

Hot Topic: Coronavirus

Potential impacts on the accounting for financial instruments

March 23, 2020 (updated July 10, 2020¹)



KPMG highlights the potential accounting implications for certain financial instruments as a result of COVID-19.

Background

This Hot Topic provides reminders about some of the potential impacts that COVID-19 may have on the accounting for financial instruments, including:

- Expected credit losses
- Loan modifications (lender accounting)
- Financial guarantees
- Debt modifications and loan covenants
- Derivatives: Normal purchases and normal sales scope exception
- Hedge accounting
- Equity method investments
- Fair value measurements
- Investments in debt and equity securities.

This Hot Topic assumes that a company has adopted Topic 326 (credit losses). Companies that have not yet adopted Topic 326 should consult the unamended Codification paragraphs.

Expected credit losses

The guidance in Topic 326 on estimating lifetime credit losses was effective on January 1, 2020 for public business entities that are not eligible to be smaller reporting companies and that have a calendar year-end, with early adoption available for other companies. It applies to financial assets measured at amortized cost, including (but not limited to) trade receivables, loans and held-to maturity (HTM) debt

¹ New guidance or significant updates are indicated with **

securities. It also applies to contract assets recognized under Topic 606 (revenue) and off-balance sheet credit exposures such as letters of credit, unused lines of credit and guarantees.

Estimating lifetime credit losses includes estimating the effect of current economic conditions and reasonable and supportable forecasts of future economic conditions and their effect on the collectibility of the reported amounts. KPMG Hot Topic, [Potential impacts of economic disruption on expected credit losses under ASC 326](#), explains that the economic disruption resulting from the coronavirus and oil markets should not be reflected in an entity's adjustment for transitioning to ASC 326 on January 1, 2020.

As a result of recent events, the economic conditions incorporated into an entity's estimate of expected credit losses after January 1, 2020 will generally be significantly different than those at January 1, 2020. Entities should consider the impact of these events when adjusting for current economic conditions and reasonable and supportable forecasts of future economic conditions. Determining the extent of these adjustments will be especially challenging because an entity may not have historical loss information for a period of similar economic decline. Factoring in these events will likely result in an increase in the allowance for expected credit losses in reporting periods after January 1, 2020.

An entity may have previously determined that due to the relatively short duration of certain financial assets (e.g. trade receivables) future changes in economic conditions will not have a significant effect on the estimate of expected credit losses. However, given the magnitude of the economic disruption, this assumption may need to be revisited.

Similarly, an entity may have concluded that the expected credit losses associated with some financial assets (e.g. certain HTM debt securities) would not be significant because of their high credit quality. Those assumptions should also be revisited because credit declines may cause the allowance for expected credit losses to be more significant.

If an entity holds longer term financial assets and is not able to make or obtain reasonable and supportable forecasts of future economic conditions for the entire life of the financial asset, it is required to estimate expected credit losses for the remaining life using an approach that reverts to historical credit loss information. When an entity applies reversion, it makes certain judgments that are revisited at the end of each period. Each of these judgments, in combination with other assumptions and adjustments, should result in an allowance that represents management's best estimate of expected credit losses over the remaining contractual term.

Given the impact of economic events, the reassessment of each of these judgments has become increasingly important. The judgments include:

- the length of the reasonable and supportable forecast period; an entity may determine that the period has changed (either shorter or longer) from the period used in its January 1, 2020 estimate;
- the historical loss information that should be reverted to; and
- the method used to revert to historical credit loss experience (e.g. straight-line method).

For example, if an entity had previously reverted to historical loss information that was a long-term average measured over several periods, it should consider if that continues to be an appropriate assumption for determining a best estimate of expected credit losses. That determination could depend on factors such as the length of the reasonable and supportable forecast period. The longer the period, the more likely it may be that an entity will conclude that it is appropriate to revert to historical credit loss experience measured using a long-term average. Alternatively, the shorter the period, the more likely it may be that an entity will conclude that it should revert to a period of economic downturn.

For periods beyond the reasonable and supportable forecast period, an entity adjusts for asset-specific risk characteristics and the effect of the reversion method, but is not permitted to make further adjustments for future economic conditions. For example, if an entity is adjusting for the effects of

potential economic scenarios, it should ensure that those adjustments relate solely to the reasonable and supportable forecast period.

An entity should consider how it will disclose what information management used in developing its estimate and what factors influenced its estimate, including past events, current conditions and reasonable and supportable forecasts about the future.

In addition to determining the allowance for expected credit losses, entities should also be evaluating whether the liability for off-balance sheet credit exposures, such as unfunded loan commitments, should be increased. Estimating this amount typically requires assumptions about both the likelihood of funding and the amount of loss that would be expected if funding were to occur. In an economic downturn, some borrowers, especially those that may have experienced a recent decline in credit deterioration, may be more likely to exercise loan commitments or draw down on unfunded lines of credit. As a result, entities may determine that assumptions regarding the likelihood of funding should be revised to reflect current economic conditions.

CARES Act optional deferral of credit losses standard (Topic 326)

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

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

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 this optional deferral for the periods for which its election is available are in accordance with US GAAP. For further information on applying this provision of the CARES Act, see KPMG Hot Topic, [Accounting and reporting impacts of the CARES Act](#).



Loan modifications (lender accounting)

The ongoing economic downturn may impact a borrower's ability to repay debt. As a result, lenders may increasingly enter into loan modifications. A lender should assess whether any modifications are troubled debt restructurings (TDRs), how the modifications affect its estimate of expected credit losses and consider appropriate disclosures.

See KPMG Hot Topic, [Lender accounting for COVID-19 loan modifications](#). See also *Hedging* section below for discussion of the effects of modifications on hedging relationships.

CARES Act optional exemption from TDR accounting

The CARES Act includes an option for financial institutions to suspend the requirements of US GAAP for certain loan modifications related to the COVID-19 pandemic that would otherwise be categorized as TDRs. Under the CARES Act, a financial institution may elect not to apply TDR accounting to any 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 modification is related to COVID-19 (i.e. the credit of the borrower was adversely impacted by the coronavirus pandemic);
- the modified loan was not more than 30 days past due on December 31, 2019; and

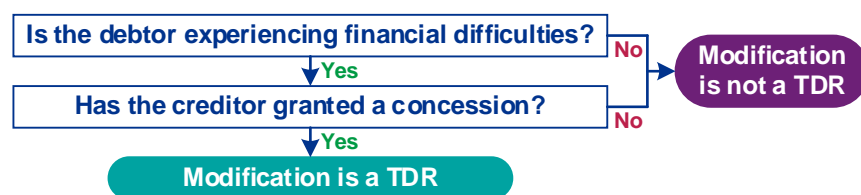
- the modification was executed between March 1, 2020 and the earlier of (a) 60 days after the date the COVID-19 national emergency comes to an end and (b) December 31, 2020.

