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

US GAAP Today

Fall 2018

Issue 2018-4

Disclosure effectiveness not all about eliminations p.5

Amendments to disclosure requirements by the FASB and SEC eliminate some disclosures, modify others, and even adds new ones.

Implementation issues result in updates for leases p.10

FASB responds to several implementation issues on its new leases standard by making timely amendments to the standard.

Significant changes for life insurers p.12

A new standard for long-duration insurance contracts will result in significant change for life insurers, the first in 40 years.

pwc

PwC guides

PwC publishes several guides to help our professionals, clients, and others to understand US GAAP accounting for various types of transactions and events. Two guides were published during the most recently completed quarter:

- ***Derivatives and hedging*** (Partially updated July 2018)
- ***Fair value measurements*** (Partially updated July 2018)
- ***IFRS and US GAAP: similarities and differences*** (September 2018)
- ***Transfers and servicing of financial assets*** (March 2018)

PwC Guides and publications can be obtained through:

- ***Inform*** if you are an ***Inform*** subscriber.
- EBook format for downloading to your iPad by going to the ***CFOdirect*** link for publications at http://www.pwc.com/us/en/cfodirect/publications/accounting-guides.html.
- Printed copy by contacting your local PwC representative.

Contact us

PwC has a strong network of people in Canada and worldwide who can advise on the developments in US GAAP and SEC reporting. If you would like to discuss any of the issues or matters raised in this publication, please contact your engagement team or local office.

For other PwC publications please refer to http://www.pwc.com/ca/en/research-insights.html.

US GAAP Today

PwC Canada helps companies and individuals create the value they are looking for. We are a member firm of PricewaterhouseCoopers network of firms and have close to 7,500 people in 26 locations in Canada who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com/ca.

Common abbreviations

ASC	Accounting Standards Codification
ASU	Accountings Standards Update
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
ED	Exposure Draft or Proposed Accounting Standards Update
EITF	Emerging Issues Task Force of the Financial Accounting Standards Board
FAF	Financial Accounting Foundation
FASAC	Financial Accounting Standards Advisory Committee
FASB	The Financial Accounting Standards Board
FinREC	The Financial Reporting Executive Committee of the American Institute of Certified Public Accountants
IASB	The International Accounting Standards Board
IFRS	International Financial Reporting Standards
PCC	Private Company Council
SEC	Securities and Exchange Commission
TRG	Transition Resource Group

In this issue

News (cont.)

Implementation notes

SEC developments

Auditing developments

PwC contacts

Disclosure effectiveness not all about eliminations

Both the FASB and the SEC have been reviewing their disclosure requirements with the objective of improving the effectiveness of disclosures. The goals of the review is to have disclosures that communicate the information that is most important to users of the financial statements and that simplify compliance with the requirements. The FASB is focusing on notes to the financial statements, while the SEC is reviewing their disclosure regulations for financial statements and other regulatory reporting. In the summer of 2018, both the FASB and SEC released amendments to their respective requirements based on their work on various projects. These changes address some of the concerns about disclosure overload; however, while the amendments eliminate several requirements, they also modify and clarify some requirements, and add some new requirements.

What happened?

During the most recently completed quarter, both the FASB and the SEC released amendments to eliminate, modify and add disclosure requirements to their standards and regulations, respectively.

The FASB made changes to its Conceptual Framework to (a) provide a framework for identifying and evaluating disclosures requirements when developing or modifying its standards, and (b) to clarify the concept of materiality.

In addition, two ASUs were published dealing with disclosures for defined benefit plans and fair value measurement.

The SEC's release amends several of its rules to address redundant and duplicative requirements, overlapping requirements, outdated requirements and superseded requirements. These amendments largely eliminated requirements, but do not significantly alter the total mix of information provided to investors. In a limited number of situations, the amendments expand the disclosure requirements.

