies and practices when determining appropriate guidance to apply by analogy. Some of the analogies that we are aware are applied in practice are discussed in sections 2.3.1 to 2.3.4.

Companies that have not previously received government grants may need to develop new accounting policies and procedures, and significant judgment may be required to account for newly implemented government programs such as those arising from the Act.

2.3.1 Analogy to IFRS Standards

This section provides an overview of the accounting under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance. However, while analogizing to IAS 20 may be appropriate in the absence of other guidance, in certain cases there are elements of US GAAP that take precedence; these areas are highlighted in the discussion that follows. [105-10-05-2]

Accounting for government grants under IAS 20 generally depends on the nature and conditions of the grant. As an overarching principle, the recognition pattern of the grant in profit or loss mirrors that of the costs the grant is intended to compensate. This assessment can be challenging and requires judgment.

What are government grants?

IAS 20 defines government grants as "assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity." Typical examples include R&D funding, forgivable or interest-free loans, grants of land or facilities and expense waivers. 'Government' includes government agencies and similar bodies, at a local, national or international level. [IAS 20.3]

Although the definition is broad, not all government assistance meets the definition of a government grant. For example, if the assistance cannot reasonably have a value placed on it, then it is not a government grant and is not accounted for under IAS 20. In addition, government assistance that is provided to an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability, are not in the scope of IAS 20. [IAS 20.2(b), 3]

When are government grants recognized?

Government grants are not recognized until there is reasonable assurance that (1) the recipient will comply with the relevant conditions and (2) the grant will be received. When assessing whether 'reasonable assurance' exists, it is important to consider all facts and circumstances. [IAS 20.7]

In applying IAS 20 by analogy, we understand the SEC staff equates 'reasonable assurance' to 'probable' under US GAAP, which means that 'the future event or events are likely to occur'. This means that a US GAAP company

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applying IAS 20 by analogy will need to conclude that it is likely that it will comply with the relevant conditions and receive the grant. [Master Glossary]

If criteria (1) and (2) are met, government grants are recognized in profit or loss on a systematic basis that mirrors the manner in which the company recognizes the underlying costs for which the grant is intended to compensate. [IAS 20.12]

The following table summarizes the timing of recognition. [IAS 20.12, 17–18, 20]

Grant related to	Timing of recognition in profit or loss
Depreciable asset	As the asset is depreciated/amortized
Non-depreciable asset	Consistent with conditions related to the grant. For example, if a grant is related to the purchase of land on the condition that the company constructs and operates a building on that land, the grant is recognized in profit or loss as the building is depreciated
Income – to compensate for specific costs – e.g. R&D or payroll costs	On a systematic basis over the periods when the related costs are recognized as expenses
Income – to compensate for expenses or losses already incurred or to provide immediate financial support with no future related costs	When the grant becomes receivable

How are government grants presented?

If a government grant meets the recognition criteria, IAS 20 generally allows either gross or net presentation on the balance sheet and/or income statement. [IAS 20.24, 29]

Grant related to	Gross presentation	Net presentation
Asset	Recognized as deferred income and amortized over the useful life of the asset	Deducted from the cost of the asset therefore reducing depreciation expense on nonfinancial assets
Income	Recognized separately – e.g. as other income	Offset against the related expenditure

The presentation elected should be applied consistently by type of grant. For example, a company may elect gross presentation for all grants related to assets and net presentation for all grants related to income. [IAS 8.13]

Low-interest loans

Under IAS 20, the benefit of a government loan at a below-market interest rate is accounted for as a government grant, unless the definition of a government grant is not met. The loan is initially recognized at its fair value – e.g. the present value of the expected future cash flows discounted at a market-related interest rate. The benefit that is the government grant is measured as the difference between the fair value of the loan on initial recognition and the

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amount received, which is accounted for according to the nature of the grant. [IAS 20.10A, IFRS 9.5.1.1, B5.1.1]

However, US GAAP companies that apply IAS 20 by analogy generally do not recognize a separate grant element for loans with below-market terms. This is because US GAAP has specific guidance that does not allow interest on low-interest or interest-free loans from a government to be imputed. Consistent with existing US GAAP guidance, financial institutions generally did not separate a grant element for the favorable loan terms they received under the Troubled Asset Relief Program (TARP) established by the government in response to the 2008 financial crisis. [835-30-15-3(e)]

Forgivable loans

Under IAS 20, a forgivable loan is a government grant when there is reasonable assurance that the company will meet the terms for forgiveness of the loan. Otherwise, the loan is recognized as a financial liability. In applying IAS 20 by analogy, we understand the SEC staff equates 'reasonable assurance' to 'probable' under US GAAP, which means that a US GAAP company applying IAS 20 by analogy will need to conclude that it is likely that the terms for forgiveness will be met.

If some, or all, of a government grant becomes repayable (e.g. due to non-fulfillment of the grant conditions), the effect of the change in estimate is recognized when management concludes that it is no longer reasonably assured that all of the terms for forgiveness will be met. A corresponding financial liability is recognized. [IAS 20.3, 10, 32]

2.3.2 Analogy to not-for-profit accounting

The guidance on contributions in Subtopic 958-605 excludes transfers of assets from governmental entities to business entities. However, the FASB staff has noted that business entities are not prohibited from analogizing to that guidance. Revenue from conditional contributions is recognized under Subtopic 958-605 when the conditions on which the contribution depends are substantially met. See section 2.2.

2.3.3 Analogy to Topic 450 (contingencies)

Some companies have historically applied gain contingency accounting under Topic 450. Under this approach, a company does not recognize income related to the grant consideration until it is realized or realizable.

2.3.4 Analogy to Topic 606 (revenue)

If a company applies Topic 606 only by analogy, it does not classify the subsidy as revenue from contracts with customers.

Accounting for grants by analogizing to Topic 606 includes, among other things:

- evaluating when the company has enforceable rights and obligations;
- evaluating whether the consideration is variable; and

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— if there is variable consideration, determining the appropriate amount to recognize in the income statement after consideration of the constraint on variable consideration.

When analogizing to Topic 606, judgment will likely be necessary to determine the hypothetical measure of progress over which to recognize income, assuming over time recognition is appropriate, because no good or service is being transferred to the government. The nature of the grant is considered when determining whether Topic 606 provides appropriate analogous guidance.

Read more: KPMG Handbook, Revenue recognition.

Comparison to IFRS Standards

Like US GAAP, government assistance in the form of income tax is accounted for under the income tax guidance in IFRS Standards (see section 3).

Unlike US GAAP, IAS 20 directly addresses the accounting and disclosure requirements for government grants and applies to all entities applying IFRS Standards.

Compared to Subtopic 958-605 or Topic 450 under US GAAP, IAS 20 may result in earlier recognition – because of the 'reasonable assurance' threshold – and more flexibility in the presentation of grant income.

In addition, there may be other differences in the accounting between an IFRS company reporting under IFRS Standards and applying IAS 20 and a US GAAP company that analogizes to IAS 20. This is because there are certain aspects of IAS 20 that conflict with US GAAP – e.g. accounting for low-interest loans.

Like US GAAP, it is important to assess whether either the government or another party in the transaction is a customer. Payments from a customer for a good or service are accounted for by applying revenue guidance (i.e. IFRS 15). Topic 606 and IFRS 15 are similar, but there are some differences that are discussed in chapter 4.2 of KPMG Handbook, IFRS compared to US GAAP.

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3. Income taxes

The Act provides the following forms of income tax relief to companies.

- Enacts additional carryback opportunities for net operating losses (NOLs), and a company can now offset 100% of its taxable income with NOLs – as opposed to only 80% before the Act's enactment.
- Temporarily increases the interest deductibility threshold from 30% to 50% of adjusted taxable income.
- Accelerates refunds of any remaining alternative minimum tax (AMT) carryforwards to the 2019 tax year from 2020 and/or 2021.
- Changes the depreciable life of qualified improvement property to 15 years for income tax purposes, which makes it eligible for bonus depreciation.

3.1 Recognizing the changes in tax law

Under US GAAP, companies should recognize the effect of the changes in tax law on existing deferred tax assets and liabilities in income from continuing operations in the interim period that includes March 27, 2020. This includes any changes in a company's valuation allowance that is attributable to the Act. [740-270-25-5, 30-11]

The Act is retroactive. As a result, the estimated annual effective tax rate for the current period and income taxes payable or receivable for a prior annual period are adjusted in the interim period that includes March 27, 2020. [740-270-25-5 – 25-6]

We believe a company has two options for determining the amount of the remeasurement of its deferred tax assets and liabilities to recognize discretely.