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 this optional exemption are in accordance with US GAAP.

Determining whether a loan modification is a TDR

The CARES Act exemption from TDR accounting is optional, may only be applied by certain companies and – for those companies – only to certain loan modifications. As a result, the requirements of US GAAP will continue to apply in many situations.

A lender’s considerations under Subtopic 310-40 for determining whether a loan modification is a TDR are as follows.



Federal prudential banking regulators recently issued a joint statement that included guidance on the accounting for loan modifications in light of the economic impact of the coronavirus pandemic. The guidance was developed in consultation with the FASB staff and we believe it may be applied by all companies, including those that are not subject to regulation by the banking regulators that issued the joint statement. That guidance indicates that:

- **Certain short-term modifications are not TDRs.** Short-term modifications made on a good faith basis in response to COVID-19, to borrowers who were current prior to 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, or 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 modifications are not subject to TDR accounting.** 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.

If a loan modification is not a TDR, a lender determines whether to account for the modified loan as a new loan or a continuation of the existing loan based on the guidance in Subtopic 310-20 (receivables – nonrefundable fees and costs). That determination depends on whether the terms of the restructured loan are at least as favorable to the lender as the terms for comparable loans to the lender’s other new customers with similar collection risks. This condition would be met if the new loan’s EIR is at least equal to the effective yield for such loans, and modifications of the original debt instrument are more than minor.

Estimating the allowance for expected credit losses

Topic 326 requires entities to include in the allowance for expected credit losses an estimate of the effects of TDRs that are reasonably expected to occur in the future. The assessment of whether a TDR is reasonably expected is made at the individual loan level, as opposed to the portfolio level. As a result, the effects of expected future TDRs are included in the allowance for expected credit losses under Topic 326 only when an entity concludes that it reasonably expects a specific loan to be modified in a TDR.

If a loan is modified, but the modification is not accounted for as a TDR, the entity would 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 would still need to evaluate the credit risk of the loan portfolio, including whether there is additional credit risk associated with borrowers that received modifications, such as payment deferrals, in response to COVID-19. To estimate this additional credit risk, an entity may need to make adjustments to 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, then it should collectively assess those loans separately.

Disclosures of loan modifications

Topic 310 requires lenders to disclose quantitative and qualitative information about certain loans modified in TDRs. In addition, the SEC staff has encouraged registrants to provide additional disclosures about their loan modification programs, including suggested disclosures for modifications that were accounted for as TDRs and those that were not accounted for as TDRs.² Those suggested disclosures may be relevant to a lender's modification programs made in response to the COVID-19 outbreak. Disclosures suggested by the SEC staff include information about:

- the types of modification programs and their key features, along with quantification of the modified loans and how successful the lender's programs have been.
- how the lender determined whether the modifications were (or were not) TDRs.
- for loans not modified in a TDR: whether the modified loans are performing (or nonperforming), whether they are accruing interest, and the impact of the modification on past-due status.
- for loans modified in a TDR: quantification of the types of concessions granted and how the lender determines whether to accrue interest.

The CARES Act requires lenders to maintain records of the volume of loans involved for which the company elected the CARES Act's optional exemption from TDR accounting. We believe that information may be useful to support the disclosures suggested by the SEC staff.

The SEC staff's public remarks do not address placement of the suggested disclosures within a registrant's filings. We believe that many of the incremental disclosures suggested by the SEC staff may be most appropriately included in a registrant's Management's Discussion and Analysis of Financial Condition and Results of Operations (SEC Regulation S-K, Item 303) (MD&A).



Financial guarantees

Topic 460 (guarantees) requires the issuer of a financial guarantee (i.e. the guarantor) to record contingent losses associated with the guarantee. The accounting and measurement guidance differs for credit-related guarantees, which follow Subtopic 326-20, versus other financial guarantees, which follow Subtopic 450-20 (loss contingencies).

For both types of guarantees, estimating the amount of the contingent loss typically requires a guarantor to make assumptions about both the likelihood of being required to perform under the

² See, for example, suggested disclosures included in a 2010 [speech](#) addressing areas of frequent staff comment for financial institutions.

guarantee and the amount of loss expected if such performance were required. A guarantor should evaluate whether its estimate of contingent losses should be increased in the current economic environment. For example, an entity might conclude that its estimate should increase because the guarantor is more likely to be required to perform and/or the amount of loss upon performance is expected to be greater than previously estimated.

Impact to debt arrangements

Business interruptions from the ongoing economic downturn may lead to declines in operating results causing cash flow constraints for companies and impact their ability to maintain compliance with their debt covenants. Such challenges may also lead companies to modify their existing debt arrangements or request additional financing.

Debt classification issues

Subjective acceleration clauses

Companies should focus on subjective acceleration clauses (SAC) within their debt arrangements, such as a material adverse change clause, when evaluating if there is any impact to the classification of an obligation. Such provisions may allow a lender to demand immediate repayment of the debt, if, for example, the borrower 'does not maintain satisfactory operating results' or experiences 'recurring losses' or 'financial difficulty'. As described in Subtopic 470-10 (debt), whether such clauses impact balance sheet classification is based on an evaluation of the likelihood (remote, probable or some level in between) that the lender will accelerate the repayment of debt by invoking the SAC. The evaluation of such clauses is a continuing requirement while the debt arrangement is outstanding. As a result of the current economic conditions, companies should continue to reassess their previous conclusions when evaluating the likelihood of a SAC being invoked.

While the evaluation of the likelihood is based on the specific facts and circumstances of the borrower and the terms of the SAC within the debt agreement, the following table summarizes the accounting and disclosure considerations:

Scenario	Considerations
If the likelihood of SAC being invoked is remote	A company is not required to reclassify the debt to a current liability nor to disclose the existence of the SAC. The likelihood of acceleration is remote when the lender previously has not accelerated due dates of loans that were made to the company that contained similar clauses, the company is not aware of any reason why the creditor would accelerate the due date, and the financial condition and prospects of the company otherwise support the assessment.
If the likelihood of SAC being invoked is reasonably possible	A company should evaluate the facts and circumstances to determine the proper classification of the debt and appropriate disclosures. Recommended disclosures in this scenario include the: <ul style="list-style-type: none"> — nature and terms of the SAC; — amount of the debt that would be due within one year of the balance sheet date; and — date that the debt would be due if the lender accelerates the due date.