FASB decison making process for disclosures

FASB Concepts Statement No. 8: *Conceptual framework for financial reporting*

Chapter 8: *Notes to financial statements*

Chapter 8 is a new chapter in the Conceptual Framework, which explains what information the FASB should consider in developing disclosures to be included in the notes to the financial statements.

The Chapter indicates the purpose of notes to the financial statements is to supplement and further explain the information on the face of the financial statements with financial information that is relevant to users for making investment decisions. This information may be:

- Additional information about line items,
- Information about the reporting entity, or
- Information about other past events and current conditions and circumstances that affect an entity's cash flows.

This may include a wide range of information. The Chapter includes a series of decision questions for determining a list of potential disclosures. The questions provide a broad range of possible disclosures the Board might consider when developing a standard. From this broad set, the Board would need to identify, on a case-by-case basis, the set of disclosures to be required in a standard.

These concepts should improve the FASB's procedures and provide a consistent decision framework for developing disclosure requirements.

Using discretion in applying disclosure requirements

FASB Concepts Statement No. 8: *Conceptual framework for financial reporting*

Amendments to Chapter 3: *Qualitative characteristics of useful financial information*

One element of the FASB's project on the entity decision process was to ensure the definition of materiality was consistent with the definitions used by the SEC, PCAOB, AICPA and the US judicial system. These amendments replace the definition of materiality with the previous definition of materiality, which aligns with the definition of the SEC and others. However, the definition differs from that of the IASB.

The amendments stress that:

- Materiality is entity specific.
- Materiality decisions are not simply based on magnitude of the items, but must also consider the nature of the items and the circumstances in which the judgments are made.
- Materiality judgments can only be made by those that understand the entity's pertinent facts and circumstances.

These amendments were included in the Conceptual Framework to aid in the understanding of how entities would apply the disclosure requirements in accounting standards.

Defined benefit plans' disclosures

ASC Topic 715: *Compensation – retirement plans*

ASU 2018-14: *Disclosure framework – Changes to the disclosure requirements for defined benefit plans*

ASU 2018-14, issued in August 2018, updates the disclosures for defined benefit plans in financial statements using the principles in the Board's decision process. The changes were as follows:

Disclosures eliminated:

Amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.

The amount and timing of plan assets expected to be returned to the employer.

Disclosure related to June 2001 amendments to the Japanese Welfare Pension Insurance Law.

Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transaction between the employer or related parties and the plan.

Public entities only: The effects of a one-percentage point change in assumed health care cost trend rates on the (a) aggregated of the service and interest costs components of net periodic benefit costs, and (b) benefit obligations for postretirement health care benefits.

Disclosures added:

Weighted average interest crediting rates for cash balance plans and other plans with promised interest crediting rates.

An explanation of the reasons for significant gains and losses related to changes in benefit obligation for the period.

Disclosures modified:

The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets.

The accumulated benefit obligation (ABO) and fair value of plan assets with ABOs in excess of plan assets.

These amendments are effective for fiscal years ending after December 15, 2020. Earlier adoption is permitted.

Fair value measurement disclosures

ASC Topic 820: *Fair value measurement*

ASU 2018-13: *Disclosure framework – Changes to the disclosure requirements for fair value measurement*

In August 2018, the FASB approved several changes to the disclosure requirements for fair value measurement based on its new framework for developing disclosure requirements. The following changes were made:

Disclosures eliminated:

The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy.

The policy for timing of transfers between levels.

The valuation processes for Level 3 fair value measurements.

Non-public entities only: Changes in unrealized gains and losses for the period included in income for recurring Level 3 fair value measurements held at the end of the reporting period.

Disclosures added:

The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurement held at the end if the reporting period.

The range and weighted average (or other quantitative information such as the median or arithmetic average if more reasonable and rational method) of significant unobservable inputs used to develop Level 3 fair value measurements.

Disclosures modified:

For investments in entities that calculate net asset value, the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly.

Clarify that the measurement uncertainty is to communicate information about the uncertainty in measurement as of the reporting date.

