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*Views on, analysis of and news about US GAAP and SEC reporting  
A Canadian perspective*

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# US GAAP Today



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## Summer 2014 Issue 2014-3

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### **One global revenue model**

*The new revenue standard is available now – it may change the way you recognize revenue as well as do business. Now is the time to understand the implications on your revenue streams and develop a transition plan.*

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### **Other FASB developments**

*The FASB issued a standard to narrow the definition of discontinued operations and a standard to eliminate the requirements for development stage entities. The FASB continues to work on its own versions of the joint projects on financial instruments and insurance while a joint effort continues for leases. With several projects being completed or nearing completion the FASB has started some new projects aimed at simplifying some of the US GAAP requirements. These projects are in their initial stages.*

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## US GAAP Today

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## Common abbreviations

<b>ASC</b>	Accounting Standards Codification
<b>ASU</b>	Accountings Standards Update
<b>COSO</b>	The Committee of Sponsoring Organizations of the Treadway Commission
<b>ED</b>	Exposure Draft or Proposed Accounting Standards Update
<b>EITF</b>	Emerging Issues Task Force of the Financial Accounting Standards Board
<b>FAF</b>	Financial Accounting Foundation
<b>FASAC</b>	Financial Accounting Standards Advisory Committee
<b>FASB</b>	The Financial Accounting Standards Board
<b>FinREC</b>	The Financial Reporting Executive Committee of the American Institute of Certified Public Accountants
<b>IASB</b>	The International Accounting Standards Board
<b>IFRS</b>	International Financial Reporting Standards
<b>PCC</b>	Private Company Council
<b>SEC</b>	Securities and Exchange Commission
<b>SICAD</b>	Sistema Complimentario de Administracion de Divisas

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## News on ASUs issued

### **One global revenue model**

*ASU 2014-09: Revenue contracts with customers*

*Topic 606: Revenue contracts with customers*

In May 2014, the FASB and IASB released the new global revenue standards. In the Spring 2014 issue of *US GAAP Today*, Sean Cable and Geoff Leverton outlined the new revenue model, discussed some of the issues and challenges, and provided guidance on getting ready for this significant change to US GAAP.

The implementation of the new standards is expected to raise a number of questions and issues. The IASB and FASB have formed a joint transition resource group (TRG) to inform both Boards about potential implementation issues that could arise while companies implement the new standard. The TRG will discuss these issues and discussion summaries will be posted on the respective Boards' websites. The TRG will not issue any guidance on the issues that are discussed. The AICPA has also organized sixteen industry groups to provide helpful hints and illustrative examples of how to apply the new standard. In addition, other bodies are expected to provide guidance as companies begin to understand the implications of the standards.

It is also expected the SEC will review their existing staff accounting bulletins on revenue recognition and either remove them or amend them.

For public companies, the new standard will be applicable for years beginning after December 15, 2016. Non-public companies will begin the transition the following year. While the 2017 effective

date may seem far off, timely planning and preparation is essential. Revenue recognition is a critical accounting area, and a company cannot afford to get it wrong. Boards of directors, senior management and investors will want to know what to expect. Starting a transition project now will allow companies the flexibility to develop solutions suitable to their company including any necessary process and system changes.

### **Discontinued operations streamlined**

*ASU 2014-08: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*

*Topic 205: Presentation of financial statements*

*Topic 360: Property, plant and equipment*

Currently, all components of an entity that are disposed of or classified as held for sale (collectively, a "disposal") are presented as discontinued operations in an entity's financial statements. A component could be a reportable segment, an operating segment, a reporting unit, a subsidiary or an asset group. Many investors believe this information is not relevant to assessing an entity's performance. The FASB decided to address this issue by modifying the definition of discontinued operation.

The ASU amends the definition of a discontinued operation to require that a disposal represent a strategic shift that has or will have a major effect on the entity's operations and financial results. A strategic shift may occur when the entity disposes of a major geographic area, major line of business, a major equity investment, or major parts of an entity.

The amendments also require additional disclosures about the major classes of line items comprising profit or loss before tax, cash flow related information, the non-controlling interest in profit or loss before tax, a reconciliation of major assets and liabilities of the discontinued operations. When there is continuing involvement, disclosures would be required about certain cash flow information from or to the discontinued operation and information when the entity retains an equity method investment after disposal.

