

THE PPC ACCOUNTING AND AUDITING UPDATE

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AICPA Guidance for PPP Lenders



The CARES Act, as amended, established the Paycheck Protection Program (PPP), which provided loans to help small businesses. The AICPA's Depository Institution Expert Panel issued a number of Technical Questions and Answers (TQAs) to help lenders apply existing accounting rules to PPP loans they distributed. The TQAs are nonauthoritative but provide practical insights on applying existing accounting standards to these loans. Following is a summary of TQAs 2130.42–.45.

Classification of Advances Under the PPP

Question—Should the lending institution account for an advance under the PPP as a facilitation of a government grant or as a loan?

Response—A PPP advance is legally a loan with a stated principal, interest, and maturity date. An institution is expected to collect amounts due from either the borrower or the Small Business Administration (SBA) as a guarantor.

The institution should classify the PPP advance as a loan.

Classification of the SBA Guarantee

Question—Is the guarantee from the SBA considered *embedded* or a *freestanding contract*?

Response—The SBA guarantee exists at the inception and throughout the life of the loan. The guarantee wasn't entered into separately and apart from the loan. If the loan is transferred, the guarantee transfers with it. The loan doesn't exist without the guarantee unless it is determined the lender violated an obligation under the agreement. The guarantee wasn't entered into in connection with another transaction and isn't legally detachable. As a result, an SBA guarantee would be considered an *embedded* guarantee.

Question—Can the guarantee be considered in estimating credit losses on the loan?

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Response—Because the guarantee is considered *embedded*, it would be considered when estimating credit losses on a loan.

Accounting for PPP Loan Origination Fees

Question—What is the accounting for the fee received or receivable from the SBA for originating the loan?

Response—Upon funding of the loan, a fee earned on a PPP loan should be accounted for as a nonrefundable origination fee under FASB ASC 310-20, *Receivables—Nonrefundable Fees and Other Costs*. As a result, it should be offset against direct origination costs, and the net amount should be deferred in accordance with FASB ASC 310-20-25-2 and amortized over the life of the loan (or over the estimated life if prepayments are probable, the timing and amount of prepayments can be reasonably estimated, and the entity qualifies and elects to apply the guidance in paragraphs 26–32 of FASB ASC 310-20-35) as an adjustment to yield in accordance with FASB ASC 310-20-35-2.

Question—What is the accounting for the potential clawback of the fee?

Response—The fee may be subject to clawback (or not paid) after full disbursement of the PPP loan under certain conditions. The clawback provisions are distinguished from refund provisions, because they are designed to operate similar to cancellation or penalty provisions if one of the counterparties to the arrangement violated a representation, warranty, or obligation under the agreement. As a result, the clawback provisions wouldn't cause the fee to be considered refundable and would be subject to FASB ASC 310-20. Lenders should consider the guidance in FASB ASC 450, *Contingencies*, and establish a loss contingency when a loss is probable and the amount of the loss can be estimated.

Accounting for Loan Repayment or Forgiveness

Question—How should a lender account for the portion of the loan that is eligible for forgiveness during the settlement process, including the time period after the lender determines the borrower is eligible for forgiveness and through the receipt of payment from the SBA?

Response—The portion of the loan that is eligible for forgiveness during the settlement process should continue to be accounted for as an interest-bearing loan

(including amortization of loan origination fees) through receipt of payment from the borrower or the SBA. Payments received from the borrower or the SBA prior to maturity of the loan (other than required payments of principal and interest) are considered prepayments of the loan.

Practical Consideration:

The full text of these TQAs can be downloaded from the AICPA's website at www.aicpa.org/interestareas/frc/recentlyissuedtechnicalquestionsandanswers.html.



AICPA & CIMA Issue New Guidance for Auditing Digital Assets

In May 2021, the AICPA and CIMA Digital Assets Working Group issued new authoritative guidance for auditing digital assets. The guidance was added as new sections to the AICPA & CIMA Practice Aid, *Accounting for and Auditing of Digital Assets*.

Because digital assets and related technologies are a rapidly changing area with unique risks, it's important for preparers, those charged with governance, and auditors to be aware of developments and stakeholder expectations.