Non-public entities only: Instead of a full roll forward of Level 3 instruments, disclose:

- Purchases and issuances (each disclosed separately).
- Transfers into or out of Level 3 and the reasons for those transfers.

Companies may remove the disclosures eliminated or modified immediately with retrospective application. The added disclosures will be effective for years beginning after December 15, 2019. Earlier adoption is permitted.

Simplifying and updating SEC disclosure requirements

SEC Release No: 33-10532: *Disclosure update and simplification*

In August 2018, the SEC issued Release No. 33-10532: *Disclosure update and simplification*. This 314-page release amends disclosure requirements contained in 56 rules of Regulation S-X, 11 items of Regulation S-K, certain rules and several forms of the Securities Act of 1933, certain rules and forms of the Exchange Act of 1934, and several other rules and forms.

The SEC release is very technical and affects disclosures for annual filings, periodic filings and offering documents made by US domestic issuers, foreign private issuers and Regulation A issuers.

In this article, we have only highlighted some examples of the amendments that affect Canadian issuers. Canadian issuers may be eligible to use the foreign private issuer system (Form 20-F), the multi-jurisdictional disclosure system (MJDS) (Form 40-F), and the US domestic issuer system (Form 10-K and 10-Q), including the scaled disclosures for smaller companies. The changes will have minimal impact for MJDS eligible issuers as the disclosures for MJDS filers are largely driven by Canadian securities requirements. However, MJDS issuers using US GAAP for financial statements may be affected by the changes to Regulation S-X. For Canadian issuers filing using the US domestic system (10-Ks and 10-Qs), the amendments may have a more dramatic effect.

If you are interested in a more in-depth understanding of the various changes, a copy of the release can be found at www.sec.gov under Regulation/Final Rules.

Nature of amendments

The SEC has categorized the disclosures affected by the amendments as follows:

- Redundant or duplicative disclosures, which are SEC disclosures identified as being substantially similar to those required by US GAAP, IFRS, or other SEC disclosure requirements. These amendments eliminate redundant or duplicative requirements; however, these eliminations do not affect the underlying requirement.
- Overlapping disclosures, which are SEC disclosures that cover the same topics as in US GAAP, IFRS or other SEC disclosures, but are not the same as those disclosure requirements. These overlaps were addressed by either (a) eliminating the disclosure requirements, (b) integrating them with other disclosure requirements, or (c) referring them to the FASB for possible incorporation into US GAAP.
- Outdated disclosures, which are obsolete because of the passage of time or changes in facts and circumstances. These disclosures have either been modified or deleted.
- Superseded disclosures resulting from changes to accounting, auditing, legal or regulatory requirements. These requirements were either modified to

current terminology or circumstances or deleted if they were stale-dated.

In some cases, the SEC requires additional information to that required under US GAAP. The SEC has retained these requirements for the time being and referred them to the FASB for potential incorporation into US GAAP. Topics referred to the FASB include disclosures about major customers, computation of earnings per shares, revenue from products and services, income taxes, the presentation of discounts on shares, and several other topics. The SEC requested the FASB to complete its work on these points within 18 months after the release is published in the Federal Register. The SEC will decide further action once the FASB has considered these matters in their current or future agenda. There does not appear to be any request for the IASB to consider these matters.

Some key changes

In our initial review of the release, we have noted some eliminations, additions, and modifications to the disclosure requirements. Some of the key changes to note are as follows:

Disclosures eliminated:

Foreign exchange rates: Disclosures when reporting currency is other than US dollar of foreign exchange rates compared to the US dollar for certain periods and at the latest practicable date.

Research and development activities: Amounts spent on company sponsored research and development for the last three financial years.

Segments: Disclosure in the description of business of segment financial information, restatement of prior periods when reportable segments change, and discussion of interim segment performance that may not be indicative of current or future operation.

Geographic areas: Disclosure in the description of business of financial information by geographic area; however, the MD&A will now require discussion of trends and uncertainties related to geographic areas, if applicable.

