

ASU 2018-13 Fair Value Measurement (Topic 820):

Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement

There will be changes coming relating to the fair value measurement framework disclosure as ASU 2018-13 removes, modifies, and adds certain disclosure requirements. This update is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. However, consideration of costs and benefits the revisions of ASU 2018-13 contains, may prompt entities to early adopt the changes for their upcoming year-end financial reporting.

The FASB identified certain disclosures that could be eliminated to improve the effectiveness of the fair value disclosure in the financial statements.

The following four required disclosures are removed upon adoption of ASU 2018-13:

1. The amount of transfers of assets and liabilities measured on a reoccurring basis, between Level 1 and Level 2 of the fair value hierarchy,

2. The policy followed by an entity to determine when a transfer between Level 1 and Level 2 of the fair value hierarchy has occurred,

3. The processes used to measure reoccurring and nonrecurring valuations of assets and liabilities categorized as Level 3 of the fair value hierarchy. This means the following disclosures will no longer be required:



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For Employee Benefit Plan Sponsors

Employee Benefits

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The CARES Act and What It Means for Retirement Plan Loans and Distributions

The impact of the Coronavirus is going to financially impact your employees for quite some time. On March 27, 2020, the CARES (Coronavirus, Aid, Relief and Economic Security) Act was enacted to help provide them with some relief related to employee benefit plans. It is important to know that these changes are optional, and you will need to amend your plan to allow for these new provisions. An employer is permitted to choose whether, and to what extent, to amend their plan to provide for coronavirus-related distributions and/or loans. You should reach out to your plan administrator to discuss the options for your plan.

The CARES Act provides for expanded distribution options and favorable tax treatment for up to \$100,000 of coronavirus-related distributions from eligible retirement plans (certain employer retirement plans, such as section 401(k) and 403(b) plans, and IRAs) to qualified individuals, as well as special rollover rules with respect to such distributions.

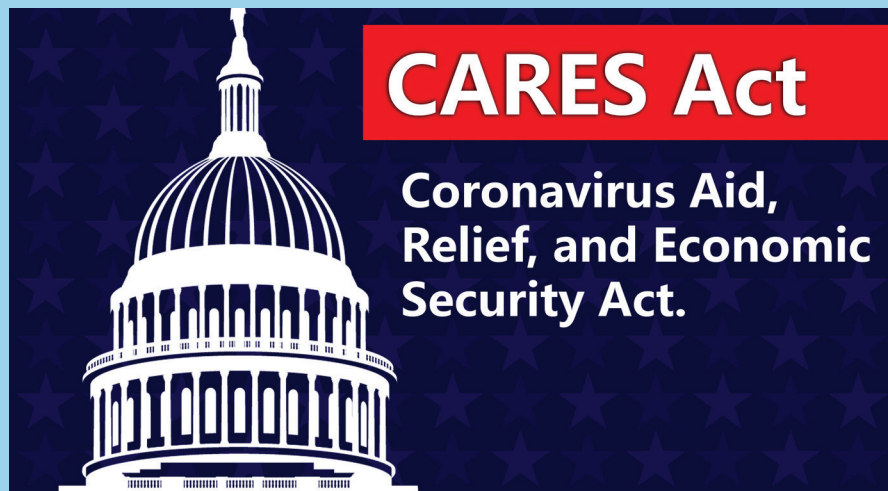
It also increases the limit on the amount a qualified individual may borrow from an eligible retirement plan (not including an IRA) and permits a plan sponsor to provide qualified individuals up to an additional year to repay their plan loans.

You are a qualified individual if you are diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention; your spouse or dependent is diagnosed with SARS-CoV-2 or with COVID-19 by a test approved by the Centers for Disease Control and Prevention; you experience adverse financial consequences as a result of being quarantined, being furloughed or laid off, or having work hours reduced due to SARS-CoV-2 or COVID-19; you experience adverse financial consequences as a result of being unable to work due to lack of child care due to SARS-CoV-2 or COVID-19; or you experience adverse financial consequences as a result of closing or reducing hours of

The CARES Act (continued)

a business that you own or operate due to SARS-CoV-2 or COVID-19. Under section 2202 of the CARES Act, the Treasury Department and the IRS may issue guidance that expands the list of factors considered to determine whether an individual is a qualified individual as a result of experiencing adverse financial consequences. The Treasury Department and the IRS have received and are reviewing comments from the public requesting that the list of factors be expanded.