Scenario	Considerations
<p>If the likelihood of SAC being invoked is probable</p>	<p>If it is probable that the lender will accelerate the due date, a company should treat the debt as a current obligation. It should then evaluate its intent and ability to refinance the obligation on a long-term basis as described in Subtopic 470-10. If such evaluation determines that the company cannot classify the debt as noncurrent, the company should disclose the:</p> <ul style="list-style-type: none"> — nature and terms of the SAC, — amount of the debt that may be due within one year of the balance sheet date, and — date that the debt would be due if the lender accelerates the due date of that debt.

Debt covenants

A company's inability to meet its covenants (both financial and nonfinancial) or other provisions of a debt instrument may give rise to balance sheet classification considerations.

In the event of a debt covenant violation, a company's debt may become callable by the lender at the balance sheet date. In such circumstances, the debt should be classified as current unless:

- the lender waives its right to demand payment for more than one year from the balance sheet date;
- it is probable that the borrower will cure the violation within a defined grace period (if applicable per the terms), thus preventing the obligation from becoming callable; or
- the creditor modifies the terms of the debt agreement to prevent a covenant violation at the balance sheet date.

In any of the above scenarios, the company needs to assess its ability to maintain future covenant compliance, for both the covenant that was violated and any other covenants imposed within its outstanding debt agreement. If a future covenant violation within a year of the balance sheet date is probable, the debt is required to be classified as current, regardless of whether the lender provided a waiver, violation was cured, or the debt agreement was modified by the lender to prevent a covenant violation at the balance sheet date.

Generally, if a covenant violation occurs (or is expected to occur) after the balance sheet date, but prior to the issuance of the financial statements, noncurrent classification of the related debt would still be appropriate, although disclosures addressing the violation or a potential violation, as well as its adverse consequences in future periods are required in the notes to the financial statements. SEC registrants should also consider discussion in MD&A. However, certain post-balance sheet covenant violations may pertain to period-end and could impact the debt classification as of the balance sheet date. For example, a company's debt agreement may contain a covenant that restricts it from receiving an audit report on its annual financial statements that contains a going-concern modification. Therefore, issuance of an audit report with a going-concern modification would result in a covenant violation, making the debt callable by the creditor. As the audit report covers the period that includes the balance sheet date, the covenant violation would cause the debt to be classified as current; unless, for example, the lender waives its right to call the debt for any reason for a period of more than one year from the balance sheet date. In addition, companies should also review current debt agreements to assess whether cross-default provisions exist such that a covenant violation of one debt agreement would trigger an automatic default on other debt agreements.

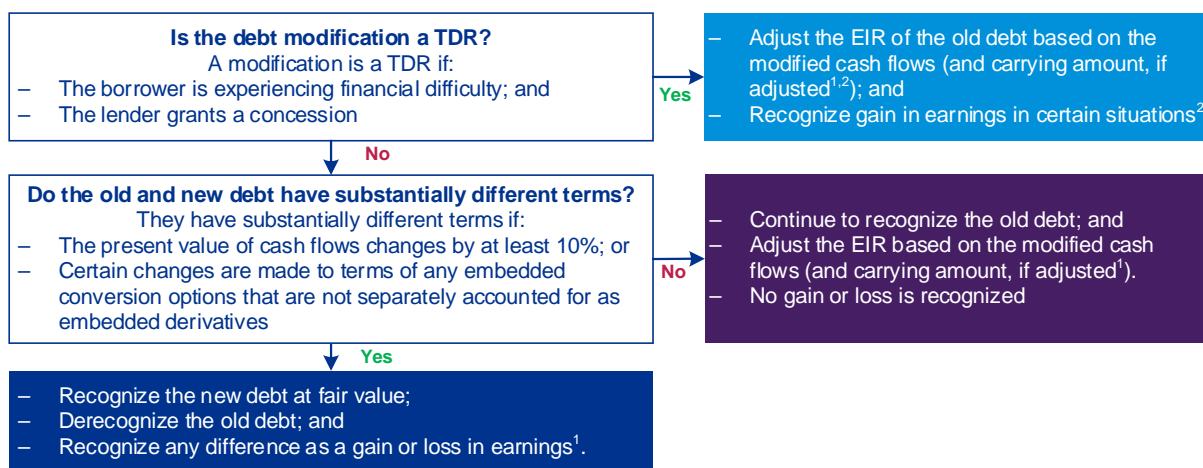
Financing activities considerations

As described in Subtopic 470-10, an entity's intent and ability to refinance an obligation in the future should be considered when determining classification as of the reporting date. Companies whose plans include drawing down on an existing credit line should assess whether the current environment would prevent those actions. Similarly, companies should consider if there are any clauses in other existing agreements that may prevent them from drawing down additional funds to meet their working capital or operational needs. Companies should also consider negative covenants in their other debt arrangements, or requirements to maintain a specific leverage ratio that could prohibit them from obtaining additional borrowings.

Further, issuers of Variable Rate Demand Notes (VRDNs), Auction Rate Securities (ARS) and similar instruments may wish to review the totality of the arrangement to understand the potential impact of repricing delays, including any impact on the current interest rate and the ability to refinance any underlying agreements (e.g. letters of credit associated with the issuance).

Debt modifications (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. The accounting guidance for making these determinations differs in some respects from the corresponding guidance used by lenders; for example, we believe that the CARES Act election to not apply TDR accounting and the guidance provided by federal prudential regulators addressing whether certain modifications represent TDRs may only be applied by lenders covered in those provisions (i.e. may not be applied by borrowers).



1. See table below for guidance on unamortized amounts as well as fees paid to the creditor and to third parties.
2. If the carrying amount of the old debt is greater than the undiscounted cash flows of the restructured debt, the carrying amount is adjusted to those undiscounted cash flows. This results in an EIR of zero and recognition of a gain.

The appropriate accounting treatment for remaining unamortized amounts and fees paid to the lender and to third parties generally is different depending on the outcomes above, as summarized in the following table.