The amendments also require disclosures about disposals of individually significant components of an entity that do not qualify as discontinued operations. The information required includes pretax profit or loss and the related noncontrolling interest.

Public business entities are to apply the guidance prospectively to disposals or classification of components as held for sale within annual periods (and interim periods within those years) beginning on or after December 15, 2014. The effective date also applies to businesses acquired that are held for sale. For non-public companies, the guidance will apply at the same time for annual periods and a year later for interim financial statements. The amendment does not apply to components classified as held for sale before the effective date even if the disposal occurs after the effective date. Early adoption is permitted.

The new requirements will require the application of judgement as to whether there is a strategic shift in the entity. Non-strategic changes will now be part of net income before discontinued

operations. This may increase volatility in such measures as gains or losses on disposal as well as impairment losses and restructuring costs will now be above the line. Entities will need to consider this impact and may need to enhance their management's discussions and analysis and review any non-GAAP measures used.

**Development stage entities nixed**  
*ASU 2014-10: Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation*  
*Topic 915: Development Stage Entities*

Development stage entities have had to provide incremental information in their financial statements for years. Current guidance requires inception-to-date information about profit or loss, cash flows and shareholders' equity, the financial statements to be labelled as those of a development stage entity, and a description of development activities. Users of financial statements have indicated this information has limited relevance and is generally not useful.

The amendments made in the ASU eliminate the definition of development stage entity and all of the incremental disclosure requirements. A clarification has also been made to indicate that disclosures required under Topic 275: *Risks and uncertainties* is applicable to entities that have not commenced planned principal operations.

Topic 810: *Consolidation* provides an exception to a development stage entity for determining whether an entity is a variable interest entity because of the amount of investment equity at risk. This exception has been eliminated and the assessment of whether a development stage entity is a variable interest

entity will be based on the same rules applicable to all entities. As a result, in most cases, entities that have an investment in a development stage type entity will have to perform a different analysis to determine whether the development stage type entity should be consolidated.

The disclosure amendments are effective for annual periods beginning after December 15, 2014 including interim period within those annual periods, except that non-public entities are not required to apply the guidance to interim financial statements until a year later. The consolidation amendments are applicable to public entities for annual periods (and interim periods within those annual periods) beginning after December 15, 2015. Non-public entities are required to apply the consolidation amendment a year later for annual periods and two years later for interim financial statements.

The Update will reduce a significant burden on development stage entities and simplify their financial statements. However, investors holding interests in development stage type entities may need to reassess their conclusions on whether such entities need to be consolidated.

**Repos guidance updated**  
*ASU 2014-11: Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*  
*Topic 860: Transfers and Servicing*

ASU 2014-11 was issued to address concerns over accounting distinctions made for different repurchase agreements when the transferor in the repurchase agreement retains exposure to the transferred assets and obtains benefits from those assets throughout the term of the transaction. The

amendments change the accounting for certain types of repurchase agreements to be consistent with existing accounting for other repurchase agreements.

The accounting for repurchase-to-maturity transactions has been changed from a sale with a forward agreement to a secured borrowing. Currently, some repurchase financing arrangements, when the initial transfer of a financial asset and a contemporaneous repurchase agreement were considered linked, are accounted for as a forward agreement. This accounting results in the repurchase financing arranging being off-balance sheet. As a result of the amendments, the elements of these repurchase financing agreements will have to be accounted for separately. This change will result in the repurchase agreement being accounted for as a secured borrowing.

Disclosures have also been enhanced for transactions comprising (1) a transfer of a financial asset accounted for as a sale, and (2) an agreement with the same transferee entered into in contemplation of the initial transfer that results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. These transactions may be repurchase agreements, securities lending arrangements and sales with a total swap return and similar arrangements. Disclosures are also required for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions accounted for as secured borrowings.

Public business entities are required to apply the amendment for the first interim and annual periods beginning after December 15, 2014. Disclosures about a transaction accounted for as secured borrowing are only required





for interim periods beginning after March 15, 2015. Public entities are not permitted to adopt the amendments early. Other entities will have to apply the guidance for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2015. The accounting changes are applied on the effective date with a cumulative catch up adjustment to retained earnings. Disclosures are not required for the comparative period before the effective date.