The Practice Aid defines *digital assets* as “digital records made using cryptography for verification and security purposes, on a distributed ledger (blockchain) that keeps a record of all the transactions on the blockchain network.”

Digital assets may be used for a number of purposes, including—

- Financing.
- Providing goods or services.
- Medium of exchange.

Digital assets have very different rights and obligations depending on their terms and purposes. The accounting for a digital asset will be driven by the asset's specific term, form, rights, and obligations.

The new sections added to the Practice Aid are—

- Risk assessment and processes and controls.
- Laws and regulations and related parties.

The “Risk Assessment and Processes and Controls” section includes the following topics:

- Understanding the entity and its environment.
- Understanding and evaluating the entity’s risk assessment process.
- Understanding the entity’s processes and controls.

Each of these three topics describes considerations that may be important when performing risk assessment procedures in audits of entities engaged in the digital asset ecosystem.

The “Laws and Regulations and Related Parties” section provides guidance—

- Regarding challenges of assessing legal and regulatory compliance because of the evolving nature of the requirements for digital assets across jurisdictions and the pseudo-anonymity of the parties involved in blockchain transactions.
- Including procedures to consider specific to digital assets to address the risk of material misstatement of the financial statements due to noncompliance.
- Including challenges of identifying related parties because of pseudo-anonymity of participants in blockchain transactions, self-dealing, and custodians and exchanges.
- Providing inquiry and evaluation procedures to consider, along with substantive procedures and tests of controls, specific to digital assets.

A “Blockchain Universal Glossary” was also added as an Appendix.

The Digital Assets Working Group will continue to add more topics to this practice aid and will post the revisions to the AICPA’s website as they are completed.

Practical Consideration:

Additional information on blockchain technology and related CPE courses are available at www.aicpa.org/interestareas/informationtechnology/resources/blockchain.html.

AICPA Issues Exposure Drafts on NOCLAR

Two committees of the AICPA issued proposals to clarify accountants’ responsibilities and address ethical issues related to noncompliance or suspected noncompliance with laws or regulations (NOCLAR). Their proposals are intended to converge AICPA standards with standards of the International Ethics Standards Board for Accountants (IESBA).

The AICPA *Code of Professional Conduct* does not currently include specific guidance for members when they encounter NOCLAR. This includes acts committed by clients, employers, management, those charged with governance, or individuals working for a client or employer, and acts of omission, whether they are intentional or unintentional.

PEEC

In February 2021, the Professional Ethics Executive Committee (PEEC) of the AICPA re-exposed for comment two interpretations that would add guidance to the AICPA *Code of Professional Conduct* relating to “Responding to Non-Compliance with Laws and Regulations” (ET sec. 1.170.010 and 2.170.010) under the “Integrity and Objectivity Rule”. One is applicable to members in public practice, and the other is applicable to members in business.

The proposal was revised and re-exposed after PEEC reviewed responses to an exposure draft issued in 2017. In the re-exposed proposal, there are separate, more stringent requirements for members providing attest services as compared with requirements for members providing only nonattest services.

Additional amendments will also be needed to existing interpretations.

Practical Consideration:

The PEEC exposure draft is available at www.aicpa.org/content/dam/aicpa/interestareas/professionalethics/community/exposedrafts/downloadabledocuments/2021/2021-Feb-NOCLAR-ED.pdf.



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ASB

In February 2021, the AICPA Auditing Standards Board separately issued the PEEC NOCLAR Exposure Draft, *Inquiries of the Predecessor Auditor Regarding Fraud and Noncompliance With Laws and Regulations*, that proposes revisions to the auditing standards in AU-C 210, *Terms of Engagement*. The proposal would require a successor auditor to inquire of the predecessor auditor about identified or suspected NOCLAR matters and the predecessor auditor to respond fully and timely.

Practical Consideration:

The ASB exposure draft is available at www.aicpa.org/content/dam/aicpa/research/exposedrafts/accountingandauditing/downloadabledocuments/20210225a/20210225a-noclar-ed.pdf.