Enactment date approach

- **Step 1:** Remeasure enactment date deferred tax assets and liabilities and recognize the adjustment as a discrete item in the interim period that includes March 27.
- **Step 2:** Adjust the estimated annual effective tax rate and apply it to year-to-date ordinary income to arrive at year-to-date income tax expense. From this amount, exclude the amount computed in Step 1 and recognize the remainder.

Beginning-of-year approach

- **Step 1:** Remeasure beginning-of-year deferred tax assets and liabilities and recognize the adjustment as a discrete item in the interim period that includes March 27.
- **Step 2:** Adjust the estimated annual effective tax rate and apply it to year-to-date ordinary income to arrive at year-to-date income tax expense. Recognize this amount.

A company should consistently apply its method and disclose the total enactment date effect on deferred taxes resulting from the change in tax law. [740-10-50-9(g)]

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As a reminder, SAB 118 (income tax accounting implications of the Tax Cuts and Jobs Act) applied only to the application of Topic 740 to the TCJA. We are not aware of an effort by the SEC staff to extend the guidance to the changes resulting from the Act or any other legislation.

Like any new tax law, regulations that change, clarify or interpret the law may be issued in the future. IRS regulations are generally recognized entirely in the period in which they are issued. This is because they: [740-270-25-5, 740-10-25-6, 35-2]

— change enacted tax law and therefore are accounted for under Topic 740's guidance on changes in tax law; or

— clarify or interpret the law and therefore are accounted for under Topic 740's guidance on income tax uncertainties, which allows companies to consider only information that is available at period-end when evaluating recognition and measurement of income tax amounts.

However, because a company is required to consider all available evidence when evaluating the need for a valuation allowance, interpretive guidance issued after the period-end date may need to be considered in that analysis. [740-10-30-17]

Read more: Sections 5 and 10 of KPMG Handbook, Accounting for income taxes.

Comparison to IFRS Standards

Like US GAAP, companies should recognize the effect of the changes in tax law on existing deferred taxes in the interim period that includes March 27, 2020. This includes any changes in a company's assessment of its deferred tax assets that should be recognized. Unlike US GAAP, the effects should be recognized consistently with the underlying items to which they relate – in profit or loss, other comprehensive income or directly in equity (backwards-tracing). [IAS 12.47, 61A]

Under IFRS Standards, a company may recognize the effect of the changes using either of the following approaches. [IAS 34.30(c)]

— **Immediately** in the interim period in which the changes occur. Unlike US GAAP, the company would determine the amount to recognize in the interim period based on the deferred tax balances at the interim reporting date – i.e. an approach different from both the enactment date and the beginning-of-year approaches.

— Unlike US GAAP, **spread** over the remainder of the annual reporting period via an adjustment to the estimated annual effective income tax rate. [IAS 34.30(c)]

Read more: KPMG Insights into IFRS, section 5.9.190.

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3.2 Net operating losses

The Act allows a five-year carryback of NOLs arising in tax years beginning after December 31, 2017 and before January 1, 2021. The Act also allows full carryback for these NOLs. As a result, a company:

— can offset all its taxable income with these NOLs – it is not limited to offsetting 80% of its taxable income; and

— will generally realize a 35% benefit from these NOLs if it carries them back to a tax year in which 35% was the enacted tax rate. Off-calendar year-end taxpayers also realize a benefit higher than 21% if they carry the NOLs back to a tax year in which the enacted rate was 35% or a blended rate applied to the tax year.

The Act also allows an off-calendar year-end taxpayer to carry back two years but restricts the carryforward to 20 years for NOLs that arose in the tax year that straddled December 31, 2017. This change corrected an apparent error in the TCJA, which was enacted in December 2017.

Under US GAAP, a valuation allowance is required for deferred tax assets if it is more likely than not that all or some of the assets will not be realized. In assessing realization, a company considers whether it will be able to generate sufficient taxable income in the period and of the character (e.g. ordinary, capital, foreign source) necessary to use the benefit. [740-10-30-16 – 30-25]

If a company applies the carryback provisions, it:

— converts to income tax receivables the deferred tax assets related to those NOLs; and
— reduces the total amount of existing deferred tax assets.

Although Topic 740 does not require a company to prepare a detailed schedule of the reversal of its temporary differences, it may need to schedule to determine how much of the new total of deferred tax assets are more likely than not to be realized – i.e. after the total has been reduced by the carryback amount. Further, off-calendar year-end taxpayers may be able to conclude that deferred tax assets scheduled to reverse in tax years beginning before January 1, 2021 are more likely than not to be realized because they also will be available for carryback. [740-10-30-18, 55-15]

Read more: KPMG Handbook, Accounting for income taxes, section 4.

Comparison to IFRS Standards

Under IFRS Standards, a deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or the unused tax losses and tax credits can be utilized – i.e. a net approach instead of the gross approach applied under US GAAP. In other respects, we expect the analysis of NOLs under IAS 12 and the resulting net deferred tax asset position to be like US GAAP. [IAS 12.24, 34]

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'Probable' is not defined in IAS 12. In our experience, companies often use a working definition of 'more likely than not', which is consistent with the approach under US GAAP. [IAS 12.24]

Read more: KPMG Insights into IFRS, section 3.13.330.

3.3 Interest deductibility

Current US federal tax law allows taxpayers to deduct interest expense only to the extent that it does not exceed 30% of adjusted taxable income for the respective tax year. The bill temporarily increases the deductibility of interest expense from 30% to 50% of adjusted taxable income for tax years beginning in 2019 and 2020.

Increasing the deductibility of interest expense may provide immediate benefit to companies by increasing a net operating loss in the 2019 or 2020 tax years (which can be carried back up to five years) or reducing the tax liability for these years. It also results in a decrease in a company's deferred tax assets related to disallowed interest carryforwards. Like the changes related to NOLs (see section 3.2), this change in total deferred tax assets may require companies to schedule the reversals of their deferred tax assets and liabilities to determine how much of the deferred tax assets are more likely than not to be realized. [740-10-30-18, 55-15]

Read more: KPMG Handbook, Accounting for income taxes, section 4.

Comparison to IFRS Standards

As discussed for NOLs, IFRS Standards apply a net rather than a gross approach to accounting for deferred tax assets. However, in other respects, we expect the analysis of interest deductibility under IAS 12 to be like US GAAP.

Read more: KPMG Insights into IFRS, section 3.13.330.

3.4 Alternative minimum tax

The AMT regime was repealed in 2017 under the TCJA. For 2018, 2019 and 2020, existing AMT credit carryforwards were used to reduce a company's regular tax obligation. Any remainder was eligible for a 50% refund in 2018–2020 and a 100% refund in 2021.

For example, 50% of an AMT credit carryforward that was unused in the 2019 tax year (i.e. did not offset regular taxable income in that year) was refundable and the remaining 50% becomes refundable in 2020 and 2021. The Act accelerates the refunds to the 2019 tax year for remaining AMT credit carryforwards.

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Companies currently classify AMT credit carryforwards as either income tax receivables or deferred tax assets. We believe existing deferred tax assets related to the carryforwards should now be classified as income taxes receivable because they will reduce income taxes payable or be refunded.

Read more: KPMG Handbook, Accounting for income taxes, sections 3 and 9.

Comparison to IFRS Standards

Like US GAAP, we believe that existing deferred tax assets related to the carryforwards should now be classified as income taxes receivable (i.e. current tax) under IFRS Standards. This is because they will reduce income taxes payable or be refunded. [IAS 12.12]

If a company had previously elected to discount a current tax asset associated with a refundable AMT credit carryforward, unlike the undiscounted approach taken under US GAAP, it will need to re-estimate the receivable based on the accelerated timing of the refund.

Read more: KPMG Insights into IFRS, section 3.13.70.

3.5 Tax accounting method changes

The Act may change the tax accounting methods that are permissible to be used, or may change the tax accounting methods a company chooses to use, resulting in a company committing to change its tax accounting method. This is a change in how income taxes are calculated under the law, and not a change in accounting principle (or the method of applying it) under US GAAP.

For example, taxpayers are required to change the depreciation methods of qualified improvement property placed in service after 2017 if it has been depreciated as 39-year building property. Although this change does not affect the amount of the temporary difference related to such assets, it does alter the expected reversal pattern. Taxpayers should generally be able to change the depreciation methods by filing an automatic accounting method change, or an amended tax return if the property was depreciated in only one prior tax return.