***Performance targets are performance conditions***

***ASU 2014-12: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Period***  
***Topic 718: Compensation – Stock Compensation***

Certain share-based payment awards include a performance target that affects vesting after an employee has completed the requisite service period. For example, an employee may still be entitled to share-based payment after the employee retires or is terminated from employment. Current US GAAP does not provide any guidance on how to account for these types of awards.

The EITF concluded the performance target should be treated as a performance condition. This means that the grant-date fair value of the award would not reflect the performance condition. Compensation expense would be recognized when it is probable that

the performance target will be met based on the requisite service already rendered and, if applicable, to be rendered.

This Update is effective for annual periods (including interim periods within those annual periods) beginning after December 15, 2015. Earlier adoption is permitted. The guidance may be applied prospectively to all awards granted or modified after the effective date or retrospectively to all awards that are outstanding as of the beginning of the earliest annual period presented in the financial statements.

## News on proposed ASUs

### **Pushdown**

*ASC 805: Business Combinations*

*Exposures draft: EITF Issuer 12F:*

*Pushdown Accounting*

*Issued: April 28, 2014*

*Comments due: July 31, 2014*

US GAAP does not provide any guidance on the use of pushdown accounting. Guidance has been provided for SEC registrants through SEC Staff Accounting Bulletin Topic 5 J and supplemental guidance in the SEC Observer comments in EITF Topic D-97. The EITF has developed a consensus to provide guidance on when and how an acquired entity that is a business can apply pushdown accounting.

The proposed ASU allows an acquired entity to elect to apply pushdown accounting in its separate financial statements when an acquirer obtains control of the acquired entity. If pushdown accounting is elected, the acquired entity would reflect in its separate financial statements the new basis of accounting established by the acquirer for the individual assets and liabilities of the acquired entity using the business combinations guidance. If the acquirer was not required to establish a new basis of accounting for the assets acquired and liabilities assumed, the acquired entity would use the values that would have been established if the business combinations standard had been applied by the acquirer. Goodwill would be recognized in the acquired entity's separate financial statements, but a bargain purchase gains would not. Any acquisition related debt incurred by the acquirer would only be recognized in the acquired entity's separate financial statements if the acquired entity is

required to recognize such debt as a liability under other US GAAP standards.

Subsequent to applying pushdown accounting, the assets and liabilities of the acquired entity would be accounted for using applicable US GAAP standards.

When the acquired entity applies pushdown accounting, it would also provide disclosures similar to that required for a business combination. If the acquired entity does not elect to apply pushdown accounting after a change of control, it must disclose that fact.

The amendments would be applied prospectively to change of control events for which the acquisition date is on or after the effective date. An effective date has not yet been set.



## News on projects in progress

### Joint projects with IASB

#### **Leases**

*ASC 840: Leases*

*Revised exposure draft 2013-270: Leases – a revision of the 2010 proposed FASB Accounting Standards Update*

*Issued: May 2013*

*Comments were due: September 2013*

Current models for accounting for leases have been criticized because they do not always faithfully represent the leasing transaction. Many users of financial statements change financial information provided by companies leasing a significant amount of assets to reflect the assets and liabilities from leases. The objective of the project is to increase the transparency and comparability among entities by recognizing lease assets and liabilities on the balance sheet and disclosing other information about leases. This is a joint project where the IASB and FASB have different views and it is possible that the lease standards of the two Boards will not be converged.

The FASB's approach for lessees would have leases classified in the same manner as under current US GAAP. All leases would be on-balance sheet, but the recognition of expense would differ depending on whether the lease was a capital- or operating-type lease. While the proposals refer to Type A and Type B leases, we have used the current descriptors to make clear for discussion purposes the nature of the lease. For a capital-type lease, depreciation and interest expense would be recognized in profit or loss while, for an operating-type lease, a straight-line lease expense would be recognized. The IASB has a different approach for lessee accounting which will require lessees to account

for leases in a manner similar to capital leases except for small ticket and short-term leases.

Both Boards would require lessors to treat a lease either as a sale or a financing lease based on whether the lease has transferred substantially all the risk and reward incidental to ownership of the underlying assets. Profit would only be recognized on a sales-type lease if the lease transfers control of the underlying asset to the lessee. This proposal will align the guidance with the revenue recognition criteria.