EPS calculation: Exhibit showing calculation of earnings per share.

Ratio of earnings to fixed charges: Disclosure of ratio of earnings to fixed charges and related exhibit showing the calculation of ratio of earnings to fixed charges.

Disclosures added:

Changes in stockholders' equity for interim periods: Disclosures in interim financial reports prepared using US GAAP the year-to-date changes in stockholders' equity on a comparative basis and the amount of dividends per share for each class of shares.

Internet address: Disclosure of issuer's internet address, if available.

Disclosures modified:

Market price history: Price history of securities replaced with requirement to identify principal markets and corresponding trading symbols for each class of common equity.

Dividends per share in interim periods: Disclosure of dividends per share in interim financial reports has been moved from the face of the income statement to the required disclosure of changes in shareholders' equity. In conjunction with this change, the frequency and amount of cash dividend declared will not be required elsewhere in the disclosures.

Dividend restrictions: Threshold for the disclosure of dividend restrictions changed from the bright-line threshold to when it is material.

These amendments will become effective 30 days after they are published in the Federal Register and are expected to be applicable to filings after that date. It is likely that the next SEC annual filings may be affected, with a possibility that Q3 interim reports on 10-Qs may be affected.

It should be noted that smaller reporting companies continue to be eligible for relief from some SEC disclosure requirements.

Next steps

Some of the disclosures have been eliminated, modified, or moved to a different location in the applicable SEC forms. In addition, there are new disclosures. Companies will need to understand the impact these amendments have on their financial and corporate reporting.

News on ASU updates

At the end of the standard setting process, the FASB issues an Accounting Standards Update that replaces or amends an existing standard in the Accounting Standards Codification. In addition to the technical text of the standard, a basis of conclusion explains the FASB process and input considered in developing the standard or the amendments. This section summarizes the Accounting Standards Updates issued during the most recently completed quarter.

Implementation issues result in updates for leases

ASC Topic 842: *Leases*

ASU 2018-11: *Targeted improvements*

ASU 2018-10: *Codification improvements to Topic 842, Leases*

The FASB is assisting preparers, auditors and others in implementing the new leases standard by fielding and responding to implementation questions. Through this process, the FASB published two ASUs to address two issues through targeted improvements and several other issues through clarifications and corrections.

Making adoption easier

In July 2018, the FASB issued ASU 2018-11: *Targeted improvements* which will make adoption of the new leasing standard (ASC 842: *Leases)* easier. The ASU allows an additional transition method and a practical expedient for lessors for separating components of a lease.

Additional transition method

The additional transition method will allow adoption of the new leases standard without restatement of comparative periods presented in financial statements. Instead, the entity will recognize the effects of applying the new standard with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Certain disclosures would be required.

The new transition method does not affect the manner of adoption. An entity will still need to apply the modified transition approach when implementing the new guidance.

This new transition method may save time and effort in adopting the new standard and be more cost-effective.

Lessor practical expedient for components

Under a new practical expedient, lessors can elect, by asset class, to not separate lease and associated non-lease components within a contract if both of the following conditions are met:

- The timing and pattern of transfer for the non-lease component and the associated lease component are the same.

- The stand-alone lease component would be classified as an operating lease if accounted for separately.

For example, if a real estate lease includes maintenance services, the lease component and non-lease maintenance services could be combined as a single unit of account if the above conditions are met.

If the election is made, all non-lease components within a contract that meet the conditions must be combined with the lease component and accounted for as a single unit. Non-lease components that do not meet the conditions would be accounted for separately.

If lease and non-lease components are combined under this practical expedient, a lessor would assess whether the non-lease component(s) is/are the predominant component(s) in the combined unit. This assessment will require the use of judgment. If the non-lease component(s) is/are predominant, the combined unit is accounted for using the revenue standard; otherwise, the combined unit is accounted for using the leases standard.