	Substantial modification (extinguishment accounting)	Nonsubstantial modification (modification accounting)	Troubled debt restructuring
Unaccreted/ unamortized discounts, premiums and debt issuance costs	Include in gain or loss on extinguishment of original debt	Continue to accrete/ amortize using new EIR	Carrying amount of old debt is: <ul style="list-style-type: none"> — Greater than undiscounted cash flows of new debt: Include in gain on restructuring — Less than undiscounted cash flows of new debt: Continue to accrete/ amortize using new EIR
Fees paid to or received from lenders	Include in gain or loss on extinguishment of original debt	Increase or decrease debt discount or premium and accrete/ amortize using new EIR	Expense as incurred
Fees paid to third parties	Capitalize and amortize as part of net carrying amount of new debt	Expense as incurred	Expense as incurred

See also *Hedging* section below for discussion of the effects of modifications on hedging relationships.

Example: Debt modifications that are not TDRs

The following assumptions apply to both scenarios.

Borrower has outstanding debt secured by properties it owns. The debt was issued to Lender on December 31, 2018 with a 15-year maturity, bears interest at a fixed rate of 5%, and requires 180 equal payments of principal and interest on the last day of each month. For simplicity, this example assumes the debt's carrying amount before the modification is the outstanding principal balance.

In mid-March 2020, before Borrower made its payment due on March 31, 2020 (i.e. the 15th monthly payment), Lender agreed to modify Borrower's loan to grant Borrower a 6-month 'payment holiday' pursuant to which Borrower is not required to make its payments due in March through August 2020. Under the modified loan, Borrower is required to make 166 monthly payments starting on September 30, 2020, with the debt's contractual maturity extended by six months.

Scenario A: Borrower is not granted a concession

Borrower is a manufacturing company that was required to shut down its operations to comply with state mandates for nonessential activities due to the COVID-19 outbreak. Borrower's liquidity was adversely impacted by the shutdown and Borrower was unable to make its monthly payment due March 31, 2020.

Under the terms of the modification, Borrower will be charged interest during the payment holiday, interest on that unpaid interest, and Lender's fees for the modification (i.e. the remaining 166 monthly payments will be increased to include interest on unpaid amounts during the payment holiday and Lender's fees). This results in the debt's EIR after the modification being equal to the current market rate for new debt with similar risk.

Borrower determines that the modification is not a TDR (even though Borrower is experiencing financial difficulty) because Lender has not granted a concession. Evaluation of each condition is as follows.

- **Borrower is experiencing financial difficulty:** Borrower reviewed the factors in paragraph 470-60-55-8 and concluded that it was experiencing financial difficulty. Borrower has not declared (and is not in the process of declaring) bankruptcy, believes it will continue as a going concern, and its securities have not been delisted from an exchange. However, Borrower concluded it would have defaulted on the debt (absent the current modification), it would not have entity-specific cash flows from current business capabilities to service all interest and principal payments in accordance with the original contractual terms of the debt through maturity, and it could not obtain funds at an EIR equal to or less than the current market interest rate for similar debt for a nontroubled debtor.
- **Lender did not grant a concession:** Although Lender granted Borrower a payment holiday, the debt's principal amount and interest rate were not reduced and the debt's EIR after the modification (calculated by projecting all the cash flows under the new terms of the debt and solving for the discount rate that equates the present value of the cash flows under the new terms to the debtor's carrying amount of the old debt) is equal to or greater than the EIR of the debt prior to the modification.

Because the modification is not a TDR, Borrower applies the guidance in Subtopic 470-50 to determine whether the change in terms is accounted for as a modification or an extinguishment.

Scenario B: Borrower is not experiencing financial difficulty

Borrower owns and operates retail grocery stores. Its operations are essential so it was not required to shut down its operations to comply with state mandates for nonessential activities due to the COVID-19 outbreak. Borrower has adequate liquidity to make its monthly payment due on March 31, 2020, but requested a payment holiday to conserve its liquidity during the ongoing economic disruption. To maintain the business relationship and considering the good credit history of Borrower, Lender agrees to the payment holiday.

Under the terms of the modification, Borrower will not be charged interest during the payment holiday. Rather, Borrower is required to make the remaining 166 monthly payments, each in the same amount as those due under the original loan, starting on September 30, 2020, with the debt's contractual maturity extended by six months. Lender did not charge Borrower a fee for the modification.

Borrower determines that the modification is not a TDR (even though Lender has granted a concession) because Borrower is not experiencing financial difficulty. Evaluation of each condition is as follows.

- **Borrower is not experiencing financial difficulty:** Borrower reviewed the factors in paragraph 470-60-55-8 and concluded that it was not experiencing financial difficulty. Borrower has not declared (and is not in the process of declaring) bankruptcy, believes it will continue as a going concern, its securities have not been delisted from an exchange, it would not have defaulted on the debt (absent the current modification), it forecasts having adequate cash flows from current business capabilities to service all interest and principal payments in accordance with the original contractual terms of the debt through maturity, and Borrower could obtain funds at an EIR equal to or less than the current market interest rate for similar debt for a nontroubled debtor.
- **Lender granted a concession:** As modified, Borrower will make the same total amount of payments as those originally due, but will make those payments 6 months later than originally due.

As a result, the EIR on the restructured debt is less than the EIR on the debt immediately prior to the restructuring. This reduction in the EIR is not due to a decline in market interest rates or improvement of Borrower's creditworthiness. Instead, Lender is granting a concession to accommodate the request by Borrower.

Because the modification is not a TDR, Borrower applies the guidance in Subtopic 470-50 to determine whether the change in terms is accounted for as a modification or an extinguishment.



Derivatives: Normal purchases and normal sales scope exception

Certain derivative instruments may qualify for the normal purchases and normal sales (NPNS) scope exception in Topic 815, provided certain criteria are met. It is appropriate to apply the NPNS scope exception to a contract only when a company concludes it is *probable* that the contract will result in physical delivery of the gross amount of the underlying. A company may conclude physical delivery is no longer probable because, for example, the company expects to cancel a transaction due to uncertainty resulting from the economic disruption, or because the counterparty may not be able to deliver the underlying due to production shutdown or other factors. If the NPNS scope exception is no longer applicable, the contract would be accounted for as a derivative under Topic 815. Under Topic 815, a derivative is measured on the balance sheet at fair value; changes in fair value are recorded in earnings unless the derivative is designated as the hedging instrument in a cash flow hedging relationship.

When contracts designated as normal purchases and normal sales fail to result in physical delivery, it may call into question whether similar contracts qualify as normal purchases or normal sales. We believe a company should consider all relevant facts and circumstances and that failures to physically deliver the underlying that are attributable to disruptions caused by COVID-19 may not call into question the designation of similar contracts under the NPNS scope exception. For example, a company that is required to shut down for a period of time as a result of COVID-19 may be unable to fulfill – and, as a result, be unable to physically deliver under – certain contracts during the shutdown. The company may conclude certain contracts are no longer probable of physical delivery and stop applying the NPNS scope exception to contracts impacted by the COVID-19 outbreak and conclude it is still appropriate to apply the NPNS scope exception to contracts that are not expected to be impacted by the COVID-19 outbreak.