During the second quarter of 2014, the Boards reached several tentative conclusions on lease modifications. A lease modification is any substantive change to the contractual terms and conditions of a lease that was not part of the original terms and conditions. A lease modification would be accounted for as a new lease, separate from the original lease when (1) an additional right of use has been granted, and (2) the pricing of the original right is consistent with its stand-alone price.

For changes in the scope or consideration of a lease that does not qualify as a separate lease, a lessee would be required to remeasure the lease liability using the effective discount rate at the date of the modification. Changes resulting in an increase of the scope or a payment of additional consideration would result in an adjustment to the right-of-use (ROU) asset. Modifications resulting in a decrease in the scope would also decrease the carrying amount of the ROU asset with a gain or loss reflected for the partial or full termination of the lease.

A lessor would account for changes to an operating-type lease that do not

qualify as a separate lease as a new lease from the effective date of the modification with any prepaid or accrual lease rentals included as part of the lease payment of the modified lease. For capital-type leases, modifications would be accounted for using guidance for receivables.

The Boards have decided that variable lease payments based on an index or rate would only be included in the initial measurement of lease assets and liabilities. Those assets and liabilities would be measured using the index or rate at the lease commencement. The FASB decided a lessee should only reassess variable lease payments when the lessee remeasures the lease liability for other reasons as required under the standard. Lessors would not be required to reassess variable lease payments.

Clarifications were made to the definition of the discount rate to be used to measure the lease liability/receivable. In addition, lessees would only be required to reassess the discount rate when there is a change to the lease term or the reassessment of a purchase options. Lessors would not be required to reassess the discount rate at any time.

Lease and non-lease components would be accounted for separately by a lessee unless it elects not to separate them and account for lease and non-lease components as a single lease component. This election must be made on a class by class basis. Consideration in a lease contract would be allocated to lease and non-lease components on a relative stand-alone price basis. The allocation of consideration would only be reconsidered when there is a reassessment of lease term or lessee's purchase option or there is a contract



modification that is not accounted for as a new lease contract.

Initial direct costs would only include incremental costs that an entity would not have incurred if the lease had not been executed (for example, commissions or payments made to existing tenants to obtain the lease). For sales-type leases, lessors would be required to include initial direct costs in the initial measurement of the lease receivable to determine the implicit lease rate. When the lessor recognizes a profit at lease commencement, the initial direct costs would be recognized as an expense. For operating-type leases, the lessor would recognize initial direct costs as an expense over the lease term on the same basis as the lease income. Lessees would include initial direct costs in the initial measurement of the ROU asset.

A head lease and a sublease lead would be accounted for as separate agreements unless they meet certain guidance to be combined. The FASB decided that an intermediate lessor would classify a sublease based on the underlying assets and not its own ROU asset. Lease assets and lease liabilities related to a head lease and a sublease would not be offset unless they meet the requirements for offsetting of financial instruments. Further lease income and lease expense would not be offset by an intermediate lessor unless the intermediate lessor is acting as an agent.

Lessees would be required to present ROU assets for purchase- and operating-type leases as separate lines in the balance sheet or disclose the amounts in the notes including the line item for each type of lease. Purchase- and operating-type leases would not be included in the same line on the balance sheet.

The two Boards will continue their redeliberations and have not indicated when they expect to finalize a standard.

## **Financial instruments – classification and measurement**

### *Topic 825: Financial Instruments*

#### *Exposure draft 2013-220: Recognition and Measurement of Financial Assets and Financial Liabilities*

#### *Exposure draft 2013-221: Recognition and Measurement of Financial Assets and Financial Liabilities – Proposed Amendments to the FASB Accounting Standards Codification*

*Issued: February 2013 and April 2013*

*Comments were due: May 2013*

Several years ago, the FASB and IASB had identified a priority project to provide investors with more useful, transparent, and relevant information about an entity's exposures to financial instruments. The proposed ASU covers the recognition, classification, measurement, and presentation of financial instruments. Impairment of financial assets is a separate project. While the project started as a joint project, the two Boards have gone their separate ways. The IASB is finalizing its amendments to the classification and measurement section of IFRS 9: Financial instruments – recognition and measurement and expects to issue a final standard soon.

The FASB has decided to retain the current US GAAP model for classifying and measuring financial instruments, except for certain equity investments. Equity investments would be measured at fair value through net income except for investments accounted for using the equity method and some practicability exceptions. The Board is still considering the classification of certain forward contracts and the accounting for strategic equity investments.