Under the revenue standard, the combined unit would be accounted for as a single performance obligation with revenue recognized over time using a time-based measure. The variable consideration guidance in the revenue standard would apply to any variable payments in the contract.

Under the lease standard, the combined unit would be accounted for as a single lease component, with variable payments accounted for as variable lease payments.

Additional disclosures are also required.

This practical expedient is a welcome change for lessors, as it will make the accounting in many cases similar to the current accounting for these arrangements. However, lessors will need to understand the conditions and requirements and carefully evaluate whether they qualify for this combined accounting.

When effective?

This ASU will be effective at the same time as the new leases standard (January 1, 2019 for calendar year companies). For entities that have already adopted the new lease standard, they may apply the new lessor practical expedient (1) to the first reporting period following the issuance of the practical expedient; or (2) at the original effective date of the new leases standard. Either retrospective or prospective adoption is permitted.

Housekeeping amendments

The FASB also issued ASU 2018-10: *Codification improvements to Topic 842, Leases* in July 2018 to clarify some matters in the new lease standard and to correct any unintended application of the guidance.

The ASU makes corrections in referencing and terminology, resolves inconsistencies, and makes clarifications to the new lease standard. The clarifications are technical in nature and do not affect any of the principles of the standard.

These amendments are effective when the new lease standard is effective. For early adopters of the lease standard, the amendments are effective immediately using the same transition guidance as in the lease standard.

Upfront costs for the cloud

ASC Topic 350: *Intangibles – Goodwill and other*

ASU 2018-15: *Customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract (EITF Consensus)*

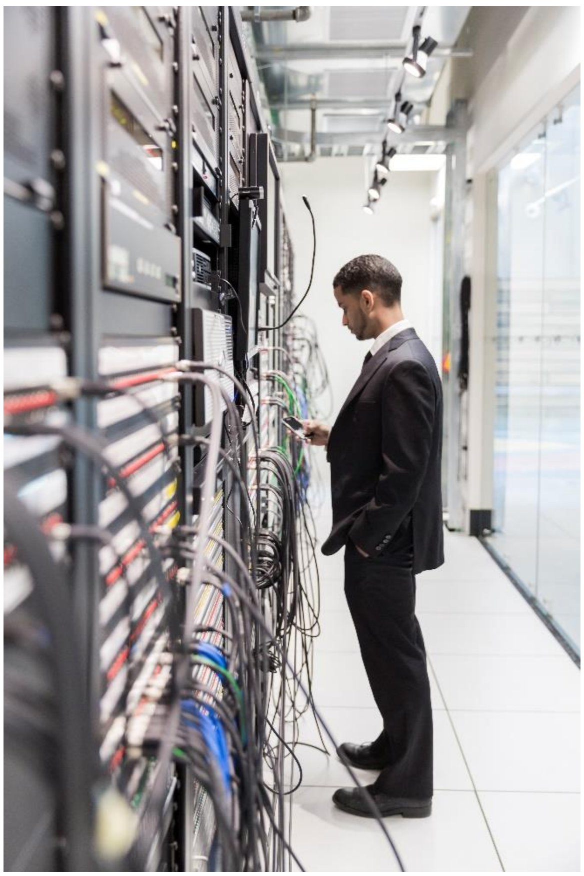
ASU 2018-15 is an EITF consensus that addresses the accounting for fees paid by a customer in a cloud computing arrangement (CCA). These fees are generally for implementation, setup, and other upfront costs (implementation costs).

The new guidance modifies the definition of hosting arrangement to include CCAs. Under the ASU, implementation costs in a hosting arrangement that is a service contract will be treated the same way implementation costs incurred to develop or obtain internal-use software. This accounting does not change the accounting for the service element of the hosting arrangement.

Costs related to the application development stage will be capitalized depending on the nature of the costs, while costs in the preliminary project and post implementation stages will be expensed.

The costs capitalized would be amortized over the term of the hosting arrangement, which would include customer options to extend or terminate if reasonably certain to be exercised and vendor options to extend or terminate.