Hedging

Hedge effectiveness

Hedge accounting is permitted only if the hedging relationship has been and is expected to be highly effective at offsetting the risk being hedged. Certain hedging relationships that have been highly effective in the past may be less effective in the current environment. Assessments of hedge effectiveness are required to be performed prospectively at hedge inception and both prospectively and retrospectively periodically thereafter (at least quarterly). How current market conditions are considered in a company's assessment of hedge effectiveness depends on the company's method for assessing effectiveness. However, all methods require a company to consider whether adverse

developments in counterparty credit (and own nonperformance) risk indicate the hedging relationship should be discontinued; see *Counterparty credit (and own nonperformance) risk* below.

Methods that assume perfect effectiveness

Some methods permit an entity to assume a hedging relationship is perfectly effective – i.e. the shortcut method, the critical terms match method and the simplified hedge accounting approach. Each of these methods requires certain criteria to be met. For these relationships, an entity's periodic effectiveness assessments involve evaluating whether those criteria are met and must consider the effect of the counterparty's credit and the entity's own nonperformance risk.

Quantitative methods

Quantitative methods involve quantitatively assessing the extent to which changes in the hedging instrument and hedged item or forecasted transaction offset each other. In addition to assessing the effect of the counterparty's credit and the company's own nonperformance risk, current market conditions may cause the extent of offset to decrease when the hedging instrument and the hedged item or forecasted transaction do not perfectly match (e.g. when a basis difference exists). This includes that the extent of offset could decrease to the point that the relationship is no longer highly effective.

Examples of relationships that are not perfectly effective – and for which effectiveness may be decreased in the current environment – include:

- the hedged item is variable rate debt that contains a floor and the hedging instrument is an interest rate swap that does not contain a floor. As interest rates have fallen, the potential impact of the floor on the hedged forecasted cash flows (interest payments) may have become increasingly significant; however, there is no offsetting impact on the interest rate swap's cash flows; and
- the hedged risk is one variable and the hedging instrument is a different variable.

Qualitative method

Under the qualitative method, a company assesses hedge effectiveness after hedge inception qualitatively rather than quantitatively. Such qualitative-only assessments are appropriate when a company can reasonably support an expectation of high effectiveness and there have been no adverse developments in counterparty credit (or the company's own nonperformance) risk.

Some companies may conclude that, because of changes in facts and circumstances caused by recent economic events, they can no longer support that expectation without performing a quantitative assessment. In that situation, the hedge relationship can continue uninterrupted if the company performs a quantitative assessment and determines that the hedge relationship was and is expected to be highly effective, including consideration of counterparty credit and the company's own nonperformance risk. Returning to qualitative assessments after a company has assessed effectiveness quantitatively is appropriate only when the company can reasonably support an expectation of high effectiveness on a qualitative basis.

Cash flow hedging

Forecasted transaction's probability

A company's business plans are likely disrupted by recent economic events. For example, a company may need to cancel or delay planned transactions such as expected purchases or sales of nonfinancial items due to factory shutdowns, curtailment of the workforce, customer cancellations; or a company may need to cancel or delay previously expected issuances of debt due to market conditions. Uncertainty caused by economic conditions may make it difficult for a company to assert that a transaction will occur, or what its timing or terms will be.

For example, a company that has historically sold €10,000,000 of product each month may not be able to assert that those sales will continue in the next few months; or a company that has historically rolled over existing debt every 30 days into new 30-day debt issuances may be unable to assert that (or when) it will be able to obtain funding – or may expect to issue debt having significantly different terms due to changes in the current interest-rate environment.

For cash flow hedge accounting to be appropriate, a company must conclude it is *probable* that a forecasted transaction will occur within the timeframe specified at hedge inception. When a company can no longer support this assertion, it discontinues hedge accounting for that transaction. This could occur because a company expects to cancel a transaction or delay it beyond the initially specified timeframe. It may also occur when a company can no longer conclude that the transaction – or its timing – is *probable* due to uncertainty resulting from the economic disruption, including the company's consideration of the counterparty's credit risk and its own nonperformance risk. See also *Modifications to the hedged item(s)* below for guidance when hedged interest payments continue to be probable but their timing has been delayed due to a COVID-19 related modification of the debt instrument.

After a hedging relationship is discontinued, if a company determines it is probable that the previously hedged forecasted transaction will *not* occur within the initially specified timeframe or an additional period of time, it must reclassify deferred gains or losses on the related hedging derivatives from AOCI to earnings.

- **Additional period of time:** Ordinarily, the 'additional period of time' for determining whether to reclassify amounts from AOCI to earnings is two months. For example, a company might decide to cancel a future transaction, or to delay it by more than two months, in which case it would reclassify related amounts from AOCI to earnings. However, in rare cases, Subtopic 815-30 allows this period to be extended when it is probable that the forecasted transaction will occur beyond those 2 months due to extenuating circumstances that are related to the nature of the forecasted transaction and are outside the entity's control or influence. Depending on the facts and circumstances, we believe that certain delays in forecasted transactions resulting from disruptions caused by COVID-19 may qualify as extenuating circumstances.
- **Future ability to apply cash flow hedge accounting:** A pattern of reclassifying amounts from AOCI to earnings due to missing forecasts may call into question a company's ability to predict future transactions and use cash flow hedge accounting in the future for similar forecasted transactions. We believe a company should consider all relevant facts and circumstances when determining whether its ability has been called into question. We believe missed forecasts resulting from disruptions caused by COVID-19 may not indicate a pattern that would preclude a company from applying cash flow hedge accounting in the future.

Example: Effect of COVID-19 on cash flow hedging relationships

ABC Company, a calendar year-end manufacturing company, hedged the foreign currency risk associated with the sale of a customized (unique) piece of equipment that was forecasted to occur on March 31, 2020. In mid-March 2020, before ABC had completed manufacturing the equipment, ABC was required to shut down its operations to comply with state mandates for nonessential activities. As a result, ABC did not sell the equipment on March 31, 2020. ABC's management believes it is probable that it will complete the equipment and sell it after ABC resumes operations.

As of March 31, 2020, ABC expects that the shutdown will last through May 2020 and, as a result, the forecasted sale will not occur by the end of May 2020 (i.e. within 2 months after the initially specified hedge period). The hedging relationship is discontinued in March 2020 because it is not probable that the forecasted transaction will occur on March 31, 2020 (the initially specified time period).