A company generally demonstrates its commitment to making a change in a tax accounting method by preparing and submitting Form 3115 before the period-end financial statements are issued (available to be issued). However, all facts and circumstances should be considered. In addition, if the change is not automatic, we would expect the change to be more likely than not to be sustained.

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Comparison to IFRS Standards

Like US GAAP, under IFRS Standards deferred tax is measured based on the expected manner of settlement (liability) or recovery (asset). As a result, we expect the analysis of tax accounting method changes under IAS 12 to be like US GAAP.

Read more: KPMG Insights into IFRS, section 3.13.390.

3.6 PPP loan forgiveness

If certain criteria are met, the indebtedness that a borrower incurs under the PPP (see section 5.1) will be forgiven to the extent that the loan proceeds are used for qualifying expenses. Under the Act, forgiveness of indebtedness on a PPP loan is not includible in the borrower's gross taxable income. In April, the IRS issued Notice 2020-32, which clarifies that a borrower also gets no tax deduction for an expense that would otherwise be deductible if the payment of that expense results in the forgiveness of some, or all, of the PPP loan.

PPP borrowers should consider this guidance when estimating their annual effective tax rates because some normally deductible expenses may no longer be deductible.

Comparison to IFRS Standards

Like US GAAP, under IFRS Standards, income tax expense recognized in each interim period is computed by applying the best estimate of the full year effective tax rate to the pretax income of the interim period. As a result, we expect that the effect of PPP loan forgiveness on income tax expense under IAS 34 (interim reporting) to be like US GAAP.

Read more: KPMG Insights into IFRS, paragraph 5.9.160.

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4. Payroll taxes

The Act provides the following forms of payroll tax relief to companies.

— Deferral of employers' share of payroll taxes from the date the Act was signed into law through December 31, 2020.

— For eligible companies, a credit against applicable payroll taxes for each calendar quarter. A company that obtains a PPP loan is ineligible for this payroll tax credit.

— Advance refunding of tax credits for paid sick leave and paid family leave required by the Families First Coronavirus Response Act.

4.1 Payroll tax deferral

Companies can defer paying their 6.2% share of Social Security payroll taxes from the date the Act was signed into law through December 31, 2020.

The deferred payroll taxes are due in two installments – half on December 31, 2021, and the remaining half on December 31, 2022. However, taxpayers following the recurring item exception are generally only allowed to deduct accrued payroll taxes that are paid no later than 8½ months after year-end; amounts paid after this date are deductible when paid. Accordingly, calendar year-end taxpayers that are eligible to carry back a loss to a year with a 35% tax rate may want to consider making full payment of 2020 payroll taxes no later than September 15, 2021.

While the Act permits deferring the required payment to the government to assist companies with current year cash flow needs, the employer share of Social Security payroll taxes should be recognized as expense by companies when the services are provided to them by the related employees (i.e. as incurred). This will result in the recognition of a payroll tax liability during the deferral period until the payroll taxes are ultimately paid to the government.

Comparison to IFRS Standards

Like US GAAP, under IFRS Standards companies will recognize a payroll tax liability during the deferral period until the payroll taxes are ultimately paid to the government.

4.2 Payroll tax credits

The employer payroll tax credit provisions of the Act grant eligible companies a credit against applicable payroll taxes for each calendar quarter in an amount equal to 50% of qualified wages. Qualified wages are limited to $10,000 per quarter per employee, and the aggregate credit cannot exceed the company's

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owed payroll taxes (net of credits otherwise allowed under the Internal Revenue Code) for the quarter.

Eligible companies are those employers carrying on a trade or business in calendar year 2020 that:

— were required by an appropriate government authority to fully or partially suspend their trade or business due to the COVID-19 crisis; or
— experienced a 'significant decline in gross receipts', as defined by the Act.

Eligibility is assessed quarter to quarter; therefore, a company may not be eligible each calendar quarter during 2020. In addition, companies that have received a PPP loan are not eligible for the payroll tax credit.

Under US GAAP, for companies that have applied for the payroll tax credits, the payroll tax credit receivable is recognized when the tax credit is earned by the company. The guidance on the accounting for government grants (see section 2) should be considered to assist in determining when the tax credit is earned by the company. The example below illustrates the accounting for an entity analogizing to IAS 20.

Read more: KPMG Hot Topic, Compensation and benefit arrangements accounting impacts of COVID-19.

Example
Payroll tax credit – application of IAS 20

On March 16, ABC Corp. (more than 100 employees) suspended operations and furloughed 80% of its employees. ABC continued paying all of its employees, including the furloughed employees, their regular wages through April 30. On April 30, ABC ceased paying wages to the furloughed employees.

In April, ABC determined it was eligible for a total $1,500,000 employee retention credit, calculated as follows:

— $500,000 for qualifying wages for the period March 16 through March 31; and
— $1,000,000 for qualifying wages for the period April 1 to April 30.

In May, ABC requested and received $1,500,000 as an advance payment of the credit. In July, ABC filed for the credit on its regular Q2 payroll taxes filing.

At June 30 (end of the reporting period), ABC determines that there is 'reasonable assurance' (it is probable under US GAAP) that it has complied with the relevant conditions of the employee retention credit and will receive the credit for Q1 and Q2. This is based on the fact that at that date:

— the terms of the employee retention credit program are sufficiently clear – i.e. eligibility criteria and calculation methodology have been sufficiently clarified by the IRS to address ABC's situation; and
— ABC has asserted that it meets all objective eligibility criteria of the program.

In this example, the following are not key determining factors in assessing whether the reasonable assurance threshold is met.

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- The credit cash advanced before the end of the reporting period does not necessarily mean that ABC is eligible to receive the grant.
- Although the application for the credit has not yet been filed by the end of the reporting period, this does not necessarily mean that ABC is not eligible.

In its June 30 financial statements, ABC accounts for the $1,500,000 payroll tax credit as a grant by analogizing to IAS 20. Because the grant compensates for payroll costs already incurred relating to employees, the grant is recognized in full in profit or loss at that date. Consistent with its past application of IAS 20 and election for other income grants, ABC elects to offset the credit against the related payroll costs.

Comparison to IFRS Standards

Unlike US GAAP, IAS 20 directly addresses the accounting and disclosure requirements for government grants and applies to all entities applying IFRS Standards; see section 2.3.1.

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5. Paycheck Protection Program

5.1 Overview

The PPP principally expands on section 7(a) of the Small Business Act, which is the Small Business Administration's (SBA's) general business loan program. The PPP provides loans for small businesses affected by the economic uncertainty arising from COVID-19 to make payroll, payroll-related and other eligible payments such as rent, mortgage interest, insurance premiums, utilities and interest on pre-existing debt (incurred before February 15, 2020).

Companies requesting a PPP loan must meet certain eligibility requirements (e.g. size of business) and make a good faith certification that the current economic conditions make the loan necessary to support ongoing operations. Companies evaluate current business activity and the ability to obtain other sources of liquidity when making this certification. As indicated in a series of FAQs published by the Treasury, it is unlikely that a public company with substantial market value and access to public markets would be able to make this certification.

The loans have a maximum principal amount of $10 million per company (or a lesser amount that depends on the company's payroll); they have a minimum term of five years, which can be extended for up to five additional years if both the lender and the borrower agree.

The loans have extended deferment on payments, although interest accrues during that period. The interest rate is 1%, the lender will not demand personal guarantees or collateral from the borrower, and borrower fees are waived. In addition to the 1% coupon, lenders receive from the SBA pre-determined fees for processing the PPP loans (1 - 5% depending on the principal amount of the loan). The coupon plus the fee together mean that, from the lender's perspective, the loan is approximately at market rates.

The entire principal amount and accrued interest on the loan are eligible for forgiveness to the extent the proceeds are used to make eligible payments; however, no more than 40% may be for 'other eligible payments'). Except where permitted by the Act, the portion of the loan eligible for forgiveness is reduced if the company reduces its workforce or compensation levels. Borrowers will verify through documentation to lenders how they used the loan proceeds. If the loan is forgiven, the SBA will repay the loan to the lender and the borrower will be released from its obligations. This may happen before contractual maturity of the loan.