The amendments in the ASU will be effective for fiscal years beginning after December 15, 2019. Earlier adoption is permitted. The ASU is to be applied either retrospectively or prospectively to all implementation costs incurred after the effective date.



Significant changes for life insurers

ASC Topic 944: *Financial service – Insurance*

ASU 2018-12: *Targeted improvements to the accounting for long-duration contracts*

ASU 2018-12 has revised key elements of the measurement models and disclosure requirements for long-duration contracts issued by insurers and reinsurers.

These amendments introduce the most significant change to accounting for life insurers in 40 years. This article provides a summary of the key elements of the changes. If you are interested in a more in-depth analysis, please ask a member of your engagement team for PwC's *In depth: Detailing the new accounting for long-duration contracts of insurers*.

The ASU amends four key areas of the accounting and disclosures for long-duration insurance and investment contracts. The ASU targets the accounting for certain aspects of "long-duration contracts" written or ceded by insurers and reinsurers. A long-duration contract is one that is generally not subject to unilateral changes in its provisions and requires the performance of various functions and services (including insurance protection) for an extended period. Examples include contracts that are noncancellable or guaranteed renewable by the insurer, such as most term and whole life insurance and payout annuity contracts.

Title insurance, financial guarantees and mortgage guaranty contracts are not in the scope of the new guidance. Contracts within the scope of the ASU deal with mortality, longevity, or morbidity risk, and certain investment contracts.

Liability for future policy benefits

The ASU requires annual or more frequent updating of insurance assumptions, with the impact on the liability recognized on a retrospective catch up basis as a separate component of benefit expense. There will be no provision for adverse deviation. The premium deficiency test is replaced by capping the net premium ratio at 100%. Contracts from different issue years will no longer be grouped, effectively resulting in a lower level of aggregation for determining contracts in a loss position. These revisions apply to nonparticipating traditional insurance contracts and limited-payment contracts that are measured using the net level premium measurement approach.

The discount rate will be based on an upper-medium grade (low credit risk) fixed-income corporate instrument yield ("single A") that reflects the duration characteristics of the liability rather than expected investment yields. The discount rate will be updated at each reporting date, with the effect of discount rate changes on the liability recorded in other comprehensive income (OCI). The contract inception date discount rate will be locked in for determining the benefit expense.

Market risk benefits

The new guidance introduces the term "market risk benefits (MRBs)" and changes the accounting for features that meet the MRB definition. For certain contracts or contract features that have other-than-nominal capital market risk, fair value measurement through income will be required, except for the component of fair value representing the change in instrument-specific credit risk, which will be recognized in other comprehensive income. The guidance applies to various types of guaranteed minimum benefits in both variable and fixed annuity contracts, including guaranteed minimum death and annuity benefits currently accounted for under an insurance model.

Simplified DAC amortization

Straight-line amortization of deferred acquisition costs (DAC) will be required for almost all types of long-duration investment and insurance contracts, including traditional and limited payment products, universal life, and participating contracts. Interest is not accreted on the DAC balance. Acquisition costs, such as expected future renewal commissions, will be included in the amortization calculation only as incurred.

The simplified amortization will be required to be applied to sales inducement assets and the universal life unearned revenue liability. Simplified amortization may be elected to be applied to other balances currently amortized on a basis consistent with DAC, such as the present value of future profits and the costs of reinsurance. DAC will no longer be subject to an impairment test, but other balances amortized on a basis consistent with DAC will still need to be assessed for impairment.

Enhanced disclosures

Significant additional disclosures will be required, including disaggregated roll forwards of the liability for future policy benefits, policyholders' account balances, market risk benefits, DAC, and sales inducements. Qualitative and quantitative information about expected cash flows, estimates, and assumptions will also be required.

Effective date

The guidance is effective for calendar year-end public business entities on January 1, 2021. Other entities will have an additional year deferral. Earlier application is permitted.