Scenario A: Forecasted transaction is probable

If ABC concludes it is probable that the forecasted sale will occur within a reasonable period of time after ABC is allowed to resume its operations (e.g. 2 months after ABC is allowed to resume operations), we believe ABC can conclude that the delay in timing beyond May 2020 is a rare situation caused by extenuating circumstances that are beyond its control or influence (i.e. its shut down was government-mandated). Further, ABC concludes the expected extension of time (e.g. an extension through the date that is 2 months after ABC is allowed to resume operations) is reasonable considering the amount of time ABC needs to complete the manufacturing and sale of the customized equipment and the magnitude of the disruption to ABC's business caused by COVID-19. Therefore, ABC does not reclassify amounts in AOCI related to the hedging relationship to earnings as of March 31, 2020.

Scenario B: Forecasted transaction is not probable

If ABC concludes it is not probable that the forecasted transaction will occur in the future, we believe ABC is required to reclassify any amounts related to the hedging relationship from AOCI to earnings as of March 31, 2020. However, in these circumstances, ABC may conclude that it is not precluded from applying cash flow hedge accounting in a future period. In reaching this conclusion, ABC considers that the reclassifications were attributable to COVID-19 and related government mandates and were not within ABC's control or influence.

Net loss on derivative is reported in AOCI

Ordinarily, losses on derivatives used as cash flow hedging instruments are deferred in accumulated other comprehensive income (AOCI) until the forecasted hedged transaction affects earnings. More specifically, a net derivative loss in AOCI represents an amount that is expected to offset a future gain. However, when a net loss is expected to result from the combination of the derivative and the hedged transaction (and related asset acquired or liability incurred) in future periods, that amount is immediately reclassified into earnings.

For example, a company may hold an asset in its inventory that was hedged before its purchase and have a derivative loss deferred in AOCI from that hedge. If the asset's value falls to the point that a combined loss would be recognized (i.e. the loss reported in AOCI would exceed the amount expected to be recovered from the sale of the inventory), that net expected loss should be reclassified from AOCI to earnings.

Fair value hedges of firm commitments

Unrecognized firm commitments are eligible to be designated as the hedged item in a fair value hedge. A firm commitment is a (legally) binding agreement between unrelated parties that specifies all significant terms and includes a disincentive for nonperformance that is sufficiently large to make performance *probable*. Companies that are hedging firm commitments should assess whether recent economic events have impacted their assessment of whether performance remains probable. If the hedged item later ceases to meet the definition of a firm commitment (e.g. because performance is no longer probable), the hedge relationship is discontinued and any asset or liability recognized as a result of the hedge relationship is recognized in earnings immediately. This is because the firm commitment no longer exists.

A pattern of discontinuing hedge accounting of firm commitments may call into question a company's ability to apply hedge accounting for future firm commitments. We believe a company should consider all relevant facts and circumstances when determining whether it is appropriate to apply hedge accounting for future firm commitments when the company discontinues those types of hedging relationships due to the COVID-19 outbreak. We believe that discontinuations of hedge accounting resulting from disruptions caused by COVID-19 may, in many cases, not preclude a company from applying hedge accounting in the future.

Counterparty credit (and own non-performance) risk

Recent economic events are expected to result in increased credit risk for many companies. Companies should consider the effects that changes in counterparty credit and their own nonperformance risk have on hedging relationships. The likelihood of a hedging relationship being significantly impacted may differ between those that have derivative hedging instruments that are exchange-traded or centrally cleared, and those that do not. Derivative instruments that are centrally cleared or exchange-traded are typically considered to have minimal credit (and nonperformance) risk because they generally have variation margin posted daily.

Key aspects of hedging relationships that may be affected are summarized below.

Fair value hedging relationships

Changes in counterparty credit and own nonperformance risk on a derivative instrument's fair value are not likely to have an offsetting change on the change in fair value of the hedged item attributable to the hedged risk. As a result, a company's assessment of a hedging relationship's effectiveness may be impacted. Also, the extent to which these changes do not perfectly offset is recognized in the income statement.

When the shortcut method is used to assess effectiveness, potential differences in credit risk between the derivative instrument and hedged item are generally ignored unless non-default by either party is no longer probable. When non-default is no longer probable, the company discontinues hedge accounting.

Cash flow hedging relationships

Counterparty credit risk or an entity's own nonperformance risk are considered for both the derivative hedging instrument and the forecasted transaction. Changes in fair value of the derivative instrument are recognized in OCI unless a hedging relationship is discontinued.

- **Derivative hedging instrument.** If it is no longer probable that the derivative counterparty or the company itself will not default, the company discontinues hedge accounting. Otherwise, changes in counterparty credit risk and an entity's own nonperformance risk are ignored when assessing effectiveness.
- **Forecasted transaction.** A company also considers whether changes in counterparty credit or its own nonperformance risk indicate a hedged forecasted transaction is no longer probable. When a hedged forecasted transaction is no longer probable, the company discontinues hedge accounting.

Modifications to the hedged item(s) **

In consideration of the economic disruption caused by COVID-19, many lenders are providing relief to borrowers through modifications of loans and other debt instruments. A modified loan or debt instrument, or the interest payments thereon, may be the hedged item(s) in a hedging relationship. When the hedged item(s) has been modified, a determination should be made regarding whether the hedging relationship must be terminated.

Determining whether the hedging relationship should be terminated depends on the type of hedge (fair value or cash flow), how the hedged risk is specified in the hedge documentation, and the terms of the modification. In all cases, the company evaluates whether the modification represents a change in the hedging relationship's critical terms.

- **If the critical terms have changed:** The hedging relationship is required to be discontinued. However, if all hedging criteria are met, the hedged item may be re-designated in a new hedging relationship.
- **If the critical terms have not changed:** The company considers the effect of the modification on the hedging relationship, such as whether it causes the hedging relationship to no longer be highly

effective or, in the case of a cash flow hedge, results in forecasted transactions (i.e. interest payments) no longer being probable within the specified hedge period. In either of these cases, the hedging relationship would generally be required to be discontinued.