If the borrower does not comply with the specified conditions, it will be fully liable for all contractual payments. However, in that case the loan will be subject to a guarantee from the SBA who will pay the lender in the event of default by the borrower. The government's objective was to support small businesses suffering from the COVID-19 crisis as quickly as possible, which meant lenders may not have performed their normal credit underwriting procedures on these loans; the SBA guarantee covers that risk.

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5.2 Borrower accounting

The nature and intent of the PPP raises questions about whether the proceeds from a loan under the program should be accounted for as debt or as a government grant. A PPP loan obtained is, in legal form, debt and therefore it is acceptable to apply debt accounting under Topic 470. If a company expects that the conditions for loan forgiveness will be met, we believe it is also acceptable to treat the loan as an in-substance government grant.

5.2.1 Debt accounting

A company records the proceeds as debt. The debt is subsequently measured at amortized cost, using the effective interest method under Topic 835 to recognize interest expense, unless the company elects to measure it at fair value with changes thereto reported in profit or loss.

Subtopic 835-30, which requires the imputation of interest on certain low-interest or interest-free loans, does not apply to transactions with interest rates affected by tax attributes or legal restrictions prescribed by a government agency (e.g. government-guaranteed obligations). Because the government guarantees and sets the terms for the PPP loans (e.g. 1% interest rate), a company should not impute interest at a market rate on a loan under this program. [835-30-15-3(e)]

If the loan or part thereof is subsequently forgiven, the company recognizes the income as a gain on extinguishment of debt when the company is legally released from its obligation; this is based on the guidance in Subtopic 405-20.

5.2.2 Grant accounting

The alternatives for grant accounting by companies applying US GAAP are discussed in section 2.

A company may account for the forgivable loan as a grant if the company expects to comply with the conditions for loan forgiveness (i.e. the loan is an in-substance government grant). Therefore, the company must be able to assert that (1) it is eligible for the funds and (2) it has the ability and intent to meet the loan forgiveness conditions. A company applying grant accounting reevaluates its expectations for forgiveness at each reporting period and may need to reverse income if previously recognized.

Not-for-profit entities

Not-for-profit entities apply the guidance in Subtopic 958-605 to government grants. Revenue is recorded based on whether the conditions for forgiveness are substantially met – not on whether they are likely to be met. See section 2.2.

For-profit business entities

There is no grant accounting guidance in US GAAP that explicitly applies to for-profit companies. Therefore, companies will need to analogize to guidance to account for the government grant – i.e. the loan proceeds expected to be forgiven.

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IAS 20 provides a grant accounting framework for forgivable loans if there is reasonable assurance (i.e. the SEC Staff equates 'reasonable assurance' to 'probable' as defined in US GAAP) that the company will meet the terms for forgiveness of the loan. For-profit companies may analogize to IAS 20, but must evaluate how the proceeds are or will be used and their workforce and compensation levels when determining whether or what portion of the loan is probable of forgiveness. Section 2.3.1 discusses the accounting for forgivable loans under IAS 20.

For-profit companies may also analogize to the following to account for an in-substance grant:

- Subtopic 958-605 (not-for-profit grants) – see section 2.3.2; or
- Topic 450 (contingent gains) – see section 2.3.3.

Comparison to IFRS Standards

Unlike US GAAP, IFRS Standards specifically address accounting for grants received from the government in the form of forgivable loans (see section 2.3.1). Careful analysis of all facts and circumstances is required to determine whether cash received from a government meets the definition of a forgivable loan under IAS 20.

Unlike US GAAP, IFRS Standards do not allow an entity the option to account for a forgivable loan as debt based on its legal form when it meets the conditions to be accounted for as a government grant under IAS 20.

IFRS Standards also address the accounting for low-interest rate government loans. Unlike US GAAP, interest is imputed on below-market rate government loans that are initially measured at fair value – e.g. the present value of the expected future cash flows discounted at a market-related interest rate. The difference between the fair value of the loan on initial recognition and the amount received is accounted for as a government grant under IAS 20 (see section 2.3.1).

5.3 Lender accounting

5.3.1 Loan classification

Loans are classified as either held-for-sale or held-for-investment depending on management's intent and ability regarding the holding period for the loans. Loans classified as held-for-investment are measured at amortized cost less allowance for credit losses, and loans classified as held-for-sale are measured at the lower of amortized cost and fair value. [310-10-35-47]

The lender should also evaluate whether a contingent liability should be recognized under Topic 450 (contingencies) for any non-credit losses expected from participating in the PPP. [450-20]

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Comparison to IFRS Standards

Under IFRS Standards, the classification of financial assets depends on the business model in which the asset is held and the nature of the contractual cash flows. A financial asset is classified as measured at amortized cost if: [IFRS 9.4.1.2]

— its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion); and

— it is held within a business model whose objective is to hold assets to collect contractual cash flows (the held-to-collect business model).

SPPI

Under the PPP, the lender's cash flows over the term of the loan (in addition to the fees it receives from SBA) can be summarized as follows.

Scenario	Lender's cash flows	Who pays lender?
Loan forgiven, or loan not forgiven and borrower defaults	Principal and interest at 1% on the principal	SBA
Loan not forgiven and no default by borrower		Borrower
Sources: CARES Act; SBA PPP Interim Final Rule		

Through the contractual terms of the loan agreement, there are three parties to the loan: the lender, the borrower and the SBA. The SBA could be viewed as a co-borrower in these arrangements based on the following.

— The SBA assumes responsibility to repay the lender when either (1) the loan is forgiven, or (2) the loan is not forgiven and the borrower defaults.

— The government dictates the pricing of the loans. Lenders do not price the loans based on the creditworthiness and other characteristics of the borrowers, but rather the price (interest rate and processing fees) is pre-determined by the US Treasury.

— The SBA pays the processing fees to lenders.

Therefore, the features listed above should be considered when analyzing the SPPI criterion for PPP loans. Any amounts received by the lender from the SBA before contractual maturity of the loan (i.e. in the event the loan is forgiven by the SBA) would be treated as a prepayment of the loan. Under IFRS 9, a prepayment feature whose prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding would be consistent with the SPPI criterion.

As the table shows, in all cases the lender receives cash flows of only principal and interest on the principal amount under the agreement. Therefore, from the lender's perspective, the contractual terms of the loans originated under the PPP give rise on specified dates to cash flows that are solely payments of principal and interest on the principal.

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Business model assessment

The lender has to determine whether a financial asset that meets the SPPI criterion needs to be classified as measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. That determination is based on the business model in which the lender plans to hold the asset.

Read more: KPMG Insights into IFRS, chapter 7.4.

5.3.2 Expected credit losses

Under the PPP, the SBA will repay the unpaid principal balance plus accrued but unpaid interest to the lender when (1) the loan is forgiven or (2) the loan is not forgiven and the borrower defaults. Therefore, consistent with the discussion in the SPPI section that the SBA could be viewed as a co-borrower in these arrangements, a lender's estimate of expected credit losses on PPP loans reflects the right to recover amounts from the SBA (i.e. the US government).

Comparison to IFRS Standards

Like US GAAP, a lender's estimate of expected credit losses on PPP loans reflects the right to recover amounts from the SBA (i.e. the US government).

5.3.3 Fee income, origination costs, effective interest rate

We believe the net amount of direct loan origination costs incurred by lenders – and loan processing fees received by lenders from the SBA to originate PPP loans – should be recognized as an adjustment to the effective interest rate of the instrument over the life of the loan. [310-20-25-2, 35-2, 35-18]

Under US GAAP, the calculation of the effective interest rate is generally based on the *contractual* terms of the loan – e.g. contractual maturity and contractual cash flows. However, for certain financial instruments – e.g. a portfolio of loans receivable where prepayment is probable and can be reasonably estimated – the lender is permitted to include estimates of prepayments in determining the effective interest rate. [310-20-35-18, 35-26 – 35-32]

If a PPP loan is forgiven by the SBA before maturity (borrower met the terms for forgiveness) resulting in the settlement of the loan with the lender by the SBA, we believe this represents a prepayment of the loan. Therefore, lenders should use judgment when determining if it is probable that portfolios of PPP loans will be prepaid before maturity, and whether the expected amount of prepayments is reasonably estimable. [310-20-35-26 – 35-32]

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Comparison to IFRS Standards

If a loan is measured at amortized cost or fair value through other comprehensive income, the loan origination fees received by lenders from the SBA (which is a party to the contract) to originate PPP loans net of transaction costs are included in the calculation of the effective interest rate of the instrument at initial recognition. [IFRS 9.B5.4.1-B5.4.3, 15.5]

However, unlike US GAAP, the calculation of the effective interest rate always considers the estimated cash flows of the instrument, which consider all contractual terms of the loan, including estimated prepayments – i.e. early settlement of a PPP loan. [IFRS 9.A]

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6. Debt and equity instruments issued

6.1 Overview

Some sections of the Act authorize programs involving issuance of debt and equity instruments. Examples include the PPP (see section 5), as well as the loan programs discussed in this section.