The FASB has tentatively decided to retain the fair value option permitted under existing GAAP. When an entity measures a financial liability at fair value, changes in the fair

value attributable to a change in the instrument-specific credit risk would be presented in other comprehensive income. The change in the fair value attributable to credit risk could be determined (1) as the difference between the total fair value change and the change resulting from a change in a base market risk, such as a risk-free interest rate, or (2) through another method that faithfully represents the change. The method used to determine the change attributable to credit would have to be disclosed. This guidance will not apply to derivative liabilities.

The Board has also decided not to change current US GAAP guidance for:

- Accounting for loan commitments, revolving lines of credit and commercial letters of credit.
- The recognition and measurement of foreign currency gains and losses on debt securities classified as available for sale.

In addition, no changes are being proposed for the presentation of financial assets and liabilities in the statement of financial position and the presentation of financial instruments in the statement of comprehensive income.

The proposed disclosures in the notes would provide information on financial assets and financial liabilities by measurement category and by the form of financial statements. In addition, public business entities would be required to disclose the fair value of financial assets and financial liabilities measured at amortized cost either parenthetically on the face of the statement or in the notes and by major category for financial assets. The level of the fair hierarchy for these fair value measurements would also have to be disclosed. For equity investments without readily determinable fair values, entities would be required to disclose

the carrying amount of the investments, and the amount of observable and unobservable adjustments made to the carrying amount during the period.

The FASB will continue its redeliberations about disclosures, some open issues for equity investments, the transition provisions, and the effective date. The Board is expecting to finalize a standard by the end of the year.

### **Financial instruments – impairment**

*ASC 825: Financial Instruments*

*Exposure draft 2012-260: Financial instruments – credit losses*

*Issued: December 2012*

*Comments were due: April 2013*

The global financial crisis highlighted certain weaknesses in dealing with credit losses of loans and other financial instruments. The existing incurred loss model delays recognition of a credit loss until the loss is probable. In addition, there are different credit loss models for different financial assets. The impairment project's objective is to develop a standard that recognizes expected credit risks. While the project began as a joint project with the IASB, the FASB decided to develop its own model. The IASB is planning to issue its own final financial assets' impairment standard in the third quarter of 2014.

The FASB is working on a Current Expected Credit Losses (CECL) model, which would require expected credit losses for debt securities measured at amortized cost to be recognized at origination, or purchase of the financial assets, and as credit deteriorates. For debt securities classified as available for sale, the impairment loss would be recognized when the fair value is less than the debt's amortized cost. Under the CECL model, a credit impairment allowance would be recognized for management's best estimate of expected

credit losses (that is, the current estimate of contractual cash flows the entity does not expect to collect).

During the second quarter of 2014, the FASB decided that loans classified as held to maturity would continue to be carried at amortized cost with a credit impairment allowance, if necessary. However, for debt securities classified as held for sale, an impairment allowance to equal the difference between the debt's fair value and its amortized cost would be recognized in net income.

For purchases of retained beneficial interests in securitized financial assets, the FASB decided that an impairment allowance would be recognized when there is a significant difference between the contractual and expected cash flows. In addition, changes in expected cash flows due to factors other than credit risk would be reflected in interest income over the life of the asset.

Redeliberations on the CECL model will continue including considering unit-of-account guidance for measuring expected credit losses. The Board expects to issue a final standard by the end of the year.

## **FASB projects**

### **Several new projects in the initial stages**

During the second quarter, the FASB has either added or commenced work on several new projects as follows:

- Topic 810: *Consolidation* – A project to clarify the *definition of a business* and address whether a transaction involving in-substance nonfinancial assets, held directly or in a subsidiary should be accounted for as acquisition of disposal of nonfinancial assets or businesses. This project is in the early stages of development.
- Topic 230: *Statement of Cash Flows* – A project to clarify certain existing principles related to the *statement of cash flows*. The aim of the project is to reduce diversity in practice and to provide additional guidance on classifying certain cash flows. Some of the issues relate to the classification of insurance proceeds, debt prepayment or extinguishment costs, changes in restricted cash, zero coupon bonds, dividends from equity method investees, and securitizations. This project has just started.
- Topic 330: *Inventory* – The project's objective is to simplify the accounting for *inventory impairment* by requiring inventory to be measured at lower of cost and net realizable value. This proposal would eliminate the use of replacement cost and NRV less an approximately normal profit margin. The proposal, if approved, would be applied on a prospective basis for the measurement of inventory after the date of adoption. An exposure draft has yet to be issued.