The administrator of an eligible retirement plan may rely on an individual's certification that the individual satisfies the conditions to be a qualified individual in determining whether a distribution is a coronavirus-related distribution, unless the administrator has actual knowledge to the contrary. Al-



though an administrator may rely on an individual's certification in making and reporting a distribution, the individual is entitled to treat the distribution as a coronavirus-related distribution for purposes of the individual's federal income tax return only if the individual actually

meets the eligibility requirements.

Distributions:

A coronavirus-related distribution is a distribution that is made from an eligible retirement plan to a qualified individual from January 1, 2020, to December 30, 2020, up to an ag-

gregate limit of \$100,000 from all plans and IRAs. The 10% additional tax on early distributions does not apply to any coronavirus-related distribution. The distributions generally are included in income ratably over a three-year period, starting with the year in which you receive your distribution. However, you have the option of including the entire distribution in your income for the year of the distribution. You may repay all or part of the amount of a coronavirus-related distribution to an eligible retirement plan, provided that you complete the repayment within three years after the date that the distribution was received. If you repay a coronavirus-related distribution, the distribution will be treated as though it were repaid in a direct trustee-to-trustee transfer so that you do not owe federal income tax on the distribution.

In addition, required minimum distributions that were required from defined contribution plans need not be made for 2020.

Loans:

The CARES Act also permits an additional year for repayment of loans from eligible retirement plans (not including IRAs) and relaxes limits on loans. Certain loan repayments may be delayed for one year. If a loan is outstanding on or after March 27, 2020, and any repayment on the loan is due from March 27, 2020, to December 31, 2020, that due date may be delayed under the plan for up to one year. Any payments after the suspension period will be adjusted to reflect the delay and any interest accruing during the delay. The CARES Act also permits employers to increase the maximum loan amount available to

qualified individuals. For plan loans made to a qualified individual from March 27, 2020, to September 22, 2020, the limit may be increased up to the lesser of: (1) \$100,000 (minus outstanding plan loans of the individual), or (2) the individual's vested benefit under the plan.

These changes could help your employees get back on their feet sooner rather than later. After considering the impact to your plan and your employees, if you determine that these changes would be beneficial, we suggest you reach out to your third-party administrator.

ASU 2018-13 Fair Value Measurement (continued)

- The group that decides on an entity's valuation policies and procedures, to whom they report, and the procedures they follow;
- Frequency and method of calibrating and testing pricing models;
- Process for analyzing period-to-period change to fair value measurements;
- How third-party information was determined to be developed in accordance with US GAAP; and
- Methods used in developing and substantiating unobservable inputs used in the fair value measurement

4. For nonpublic entities, the disclosure of changes in unrealized gains and losses from Level 3 fair value measurements included in earnings will be eliminated.

The following disclosures in Topic 820 were modified and are expected to increase their effectiveness:

1. If a nonpublic entity has recurring Level 3 fair value measurements, the entity may disclose transfers into and out of Level 3 of the fair value hierarchy, the reason for the transfer, and purchases and issuances of Level 3 fair value assets and liabilities in lieu of a roll-forward of Level 3 fair value measurements:

2. Disclosure of the timing of a liquidation of an investee's assets and when redemption restrictions might lapse is only required for an investment in certain entities that calculate net assets value when the timing of the events has been communicated to the entity or made public, and:

3. The amendment clarifies that the measurement uncertainty disclosure of recurring Level 3 is to communicate information about the uncertainty in measurement as of the reporting date.

In addition to the eliminations and modifications noted above, the adoption of ASU 2018-13,

will require public business entities to make additional disclosures to provide financial statement users with information about:

1. Changes in unrealized gains and losses that are included in other comprehensive income for recurring Level 3 fair value measurements for assets and liabilities that remain held at the end of the reporting period, and

2. Quantitative information about significant unobservable inputs used in Level 3 measurements. This information should include the range that was used in developing the fair value measures, and the weighted average of those inputs, unless a more reasonable and rationale method would be appropriate in place of the weighted average.

The ASU 2018-13 will also eliminate "at a minimum" from the phrase "an entity shall disclose at a minimum" to allow for appropriate consideration of materiality by entities and their auditors when eval-

uating the disclosure requirements.