While the specific terms of the loans, loan guarantees and other investments (e.g. warrants, other equity interests, senior debt securities) authorized by the Act may not be the same for every company, the considerations summarized below generally apply when accounting for any debt or equity instruments.

6.1.1 Industry-specific loan program

The ISLP appropriates up to $46 billion for loans and loan guarantees, not to exceed five years and to bear interest based on pre-COVID-19 market rates, to passenger airlines (and related businesses, such as those that provide maintenance services or replacement parts), cargo air carriers and 'businesses critical to maintaining national security'.

A company obtaining a loan or a guarantee under the ISLP must meet specified requirements, including that it has incurred losses stemming from COVID-19 and other business credit is not reasonably available to it. Unlike PPP loans, no portion of an ISLP loan is forgivable.

To obtain the loan or loan guarantee, the company must agree to a number of conditions including, but not limited to, the following.

- It will not make any company share repurchases or dividend payments until 12 months after the loan is repaid or loan guarantee lifted (excluding previously existing contractual obligations).
- It will retain existing employees 'to the extent practicable' through September 30, 2020, but in no instance reduce its workforce by more than 10% from March 24, 2020 levels.
- It will secure the loan 'sufficiently' or accept an appropriate risk-based interest rate adjustment.
- If a public company, it will grant the Treasury a stock warrant or other equity interest.
- If not a public company, it will grant the Treasury (at Treasury's option) either (1) a stock warrant or other equity interest or (2) a senior debt instrument.

Warrants (or other equity interests) and senior debt instruments must meet specific conditions in the Act. These include that any warrant or other equity interest permits the Treasury to share in equity value increases and that any senior debt provides an appropriate interest rate premium. Treasury may sell,

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exercise or surrender any warrant or other equity or debt instrument, but will not exercise voting rights with respect to any common shares acquired.

6.1.2 Loan programs for other larger businesses

The LPLB appropriates up to $454 billion for loans and loan guarantees to businesses not eligible under the PPP or ISLP. Like the ISLP loans, no portion of the loans is forgivable. A company obtaining a loan or a guarantee under the LPLB must meet specified requirements and agree to a number of conditions including, but not limited to, the following.

- It will not make any company share repurchases or dividend payments until 12 months after the loan is repaid or loan guarantee lifted (excluding previously existing contractual obligations).
- It will retain existing employees 'to the extent practicable' through September 30, 2020, but in no instance reduce its workforce by more than 10% from March 24, 2020 levels.
- It will comply with employee compensation limits established by the Act.

'Mid-sized businesses' (between 500 and 10,000 employees) are eligible for loans under the LPLB. In addition to the above requirements, a mid-sized company accepting an LPLB loan must meet a number of other requirements, including representing that:

- the proceeds of the loan will be used to retain at least 90% of its workforce until September 30, 2020 (at full compensation and benefits); and
- it will not outsource or offshore jobs until two years after the loan is repaid.

6.1.3 Pandemic relief for aviation workers

PRAW provides grants to passenger airlines, cargo air carriers and related contractors in an aggregate amount of $32 billion – to be used exclusively for the payment of employee payroll and payroll-related costs (see section 2.1).

The Treasury Department has published preliminary procedures and minimum requirements for loans to passenger and cargo air carriers and eligible businesses and businesses critical to maintaining national security that have experienced losses as a result of coronavirus. Those procedures require each borrower to identify the financial instruments it proposes to issue to the Treasury Department; the Act permits the Treasury to receive warrants, options, preferred stock, debt securities, notes or other financial instruments. The Treasury Department will issue supplemental procedures, including loan terms and conditions.

6.2 Classification of debt and equity instruments

Under US GAAP, a debt instrument is classified as a liability. When financial instruments have attributes of both equity and debt (e.g. warrants, options, redeemable preferred stock), they may be classified as liabilities or equity depending on their terms. Further, all debt and equity instruments may include embedded derivatives that require separate accounting as an asset or liability.

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The following table summarizes an issuer's considerations when determining how to classify a financial instrument.

Guidance	Key considerations
Distinguishing liabilities from equity [480]	The following classes of freestanding financial instruments are classified as liabilities if certain conditions are met. Some instruments in the scope of Topic 480 are required to be subsequently measured at fair value with changes therein reported in profit or loss. — **Mandatorily redeemable financial instruments.** An example of an instrument that may be in this class is preferred stock that is redeemable on a specified or determinable date. — **Financial instruments that embody obligations to repurchase the issuer's equity shares.** An example of an instrument that may be in this class is a puttable warrant (including a warrant that is exercisable into an equity share that is redeemable at the option of the investor) that the issuer may be required to pay cash to settle. — **Financial instruments that embody obligations settled by issuing a variable number of equity shares.** An example of an instrument that may be in this class is a debt arrangement that requires the issuer to settle the obligation by issuing a variable number of shares having a value equal to the principal amount.
Instruments indexed to and settled in an issuer's own stock [815-40]	Freestanding instruments (e.g. warrants) that do not meet the following requirements are required to be reported as liabilities. Generally, they are subsequently measured at fair value, with changes thereto reported in profit or loss. — **Indexed to the issuer's own stock.** For an instrument to meet this requirement, it generally must be indexed only to the issuer's own stock. Indexation means that the value of the instrument varies with changes in the value of the underlying. — **Settled in the issuer's own stock.** For an instrument to meet this requirement, it generally needs to permit or require the issuer to settle in unregistered shares. Instruments that an issuer may be required to settle in cash (e.g. at the option of the investor) generally do not meet this requirement. In addition, embedded derivatives (e.g. conversion features embedded in a debt instrument) that meet these conditions do not require separate accounting.
Embedded derivatives [815-15]	When a financial instrument is not subsequently measured at fair value with changes therein reported in profit or loss, the issuer determines whether any embedded features require separation (e.g. an option to convert debt into common shares). Embedded features are only separated if they meet all the following conditions: — the embedded feature is not clearly and closely related to the host contract; — a freestanding instrument with the same terms as the embedded feature would meet the definition of a derivative instrument – i.e. it has an underlying; a notional and/or payment

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Guidance	Key considerations
	provision; no or small initial net investment; and is net settleable; and — the embedded derivative is not excluded from derivative accounting. For equity-linked features, the most common such exclusion applies when the feature is indexed to and settled in the issuer's own stock.

Additional considerations apply when the conversion option in a convertible instrument is not separately accounted for as an embedded derivative. Further, SEC registrants (and non-SEC registrants that elect to follow similar accounting guidance) may be required to classify redeemable instruments as temporary – rather than permanent – equity. [SEC ASR 268]

Comparison to IFRS Standards

Although there are some similarities between the requirements for classification of issued equity-linked instruments between US GAAP and IFRS Standards, there are many differences. Companies will need to carefully apply the appropriate debt and equity guidance in US GAAP and IFRS Standards to the terms of the specific instruments they may issue. See KPMG Handbook, IFRS compared to US GAAP, chapter 7.3.

6.3 Earnings per share

A company that presents EPS must consider whether and how debt and equity instruments issued under one of the Act's programs might impact their EPS computations. For example:

— dividends on preferred stock reduce net income available to common shareholders;

— warrants to purchase common stock are included in calculating diluted EPS using the treasury stock method; and

— convertible debt instruments are included in calculating diluted EPS using the if-converted or the treasury stock method, depending on the issuer's settlement options.

A company also considers whether any instruments issued represent participating securities resulting in a requirement to use the EPS two-class method.

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Comparison to IFRS Standards

There are a number of differences between US GAAP and IFRS Standards related to the calculation of EPS, which are summarized in chapter 5.3 of KPMG Handbook, IFRS compared to US GAAP. The following differences are relevant to the examples identified above.

- Like US GAAP, dividends on preferred stock reduce net income available to common shareholders.
- Like US GAAP, warrants to purchase common stock are included in calculating diluted EPS using the treasury stock method.
- Unlike US GAAP, there is no specific guidance under IFRS Standards regarding the method for adjusting for convertible debt instruments with market price triggers or those that have cash settlement provisions in calculating diluted EPS, and practice may vary.