- Topic 225: *Income Statement* – As part of a simplification initiative, the FASB had decided to eliminate the concept of *extraordinary items* from US GAAP. There will not be any change to the presentation and disclosure requirements for unusual or infrequent items. If approved, the new guidance will be applied prospectively and prior periods would not be restated. An exposure draft has yet to be issued.

### **Change in direction for insurance contracts**

*Topic 834: Insurance Contracts*

*Topic 944: Financial Services – Insurance*

*Exposure draft 2013-290: Insurance contracts*

*Issued: June 2013*

*Comments were due: September 2013*

The FASB had been contemplating a joint project with the IASB on insurance contracts. After outreach, the FASB has decided to split the project to (1) consider targeted improvements to insurance accounting to address requirements for long-duration contract, including reinsurance and (2) improve disclosures about short-duration contracts. This revised project on long duration insurance contracts is in its initial stages.

The Board is redeliberating the disclosure requirements for short-duration contracts that were proposed in the exposure draft for insurance contracts. All insurance entities that issue short-duration contracts will be required to provide:

- Incurred and paid claims tables disclosing claims and claim adjustment expenses for the most recent 10 years;
- A reconciliation for all periods presented of the liability for unpaid claims;

- Disclosures about claims development including the frequency and severity of claims;
- The effects of discounting, if applicable, and the average pay-out of claims for each of the 10 years following the end of each accident year; and
- Disclosures about material changes in judgments made in calculating the liability for unpaid claims and the claim adjustment expenses.

On transition, entities would be exempt from providing some of the new disclosures.

The FASB staff are drafting the disclosure requirements and performing additional outreach about auditing some of these disclosures. The Board has not yet decided whether to issue an exposure draft for its latest proposals. The Board has not indicated when it expects to finalize these disclosure requirements.

### **Cloud computing arrangements**

*Topic 350-40: Intangibles – Goodwill and Other – Internal Use Software*

This project will address whether a cloud computing arrangement, from a purchaser's perspective, is a license to software or a service contract. The Board has decided the nature of cloud computing arrangement should be based on the classification criteria used to classify internal use software.

Internal use software is software acquired, internally developed, or modified solely for an entity's internal needs. Also, during the software's development or modification, there must be no substantive plan to market the software externally. ASC 350 requires internal and external costs incurred during the application development phase to develop internal use software to be capitalized. Preliminary project stage

and post-development stage costs are to be expensed as incurred.

The proposals may be applied prospectively to all arrangements entered into, or materially modified, after the effective date or retrospectively. The amendments would be effective for annual periods (and related interim periods) beginning after December 15, 2015. Non-public entities may apply the guidance to interim periods the year after the guidance has been applied for annual periods.

An exposure draft on the clarification is planned for the last half of 2014.

### **Principal versus agent analysis**

*Topic 810: Consolidation*

*Exposure draft 2011-220: Principal versus agent analysis*

*Issued: November 2011*

*Comments were due: February 2012*

This project deals with the narrow issues of determining whether a decision maker is acting as a principal or an agent. The FASB plans were to provide criteria for this evaluation to eliminate inconsistencies in evaluating kick-out and participating rights and to align the guidance for considering whether general partners control limited partnerships. The tentative decisions made to date have gone beyond the original objectives. The impetus for the original project was to eliminate the requirements for many money market funds.

The FASB has decided that money market funds would be excluded from the scope of Topic 810 when those funds comply with the money market requirements of the Investment Company Act or have similar characteristics. Fund sponsors of money market funds that are excluded from the scope would disclose any explicit arrangements to provide financial

support to money market funds they manage as well as actual financial support provided.

The FASB has decided that the evaluation of the minority owner rights would change from the current participating rights concept to align with the concept of the “most significant activities” in the VIE model. Current consolidation conclusions could change if the veto rights held by the minority owner are not “the most significant activities”. This change would raise the bar on when minority rights preclude consolidation and cause more majority shareholders to consolidate than under today’s guidance. Many industries are expected to be impacted by this change.