As previously noted, ASU 2018-13 is effective for fiscal years, including interim periods within, beginning after Dec. 15, 2019. Early adoption is permitted at any time. It is important to note, the changes to the disclosure requirements are to be applied retrospectively, with the exception of disclosures about changes in unrealized gains and losses, range and weighted average of unobservable inputs, and uncertainty disclosures, which should be applied prospectively.

The SECURE Act

With all that 2020 has brought so far, it is important that you keep in mind the impact of the Setting Every Community Up for Retirement Enhancement Act of 2019 (The SECURE Act) that was signed as part of a government spending bill on December 20, 2019.

The Act has many important elements that could impact your plan. A couple are noted below. The Act also has many others changes and details that we would be more than happy to discuss with you.

- Increases the cap from 10 to 15 percent of employee pay that required automatic escalation of employee deferrals go no higher than under an automatic enrollment safe harbor plan.
- Allows long-term part-time workers to participate in 401(k) Plans.

- Provides for penalty-free withdrawals from retirement plans for any qualified birth or adoption distributions.
- Increases the required minimum distribution age from 70 ½ to 72.
- Increase credit limits for Small Employer Pension Plan Start-Up Costs and auto enrollment.
- Prohibits the distribution of plan loans through credit cards or similar arrangements.

A Move Towards Remote Auditing

The coronavirus pandemic has put unprecedented pressure on the global economy and financial markets in recent months and caused many changes. Two things that have not changed are your requirements to your employee benefit plan and our commitment to providing you with a quality audit. With uncertainty regarding the timing of stay-at-home orders and other safety protocols that will be in place over the next several months, we cannot be sure when we will be able to visit client locations to complete our audits and as a result, we have turned to remote auditing.

Now more than ever is a time to refine our audit processes, make the best use of technology, and develop best practices for completing these audits and staying connected with you, our clients, that will last beyond the current crisis. To do so, we will need to combine the use of technology with effective audit planning and communication. This will ensure we are completing your employee benefit plan audit as efficiently and effectively as possible over the next several months and beyond.

Remote Audit Technology

Accounting firms have been doing remote audits for some time now and many already have the technology necessary for remote auditing, although maybe not to the extent that it will be used now. While some technology supporting remote audits is quite basic and well known (email and software such as Word, Excel and Acrobat), below are a few of the unique challenges that might arise when completing an employee benefit plan

audit remotely, and the technology we are using to help overcome those challenges that may be new to engagements.

Email can be viewed as an unsafe way to share sensitive information, such as payroll data and employee information that we often require during employee benefit plan audits. As a result of these security concerns, we have been utilizing a secure web portal to ensure our clients have access to a centralized client folder to easily upload and transfer their audit requests and support. This also allows for a more efficient audit, as the support is accumulated in a central location that can be accessed by specific client personnel and members of the engagement team throughout the audit.

Also, due to the limitations created from not being onsite to have face-to-face conversations and ask questions that are required during the audit, we are utilizing various video and teleconferencing software to help stay connected with our clients and colleagues throughout the process. Beyond a simple phone conversation, these tools can allow for face-to-face conversations, the ability to share screens and information, and even observe specific audit support.

Audit Planning and Communication

Performing a successful remote employee benefit plan audit also involves a strong focus on planning and communication. Effective planning and communication have always been key aspects of an audit engagement, but when an auditor is unable to visit a client location

to perform testing it becomes even more important.

To ensure proper planning and communication for remote employee benefit plan audits, we are making our request for data and testing samples as detailed and complete as possible, tailoring these to each specific engagement, and communicating our requests as early as possible. These requests will also be discussed with you upfront so there is a clear understanding of what we are asking for and how we would like to receive the information throughout the process.

In addition, since we are unable to just walk into your office to ask questions during a remote audit as we typically would during standard fieldwork, it is helpful to have additional check-in calls throughout the engagement to resolve issues, discuss questions and open items that we may have accumulated while performing our testing remotely, as well as to keep you up to date on our progress.

Creating a Better Process

While we understand that completing these employee benefit plan audits remotely might be challenging, especially in the near term, many of the processes and best practices that we are putting into place now will likely remain even after the pandemic has subsided. With the proper use of remote auditing technology and effective planning and communication throughout our engagements, we will be able to help you meet your employee benefit plan audit requirements as efficiently, effectively, and safely as possible.

Contact Us: *If you are in need of an audit or have any related questions, contact [Kimberly Reed](mailto:kreed@ocd.com), Audit Principal, by phone at [617-471-1120](tel:617-471-1120) or via email at kreed@ocd.com*