Like US GAAP, a company also considers whether any instruments issued represent participating securities resulting in a requirement to disclose EPS for two classes of ordinary shares (the 'two-class' method).

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7. Mortgage relief: Forbearances

During the 'covered period', a borrower (single or multi-family) with a federally backed mortgage loan experiencing financial hardship due, directly or indirectly, to the COVID-19 emergency may request forbearance on that loan.

With respect to these provisions, the 'covered period' is the period beginning on the date of enactment of the Act (March 27, 2020) and ending on the earlier of:

- the date the COVID-19 national emergency comes to an end; and
- December 31, 2020.

The Act includes provisions that provide relief to mortgage borrowers with either single or multi-family residential mortgages, respectively, that are backed by the federal government.

The Act's mortgage payment forbearance (i.e. payment holiday) applies if:

- it is requested by the borrower; and
- the borrower affirms that it is experiencing a financial hardship due, directly or indirectly, to the COVID-19 emergency.

If the conditions above are met, lenders are required to grant a forbearance for a single-family residential mortgage borrower for a period of up to 180 days, with an option to extend for an additional 180 days, regardless of delinquency status. For a multi-family residential mortgage borrower, the forbearance is for a period of up to 30 days, with an option to extend for two additional 30-day periods, provided the loan was current as of February 1, 2020.

No additional fees, penalties or interest in excess of those under the original terms of the loans may be accrued and charged by the lender during the period of forbearance. Although not specifically stated in the Act, in general, in the event that a lender is required to grant a forbearance, the temporarily waived payments will be added to the end of the loan through a term extension.

7.1 Lender accounting

7.1.1 Loan modifications

The Interagency Statement, developed in consultation with the FASB staff, states that modification or deferral programs mandated by the federal or a state government related to COVID-19 are not considered to be troubled debt restructurings. We believe a lender is not required to evaluate whether a modification or deferral made in response to a government mandate related to COVID-19 represents a TDR regardless of the extent or terms of the modification. *Read more:* KPMG Hot Topic, Lender accounting for COVID-19 loan modifications.

If a lender determines that a loan modification under this section of the Act does not result in its derecognition, the lender will need to adjust the

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recognition of interest income to reflect the modified terms. There is no gain or loss recognized at the time of the modification.

During its April 8, 2020 meeting, the FASB staff indicated that either of the approaches (described below) for recognizing interest income during the payment holiday is appropriate when a lender does not charge contractual interest during a 'payment holiday' for a loan modified as a result of COVID-19 that otherwise does not have an increasing rate. We believe the approach selected should be applied consistently.

Approach 1: Interest recognition suspended

Interest income is not recognized to the extent that the carrying amount of the loan would increase to an amount greater than the amount at which the borrower could settle the loan. If the carrying amount of the loan at the modification date equals or exceeds the amount at which the borrower could settle the loan, no interest income would be recognized during the loan payment holiday. The lender resumes interest accrual when the payment holiday ends and the accrual of contractual interest resumes. [310-20-35-18]

Approach 2: Interest rate recalculated

Upon modification, a new lower effective interest rate is calculated in accordance with Subtopic 310-20 and used to recognize interest income prospectively for the entire remaining term. This applies even if the recognition of income results in the carrying amount of the loan exceeding the amount at which the borrower could settle the loan. As a result, in contrast to Approach 1, interest income is recognized during the loan payment holiday. [310-20-35-10, 35-17, 35-19 – 33]

Comparison to IFRS Standards

The effect of modifications on loans to borrowers who are not experiencing financial difficulties should be recognized when the modification actually takes place. Generally, there is a modification of a loan when the lender and the borrower agree to a change in contractual cash flows (e.g. under a lender's own forbearance program, eligible borrowers request and obtain a payment holiday or a term extension). However, it appears that certain eligible federally backed mortgage loans have been modified by the enactment of the CARES Act. This is because the mortgage relief provision effectively modifies the contractual cash flows of the eligible loans by giving borrowers the option to request a mandatory short-term payment holiday.

The accounting for a modification depends on whether a modification of a financial asset is substantial.

IFRS 9 does not provide guidance on when a modification of a financial asset should be considered substantial. We believe the lender should perform a quantitative and qualitative evaluation of whether the modification is substantial – i.e. whether the cash flows of the original loan and the modified loan are substantially different. If the cash flows are substantially different, then we believe that the contractual cash flows from the original loan should be deemed

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to have expired and the original loan is derecognized. Where the lender provides temporary payment relief and the net economic value of the loan is not significantly affected, the modification would be unlikely to be considered substantial.

If the modification of the contractual cash flows of the loan is not substantial and does not result in its derecognition, then, unlike US GAAP, the lender recalculates the gross carrying amount of the loan as the present value of the modified contractual cash flows discounted at the original effective interest rate and a modification gain or loss is immediately recognised in profit or loss. Under IFRS 9, a lender writes off a portion of a financial asset when it has no reasonable expectation of recovering the contractual cash flows. Under the mortgage relief provisions, if interest does not accrue on the deferred amounts, a modification loss may arise and the lender may have to write off that portion of the gross carrying amount of the asset. [IFRS 9.5.4.3, 5.4.4]

Subsequently, in each reporting period, the lender would revise estimated future cash flows based on actual experience and the number of customers expected to request a payment holiday under the mortgage relief provision. This is because the effective interest method under IFRS 9 requires the estimation of future cash flows to take into account extension and similar options. The resulting gain/loss is recognized immediately in profit or loss. [IFRS 9.B5.4.6, A]

7.1.2 Expected credit losses

Under US GAAP, if a loan is modified, but the modification is not accounted for as a TDR, the entity does not include the impact of payment deferrals or interest rate concessions in estimating the allowance for expected credit losses.

However, in estimating the allowance for expected credit losses, the entity still needs to evaluate the credit risk of the loan portfolio, including whether there is additional credit risk associated with borrowers that received modifications (e.g. payment deferrals) in response to COVID-19. To estimate this additional credit risk, an entity may need to adjust its assumptions or methodology for estimating the allowance for expected credit losses. For example, if an entity determines that its modified loans do not share similar risk characteristics with its loans that have not been modified, it should collectively assess those loans separately.

Lenders should also consider the timing of foreclosures subject to the Act when estimating the allowance for expected credit losses.

Comparison to IFRS Standards

Unlike US GAAP, impairment is measured as either 12-month expected credit losses (stage 1) or lifetime expected credit losses (stage 2). If there has been a significant increase in credit risk since initial recognition, impairment is measured as lifetime expected credit losses. If a modified loan is not

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derecognized, the lender should first consider whether a modified loan is credit-impaired (stage 3). This will generally be the case when: [IFRS 9.A]

- the borrower was in significant financial difficulties (or there was other evidence of credit impairment) before the modification and those financial difficulties had a detrimental impact on the estimated future cash flows; and
- it is not reasonable to conclude that the modification immediately dispels any such detrimental impact in relation to the modified cash flows.

The relief provided under the Act and in the Interagency Statement to not treat certain loan modifications as TDRs under US GAAP (including whether or not a borrower is experiencing financial difficulties), is not relevant for IFRS Standards. Lenders should use judgment and evaluate all indicators to determine if a modified loan is credit impaired.

If a modified loan is not derecognized and is not credit impaired, the lender should then assess whether there has been a significant increase in credit risk by comparing the risk of default: [IFRS 9.5.5.12, B5.5.27]

- at the reporting date based on the modified contractual terms; with
- on initial recognition based on the original, unmodified contractual terms.

The lender may previously have adopted an approach of estimating credit losses where all payment holidays and similar reliefs were a qualitative indicator that automatically required an exposure to be transferred to stage 2. However, in the context of COVID-19, the International Accounting Standards Board has stated that the extension of payment holidays to all borrowers in particular classes of instruments should not automatically result in those instruments being considered to have suffered a significant increase in credit risk. Equally, the lender cannot assume that all exposures subject to the modification program should be included in stage 1. [IFRS 9.5.5.12, B5.5.27]

The lender should use judgment and consider the following factors when determining to what extent modified loans should be included in stage 2.