Under the tentative decisions made by the Board, a limited partnership would be a VIE unless substantive kick-out, liquidation or participating rights are exercisable by either a single limited partner or a vote of majority of all partners. A different consolidation conclusion may be reached under the VIE model than under the voting model and additional disclosures would also apply. This change would result in more entities being VIEs and have broad application, since limited partnership structures are utilized extensively in the asset management sector and also in a number of other sectors such as oil & gas, transportation, and real estate development sectors.

The criteria for determining which party should consolidate would remain broadly consistent – that is, based on who has both power over the most significant activities and exposure to potentially significant economics, with a few

notable exceptions. First, fees paid to a decision-maker that are “at market” and “commensurate with services provided” would be excluded in determining whether the decision maker’s economics are “potentially significant”. Second, related parties and de facto agents of a decision maker consideration in the consolidation assessment would change. Third, the circumstances when the related party tiebreaker applies would be reduced. These changes individually and in the aggregate could change who consolidates an entity.

Redeliberations are continuing but are expected to be completed soon.

### **Disclosing going concern uncertainties**

*ASC 205: Presentation of Financial Statements*

*Exposure draft 2013-300: Disclosures of Uncertainties about an Entity’s Going Concern Presumption*

*Issued: June 2013*

*Comments were due: September 2013*

US GAAP does not have any specific guidance on when and how going concern uncertainties should be disclosed. This has resulted in diversity in the timing, nature, and extent of disclosures about such uncertainties. The FASB expects to reduce this diversity by providing guidance for evaluating and disclosing going concern uncertainties.

The FASB has decided that disclosures about going concern uncertainties would be made when there is substantial doubt about the application of the presumption. Substantial doubt guidance would reflect a probable threshold as used in Topic 450: *Contingencies*. The

assessment period would be one year from the date the financial statements are issued (for non-public entities, when the financial statements are available for issuance). The assessment would include conditions and events, known or reasonably knowable, as at the financial statement issuance date and consider any mitigating effect of management plans that are probable.

Disclosures would include a statement about the substantial doubt of the entity’s ability to continue as a going concern, the principal conditions, and events resulting in this assessment, management’s evaluation of the significance of those events and conditions, and any mitigating conditions and events including management’s plans. Disclosures would also be required when substantial doubt is alleviated.

The requirements would be applied prospectively for annual periods beginning after December 15, 2015 and in interim periods thereafter. Early adoption would be permitted.

A final standard is being drafted and the FASB expects to complete this project soon.



## ***News on PCC projects***

### ***Moving to one definition of public entity***

ASC Glossary

In December 2013, the FASB introduced the term “public business entity” for use in all future projects. However, the FASB did not make amendments to any existing standards. US GAAP continues to have five definitions of non-public entity, three definitions of public entity and two definitions of publicly traded company. These differences have the potential to cause confusion as to the

application of these standards. The FASB has asked the PCC to consider whether the existing definitions of public entity (including public trading company) should be replaced with public business entity and any consequential amendments of such a change. This project is in the initial stages.

## ***SEC developments***

### ***Partial stay of Conflict Minerals Rule***

In May 2014, the SEC issued an order staying the effective date for compliance of portions of the Conflict Minerals Rule on the basis that the US Court of Appeals for the District of Columbia concluded that certain statements required in the Report would violate the First Amendment. The statements that were at issue were those in reports to the SEC and on a registrant’s websites that any of the registrant’s products have “not be found to be ‘DRC conflict free’”. Companies are still required to file their Conflict Minerals Report, but will not have to identify any products as “DRC conflict undeterminable” or “not

found to be ‘DRC conflict free’”. Rather the companies will have to report the products, the facilities used to produce the conflict minerals, the country of origin of the minerals and the efforts to determine the mine or location of origin.

On April 7, the SEC staff also updated their publication on *Frequently Asked Questions: Conflict Minerals*. In addition, the AICPA Financial Reporting Center – Audit and Attest has provided additional guidance for auditors preparing attestation reports to accompany the Conflict Minerals Reports.

Our people are ready to help you understand US GAAP. If you have questions or want to discuss the developments in this publication or other developments, our people in the US GAAP Reporting Group will be happy to answer your questions and have a discussion with you.

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