Although an expectation that a forecasted transaction will occur outside of the originally designated hedge period generally would require discontinuation of the hedging relationship, the SEC staff has indicated, in response to a [letter](#) sent to it by the International Swaps and Derivatives Association, that it would not object to a company continuing to apply cash flow hedge accounting (without dedesignating the hedging relationship) when the following conditions are met, even if the forecasted interest payments will not occur within the originally specified hedge period:

- the forecasted transactions are interest payments related to a variable-rate loan or debt instrument;
- the modification was made by the lender to provide temporary payment relief to a borrower impacted by COVID-19;
- the modification results in a change in timing of the hedged forecasted transaction(s), but not the amount of the hedged forecasted transaction(s);
- it is probable the hedged forecasted interest payments will occur; and
- the existing hedging instrument continues to be highly effective at offsetting cash flows of the revised forecasted interest payments.

Additionally, in those situations, a company would be permitted to amend its hedge documentation to reflect the effects of the modification on the hedging relationship without concluding that the hedging relationship's critical terms had changed. The guidance should not be analogized to situations other than those described above.



Example: Effect of interest payment deferral on cash flow hedge

ABC Company has \$100 million of outstanding debt that matures on December 31, 2025 and requires interest payments at the end of each calendar quarter. The debt bears interest at 3-month LIBOR. ABC is hedging the variability in those interest cash flows in a cash flow hedging relationship. The hedging instrument is an interest rate swap with a \$100 million notional amount that pays interest at a fixed rate of 5% and receives interest at a variable rate equal to 3-month LIBOR. The swap has the same settlement and repricing dates as interest payments due on the debt.

ABC's operations were adversely impacted by COVID-19. In April 2020, ABC requested – and ABC's lender agreed – to modify the debt's terms in consideration of COVID-19's adverse impact on ABC's business. Under the revised terms, contractual interest will be charged on the debt for the quarter ended June 30, 2020 based on LIBOR in that quarter, but ABC will not be required to pay that amount until December 31, 2025 (i.e. at maturity). No additional interest on that amount will be charged by the lender. That is, the amount of the forecasted transactions has not changed despite the change in their timing. In contrast, the interest rate swap will continue to have a settlement on June 30, 2020.

Assume ABC uses the perfectly effective hypothetical derivative method to assess effectiveness. That method compares the change in fair value of the actual hedging instrument to the change in fair value for a hypothetical derivative that would result in perfect offset (i.e. the PEH derivative). ABC changes the terms of the PEH derivative to perfectly offset the newly modified terms of the transaction.

ABC then evaluates whether the hedging relationship continues to be highly effective.

ABC determines that changes in the new PEH derivative are highly effective at offsetting changes in the actual derivative. Although the interest payment that was originally scheduled for June 30, 2020 will not occur within the originally designated timeframe, ABC concludes that it may continue the

hedging relationship because it meets the following conditions (i.e. the conditions under which the SEC staff has communicated that it would not object to continuing the hedging relationship):

- the forecasted transactions are interest payments related to a variable-rate loan or debt instrument;
- the modification was made as a result of COVID-19;
- the modification results in a change in timing, but not amount, of the forecasted transactions;
- it is probable all forecasted interest payments will be made; and
- the hedging relationship continues to be highly effective.

ABC amends its hedge documentation to reflect the effects of the modification on the hedging relationship, including the revised timing of the forecasted interest payments and related terms (and effectiveness) of the PEH derivative.



Other-than-temporary impairment of equity method investments

Recent volatile markets, falling exports, declining business investment and lower consumer consumption resulting from the COVID-19 outbreak create uncertainty about the ultimate severity and duration of the economic disruption and the effects it will have on specific industries and companies. Companies should carefully consider the specific facts and circumstances concerning their equity method investments and provide transparent disclosure about how they have evaluated the recovery of those investments.

Identifying other-than-temporary impairment

An equity method investment is impaired if its fair value is less than its carrying amount.

When an investor concludes that its investment is impaired at the reporting date, it must determine if the impairment is temporary or other-than-temporary. If an investor concludes that an impairment is other-than-temporary, it reduces the carrying amount of the investment to its fair value by recognizing a charge to the income statement.

We believe an investor should evaluate its equity method investments for impairment at the end of each reporting period if the investment consists of equity securities with readily determinable fair values.

For other investments, we believe an investor should evaluate impairment when:

- an event or change in circumstances occurs that may have a significant adverse effect on the investment's fair value;
- the investee has recognized a series of operating losses; or
- the investee has recognized an impairment loss in its financial statements.

Other-than-temporary impairment (OTTI) does not mean 'permanent' and evaluating whether an impairment is temporary requires judgment. Some factors to consider when evaluating other-than-temporary impairment include:

- the length of time and extent to which the fair value of the investment has been less than its carrying amount;
- the investee's financial condition and near-term prospects, including recent operating losses or specific events that may negatively influence its future earnings potential; and
- the intent and ability of the investor to retain its investment for a period of time sufficient to allow for an anticipated recovery in fair value.

Investee-level impairment

As discussed above, an equity method investment is impaired if its fair value is less than its carrying amount. The investor performs the OTTI analysis at the investment level. It does not separately test an investee's underlying assets for impairment.

However, the investor does recognize its share of any impairment charge recognized by the investee in the normal course of recognizing its periodic equity in earnings. An investor generally recognizes its proportionate share of the investee's earnings or losses before it evaluates its investment for OTTI.

Accounting for basis differences

When an equity method investor recognizes an OTTI charge, its overall basis difference - i.e. the difference between the carrying amount of its investment and its share of the investee's underlying net assets - changes.

We believe an investor may allocate its OTTI in the following order.

Step 1: Reduce any equity method goodwill to zero.

Step 2: Reduce the individual basis differences related to the investee's long-lived assets pro rata based on their amounts relative to the overall basis difference at the impairment date.

Step 3: Reduce the individual basis differences of the investee's remaining assets in a systematic and rational manner.

There may be other acceptable approaches. For example, an investor also may:

- prepare a new memo purchase price allocation on the impairment date;
- determine new basis differences based on that allocation;
- adjust its existing basis differences to match the new basis differences; and
- allocate the remainder to equity method goodwill.

Presentation and disclosure

An equity method investor generally classifies an OTTI charge in the same line of the income statement that it presents its equity in earnings of the investee. It also provides disclosures specific to the impairment – e.g. a description of the investment, the facts and circumstances leading to the impairment, the amount, assumptions used in determining fair value, the affected reportable segment.

Investees that report on a lag

The investor recognizes its share of the investee's earnings or losses based on the investee's US GAAP financial statements. In some cases, the investee does not prepare its US GAAP financial statements timely enough time for the investor to apply the equity method as of the same date as its financial statements.

In that case, the investor may use the investee's most recent financial statements, even when a lag exists, if:

- the lag does not exceed 93 days;
- the lag is consistent from period to period, including for quarterly and annual reporting periods; and
- the investee's most recent financial statements have been prepared for a reporting period of equal length to the investor's reporting period.