- The assessment of credit risk is a holistic process that considers available reasonable and supportable quantitative and qualitative information available at the reporting date (including forward-looking information); [IFRS 9.B5.5.49]
- Specific features of the program and any evidence that it provides regarding the credit risk of the borrowers – e.g. borrowers are eligible if they are experiencing financial hardship due, directly or indirectly, to COVID-19 or whether a particular borrower has applied for relief. [IFRS 9.B5.5.15-17]
- Under IFRS 9, the assessment of whether there is a significant increase in credit risk is based on the risk of default over the life of the instrument. Therefore, a key judgmental issue is in distinguishing between cases where the forbearance provides relief from short-term liquidity constraints (and not necessarily indicative of significant increase in credit risk over the life) versus cases where there is a significant increase in credit risk. [IFRS 9.5.5.9]
- Whether the assessment of a significant increase in credit risk can be performed on an individual basis. Otherwise the assessment should be performed on a collective basis. [IFRS 9.B5.5.6]

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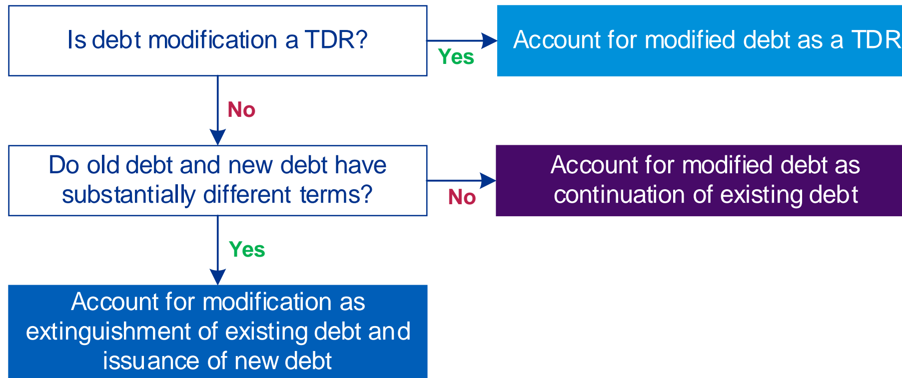
7.2 Borrower accounting

A borrower's accounting for a debt modification under US GAAP depends on whether it represents a TDR and whether the modified debt has substantially different terms, as summarized in the following decision tree. [470-50, 470-60]



The accounting guidance that a borrower uses when determining whether a debt modification is a TDR and, if not, the guidance about whether the modification results in recognition of a new debt instrument (with extinguishment of the old instrument) is in Subtopic 470-50 (modifications and extinguishments) and Subtopic 470-60 (TDRs by debtors).

Comparison to IFRS Standards

Unlike US GAAP, there is no concept of a TDR under IFRS Standards. The circumstances under which a modification of the terms of a financial liability are negotiated are not relevant in determining whether the modification is an extinguishment of debt. If the terms of an existing financial liability have been substantially modified, the transaction is accounted for as an extinguishment of the old debt and issuance of new debt. There may be differences between IFRS Standards and US GAAP in determining whether a modification is 'substantial'. Unlike US GAAP, if a modification of a financial liability does not result in its derecognition (i.e. it has not been substantially modified), then the amortized cost of the financial liability is recalculated as the present value of the modified contractual cash flows discounted at the original effective interest rate and the adjustment is recognized in profit or loss. [IFRS 9.3.3.3, B3.3.6, B5.4.6]

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8. Deferral and suspension of select guidance

Comparison to IFRS Standards

The relief discussed in this section is specific to US GAAP. Companies reporting under IFRS Standards apply IFRS 9, Financial Instruments, in the usual way.

8.1 Compliance with US GAAP

The Act includes an elective deferral of Topic 326 (credit impairment) and an elective suspension of applicable US GAAP for certain loan modifications.

On enactment, there were questions about whether financial statements prepared in accordance with either of these elections would be considered to be prepared in accordance with US GAAP. In response, on April 3, 2020, the SEC's Chief Accountant stated that the SEC staff would not object to the conclusion that financial statements prepared subject to one or both of these elections for the periods for which such elections are available are in accordance with US GAAP.

8.2 Credit impairment standard

The Act permits insured depository institutions, bank holding companies or any affiliate to temporarily defer applying the credit impairment standard. The deferral applies from the date the Act was signed into law to the earlier of:

— the date the COVID-19 national emergency comes to an end; and
— December 31, 2020.

With respect to this provision of the Act, the SEC staff has clarified the following matters.

— Only those companies that are specifically identified in the Act are eligible to elect the deferral. These are insured depository institutions, bank holding companies, and any affiliate thereof.

— A company applies the deferral in its first reporting period that includes the date the Act was signed into law (e.g. Q1 2020 for a calendar year-end public company) and reflects the election retrospectively to the beginning of the period.

— On expiration of the deferral, a company will adopt Topic 326 retrospectively to the beginning of its fiscal year (i.e. January 1, 2020 for calendar year-end companies).

— A company is not permitted to defer the adoption of Topic 326 beyond the later of:

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  - the date the national emergency comes to an end; and
  - December 31, 2020.

  Therefore, a company is not permitted to defer adoption of Topic 326 until January 1, 2021; a calendar year-end public company will have to reflect the adoption in its 2020 annual financial statements.

If a registrant elects the deferral, it should disclose the expected impact of the standard as required by SAB 74, and consider the impact to MD&A disclosures (e.g. in the liquidity and capital resources section).

There are subsequent SEC filing considerations upon expiration of the deferral and adoption of Topic 326. We expect these to be clarified in the near future.

8.3 Troubled debt restructurings

8.3.1 Overview

The Act permits financial institutions to elect not to apply the TDR guidance in Topic 310 to modified loans that would have otherwise been categorized as a TDR. The guidance applies only to modifications – including forbearance arrangements, interest rate modifications, repayment plans and any other similar arrangements that defer or delay the payment of principal or interest – that meet the following conditions:

- the loan was not more than 30 days past due as of December 31, 2019;
- the modification is related to COVID-19 (i.e. the credit of the borrower was adversely impacted by the coronavirus pandemic); and
- the modification was executed between March 1, 2020 and the earlier of:
  - 60 days following the date the COVID-19 national emergency comes to an end; and
  - December 31, 2020.

In addition, for loans that were issued under the PPP (see section 5), an insured depository institution or insured credit union that modifies a loan because of COVID-19 on or after March 13, 2020 is not required to apply the TDR guidance in Topic 310.

8.3.2 Accounting impact

When a lender agrees to modify a loan's terms, the lender's accounting depends on whether the modification represents a TDR under Subtopic 310-40. A loan modification is considered a TDR if:

- the borrower is experiencing financial difficulties; and
- the lender, for economic or legal reasons, grants a concession to the borrower that it would not otherwise consider

The Act permits financial institutions to not apply the TDR guidance to modified loans that would have otherwise been subject to that guidance provided the conditions outlined in section 8.3.1 are met. The suspension of US GAAP guidance for these loan modifications under this provision of the Act is optional, may only be applied by certain companies and, for those companies, only to

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certain loan modifications. As a result, the requirements of US GAAP will continue to apply in many situations.

In addition, on April 7, 2020, federal banking regulators, in consultation with state banking regulators and the FASB staff, issued a joint statement (the Interagency Statement), that includes the following guidance on accounting for loan modifications for borrowers affected by COVID-19.

— **Bank programs for short-term modifications.** Short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current before any relief, are not TDRs. This specifically includes short-term (e.g. six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, and other delays in payment that are insignificant. Under the guidance, borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.

— **Government-mandated programs.** Modification or deferral programs mandated by the federal or a state government related to COVID-19 are not in the scope of Subtopic 310-40 – e.g. a state program that requires all institutions within that state to suspend mortgage payments for a specified period.

The Interagency Statement also includes guidance on accounting for loan modifications under the Act, which states that financial institutions:

— accounting for loan modifications under this provision of the Act are not required to account for the modification as a TDR for the term of the loan modification;
— do not have to report loan modifications made under this provision of the Act as TDRs in regulatory reports; and
— must maintain records of the volume of loans accounted for under this provision of the Act.

Read more: KPMG Hot Topic, Lender accounting for COVID-19 loan modifications.

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9. Lease eviction moratorium

Landlords of housing properties that participate in a covered housing program, participate in the rural housing voucher program or have a federally backed mortgage loan are prohibited from initiating new eviction proceedings for nonpayment of rent or other fees, or charging related fees or penalties, for 120 days from March 27, 2020. In addition, landlords of these covered properties must give tenants at least 30 days' notice of eviction, and such eviction notice cannot be given until the end of the 120-day moratorium.

The Act's lease eviction moratorium imposes legal requirements on certain lessors, but does not change the accounting for leases under Topic 842 or Topic 840, absent other changes to the terms and conditions of the relevant lease agreement. However, if the lessor and the lessee amend other terms and conditions of the lease contract as a result of, or during, the moratorium, a lease modification for accounting purposes will generally result.

In addition, if the moratorium permits the lessee to stay in the property after the end of the lease term – e.g. the moratorium prevents the lessor from evicting a tenant noncontractually holding over in the property – that would be considered a change to the parties' enforceable rights and obligations. In that case, the lessor's accounting may be affected if the lessee is reasonably certain to hold over.

With or without a modification, a lessor in an operating lease may conclude that it is no longer probable it will collect at least substantially all of the lease payments from a tenant protected by the moratorium. In that case, under Topic 842, the lessor should fully reserve for any outstanding receivables from the tenant, and should recognize revenue from the tenant only when/if cash is received. KPMG Hot Topic, Lessor accounting for operating lease receivables, discusses a lessor's accounting when this occurs. Lessors still subject to Topic 840 should consider the need to establish or increase their lease receivable reserve. [842-30-25-13]

Read more:

- KPMG Hot Topic, Accounting for coronavirus-related rent concessions, discusses how Topic 842 applies to rent concessions (e.g. abatements, rent deferrals) arising from temporary property closures and other measures taken in response to COVID-19.
- KPMG Hot Topic, FASB staff guidance on accounting for COVID-19 rent concessions, discusses a practical expedient offered by the FASB staff to simplify lessee and lessor accounting for COVID-19-related rent concessions.
- KPMG Handbook, Leases, provides guidance on the general accounting requirements for lease modifications – section 6.7 (lessees) and section 7.6 (lessors).

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Comparison to IFRS Standards

Like US GAAP, if the lessor and the lessee amend terms and conditions of the lease contract as a result of, or during, the moratorium, a lease modification will generally result under IFRS Standards. However, the specific guidance on accounting for lease modifications by lessees and lessors differs in some respects from US GAAP; the differences are summarized in KPMG Handbook, IFRS compared to US GAAP. In addition, KPMG publication, IFRS 16 – Lease modifications, provides in-depth guidance under IFRS Standards. [IFRS 16.45–46, 79–80, 87]

Unlike Topic 842, IFRS Standards do not include specific guidance related to how a lessor considers collectibility when recognizing operating lease income. Instead, the general requirements of IFRS 9 apply to lease receivables and lessors should consider the need to recognize an impairment loss based on expected credit losses. [IFRS 9.2.1(b)(i), 16.77]

Read more: KPMG publication, Leases – Rent concessions, discusses the recent amendments to IFRS 16 to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain other conditions. The amendments can be applied immediately.

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10. Subsequent events and going concern

10.1 Subsequent events

December 31, 2019 financial statements

For December 31, 2019 financial statements that have not yet been issued on March 27, 2020, financial reporting impacts of the Act will be limited to nonrecognized subsequent events that should be disclosed. Each company may be affected differently by different provisions of the Act and should adapt its disclosure accordingly.

Later periods

For reporting periods ending after March 27, 2020, the Act is a current period event.

However, the effect of the relief provisions will not necessarily be recognized in the reporting period. Companies should determine the nature of the relief and the applicable guidance, such as income tax, revenue recognition or grant accounting. This will in turn determine on which event recognition is based – e.g. rule enacted, conditions met, claim filed, eligibility confirmed, settlement received.

Additionally, some provisions of Act may be further developed or clarified in the course of 2020. Companies will also take steps to file for relief and could possibly receive confirmation of their eligibility or settlement of the aid before the financial statements are issued (available to be issued). Companies should closely monitor those subsequent events to determine which aspects of the Act can be recognized at the reporting date – i.e. which ones provide additional evidence about conditions that existed at the reporting date. Understanding the nature of the relief and the applicable guidance is key in this analysis.

Examples of subsequent events – reporting date is March 31, 2020; financial statements are issued May 15, 2020

Subsequent event	Applicable guidance	Accounting treatment
In April 2020, Healthcare Co. obtains clarification about how to calculate the rate adjustments provided under the Act for services it provided to patients in March 2020.	The rate adjustment is variable consideration under Topic 606 (revenue).	**Recognized subsequent event** Healthcare Co. takes into account the clarifications for estimating the variable consideration it is entitled to for March 2020, before applying the constraint mechanism in Topic 606.

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Subsequent event	Applicable guidance	Accounting treatment
In April 2020, Company files for grant assistance under the Act. Company had assessed that it met the eligibility criteria on March 31 – i.e. there were no further conditions to be met past that date and filing is perfunctory. Funds are received on May 1.	Company has elected to account for the grant as a gain contingency under Subtopic 450-30.	**Unrecognized subsequent event** Gain contingencies are not recognized until realized or realizable. Settlement is not a recognized subsequent event.
	Company has elected to account for the grant by analogizing to IAS 20.	**Possibly a recognized subsequent event** Receipt of the grant funds by May 1 may confirm that Company had reasonable assurance at the reporting date that the grant would be received.

Although Topic 855 generally requires quantitative disclosure of the effect of subsequent events, companies should exercise care when communicating potential contingent gains expected from the Act, to avoid misleading implications about the likelihood of realization. [450-30-50-1, 855-10-50-2]

Comparison to IFRS Standards

Like US GAAP, financial statements need to be adjusted for subsequent events (events after the reporting date) that provide evidence of conditions that existed at the reporting date (adjusting events). Subsequent events indicative of conditions that arose after the reporting date (non-adjusting events) require disclosure of the nature of the event and an estimate of its financial effect, or a statement that such estimate cannot be made if those events are material. [IAS 10.3, 8, 10, 21]

Unlike US GAAP, subsequent events are evaluated – to determine if they are adjusting or non-adjusting – until the financial statements are authorized for issue. This date can differ from the date the financial statements are issued; or are available to be issued for non-public entities whose financial statements are not widely distributed. [IAS 10.3–7]

10.2 Going concern

The relief introduced by the Act should also be considered in going concern evaluations. For example, management's intent and ability to obtain relief under certain provisions of the Act, such as government loans or guarantees, could be part of its plans to alleviate substantial doubt about the company's ability to meet its obligations. [205-40-50-7 – 50-8]

Read more: KPMG Hot Topic, Coronavirus – Subsequent events, going concern, unusual items and risks and uncertainties disclosures.

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Comparison to IFRS Standards

Like US GAAP, IFRS Standards require management to assess a company's ability to continue as a going concern; this assessment takes into consideration subsequent events – i.e. information that becomes available after the reporting date. Unlike US GAAP, management considers in its assessment all available information about the future for at least, but not limited to, 12 months from the reporting date; under US GAAP, management considers 12 months from the date financial statements are issued or available for issuance. [IAS 1.25–26]

Like US GAAP, if management concludes that the entity is a going concern, but there are nonetheless material uncertainties that cast significant doubt on the company's ability to continue as a going concern, the company discloses those uncertainties. Even if there are no material uncertainties about an entity's ability to continue as a going concern, a company discloses any significant judgements made in reaching this conclusion (a 'close call' scenario). However, the disclosure requirements of IFRS Standards are less prescriptive than those of US GAAP. [IAS 1.25, 122, IU 07-14]

Unlike US GAAP, if an entity ceases to be a going concern after the reporting date but before its financial statements are authorized for issue, then it is not permitted to prepare its financial statements on a going concern basis. Under US GAAP, the liquidation basis of accounting applies only from the point liquidation becomes imminent; the financial statements would still state they are prepared under the going concern basis and the fact liquidation is imminent would be disclosed. [IAS 10.14]

Unlike US GAAP, if the going concern assumption is not appropriate, then IFRS Standards are applied in a manner appropriate to the circumstances – i.e. we believe there is no general dispensation from the measurement, recognition and disclosure requirements of IFRS Standards. Under US GAAP, the liquidation basis of accounting would apply.

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COVID-19: Reaction, Resilience, Recovery, New Reality

Working together to meet the unprecedented challenges of a rapidly changing landscape to establish clarity, emerge with strength, and inspire the future of business

Anticipate tomorrow. Deliver today.

Reaction. Resilience. Recovery. New Reality

COVID-19: Responding with resilience and readiness

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Financial Reporting Impacts of COVID-19

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COVID-19: IFRS Standards

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