Because an investor that uses lag reporting must reflect a consistent lag each period, we believe it should not adjust the investee's underlying financial information for events that arise after the lag period end-date. However, we believe the investor should consider that information when evaluating its investment for other-than-temporary impairment. We do not believe Topic 323's guidance that

permits an investor to use underlying investee financial information on a lag extends to the investor-level impairment analysis. As a result, we believe an investor must:

- evaluate the investment for OTTI at the investor's reporting date based on the conditions existing as of that date; and
- measure the OTTI, if any, based on fair value of the investment as of the investor's reporting date.

For example, the investee reports on a one-month lag and the investor identifies OTTI on March 31, 20X0. The investor reduces the carrying amount of its investment as of March 31, 20X0 to its fair value on March 31, 20X0, not February 28, 20X0. The investor also should consider whether disclosure is appropriate for significant events occurring during the lag period.

In the periods after the impairment, we believe an investor computes equity in earnings in the same manner it did before the impairment charge – i.e. on a lag.

However, when an investor recognizes an impairment charge, its overall basis difference – i.e. the difference between the carrying amount of its investment and its share of the investee's underlying net assets – changes. As discussed above, we believe there are at least two acceptable approaches for allocating an OTTI charge to the basis differences associated with each of the investee's underlying assets and liabilities.

After the investor allocates its OTTI charge to the individual basis differences, it subsequently accounts for those basis differences as if the investee was a consolidated subsidiary. The investor recognizes in its equity in earnings of the investee adjustments to those basis differences in the same periods that the investee makes adjustments to depreciate, deplete, impair, amortize or accrete the related underlying assets or liabilities.

There may be other acceptable approaches.



Impairment of AFS debt securities

Under Topic 326, credit losses on available-for-sale (AFS) debt securities are recognized through an allowance for credit losses. However, when an entity has the intent to sell the debt security, or more likely than not will be required to sell the security before recovery of the amortized cost basis, any allowance for credit losses is written off and the amortized cost basis is written down to the debt security's fair value at the reporting date – with any incremental impairment reported in earnings.

In an economic downturn, there may be more circumstances in which an entity may have the intent to sell, or determine that it may be required to sell an AFS debt security in the future in response to liquidity needs. In these circumstances, entities should ensure that the appropriate writedowns are recognized.



Classification of debt securities

Investments in debt securities are classified as either trading, available-for-sale, or held-to-maturity. Transfers into and out of these categories should be rare. Also, the sale of a HTM debt security before maturity generally calls into question an investor's ability to hold securities that remain in the HTM category to maturity.

There are limited situations in which the sale or transfer of a HTM security before maturity would not call into question an investor's intent to hold other debt securities to maturity in the future. One

situation that would not call into question an investor's intent to hold other debt securities to maturity is an event that is isolated, nonrecurring, unusual for the reporting entity, and could not have been reasonably anticipated. Other than extremely remote disaster scenarios (such as a run on a bank or insurance entity), very few events would meet these conditions. However, we believe that specific events or circumstances may occur as a result of COVID-19 that would, depending on the facts and circumstances, meet these conditions.

Transfers to and from the trading category are expected to be rare. We believe a similar approach to that described above for transfers from HTM would apply. That is, COVID-19 could cause specific, isolated events or circumstances that may be viewed as rare and permit a transfer. For example, an entity may have purchased a highly liquid debt security and classified it as trading with the intent of selling it in the near term. As a result of the economic effects of COVID-19, there may no longer be a liquid market for the security. In this instance, management might determine that the impact of COVID-19 on the liquidity of the debt security, and its intent to sell the security in the near term, is a rare circumstance that would warrant a transfer from the trading category.

Fair value measurement

Fair value, as defined in Topic 820, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. During an economic downturn, there may be a significant decrease in the volume or level of activity in the market for an item compared with its normal market activity.

If an entity concludes that the volume or level of activity for an asset or liability has significantly decreased, further analysis of the transactions or quoted prices may be required. A decrease in the volume or level of activity on its own might not indicate that a transaction or quoted price is not representative of fair value, or that a transaction in that market is not orderly. It is not appropriate to presume that all transactions in a market in which there has been a decrease in the volume or level of activity are not orderly. Judgment may be required in determining whether, based on the evidence available, a transaction is not orderly. Entities should not disregard market prices unless those prices are from transactions determined to be disorderly. For additional guidance on fair value measurement, including orderly transactions and inactive markets, see KPMG Q&A, [Fair value measurement](#).

Equity securities without a readily determinable fair value

Topic 321 permits entities to subsequently measure equity securities without readily determinable fair values at cost minus impairment, if any, plus or minus changes in fair value when there are observable price changes in orderly transactions for the identical or a similar security of the same issuer (i.e. the measurement alternative). When an observable price is identified, the security is remeasured to fair value with changes in fair value recognized in earnings.

The recent declines in equity markets have increased the potential for impairment of equity securities without a readily determinable fair value. Topic 321 requires entities to make a qualitative assessment considering impairment indicators to evaluate whether fair value of the investment is less than its carrying amount. These impairment indicators include, but are not limited to, a significant adverse change in the economic environment of the investee, and a significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates. If an entity cannot determine that the fair value of the investment is not less than its carrying amount using

a qualitative assessment, then it should measure the fair value of the investment at the reporting date. If the fair value is determined to be less than the carrying amount, the difference is recognized as an impairment loss.

In the current economic environment, one or more qualitative impairment indicators are likely to be present and we expect that, in most cases, entities will not be able to determine qualitatively that the fair value of the investment is not less than its carrying amount. As a result, we expect that, in most cases, the fair value of these investments will need to be measured at the reporting date.

Topic 321 requires an entity to make a reasonable effort without expending undue cost and effort to identify observable price changes that are known or that can be reasonably known. Even in periods of economic downturn and market volatility, an entity should not disregard observable prices identified unless those prices are from transactions determined to be not orderly. For further discussion of measuring equity securities that do not have readily determinable fair values and fair value measurements, see KPMG Q&A, [Financial instruments: Recognition and measurement of financial assets and financial liabilities](#), and KPMG Q&A, [Fair value measurement](#).

Evolving information

The potential global and economic impacts of the coronavirus continue to evolve rapidly, and companies should monitor the situation. Companies are encouraged to maintain close communications with their board of directors, external auditors, legal counsel and other service providers as the circumstances progress. Stay informed at read.kpmg.us/coronavirus

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