The transition date (the remeasurement date) will be the beginning of the earliest year presented in the financial statements, which will be January 1, 2019 for calendar year-end public business entities that file with the SEC.

Codification improvements

ASC Topics: Multiple topics are affecting as identified in the list of changes.

ASU 2018-09: *Codification improvements*

The FASB had decided to provide regular updates and improvements to the ASC based on feedback received from stakeholders. This update covers technical corrections, clarifications, and other minor improvements.

Key changes

The following lists reflects the ASC Topics that were amended for clarifications or improvements. The list does not show technical corrections.

1. Topic 320: *Investments – debt and equity securities* – *simplifies and clarifies* the disclosures required about investments in debt and equity.

2. Topic 470: *Debt – modifications and extinguishments* – *clarifies* that when the fair value option is elected, the net carrying value of debt on extinguishment is the fair value at the date of extinguishment and the cumulative gains or losses in AOCI must be included in the gain or loss in the income statement.

3. Topic 718: *Compensation – stock compensation* – *clarifies* that excess tax benefits or deficiencies related to stock based compensation should be recognized in the income statement in the period when the tax deduction is determined, which is typically when the award is exercised or vests, as applicable.

4. Topic 815: *Derivatives and hedging* – *clarifies* the guidance permitting offsetting of derivatives.

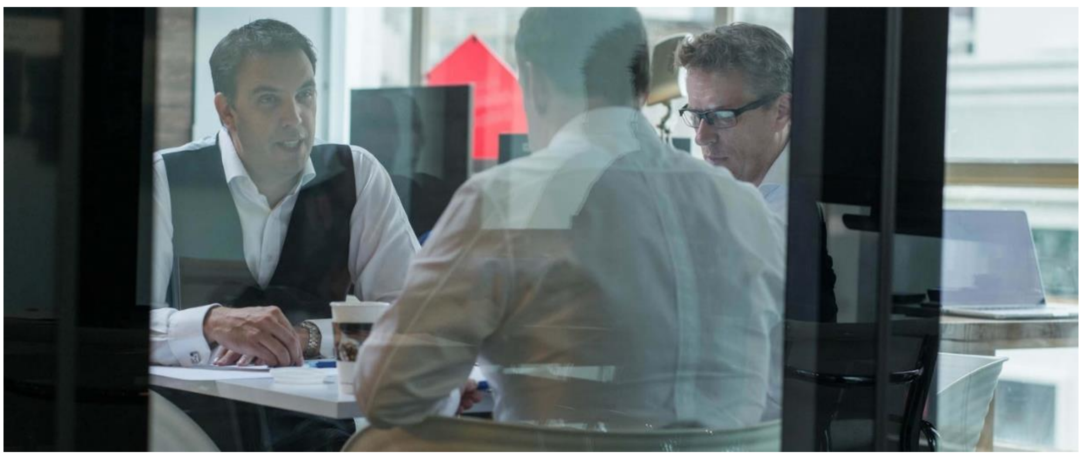
5. Topic 820: *Fair value measurement* – *clarifies* how the fair value of a liability or instrument classified in a reporting entity's equity should be measured using the perspective of the market participant that holds an identical item as an asset after the measurement date. The amendments make it clear that adjustments should not be made to the quoted price of the corresponding asset for transfer restrictions on the liabilities or equity instruments; however transfer restrictions on the asset should be considered.

   Improves derivatives accounting by permitting the portfolio exception to valuation to apply to a mixed portfolio of physically settled commodity contracts managed in a portfolio with offsetting cash-settled derivatives, provided the contracts are derivatives under ASC Topic 815.

   Clarifies the language for valuation techniques by replacing the terminology "build up approach" with "build up methodology", as build up approach commonly refers to the method of applying the discount rate adjustment technique.

6. Topic 942: *Financial services – depository and lending* – *clarifies* requirements for disclosing regulatory capital for depository institutions as a result of recent changes to the regulatory capital requirements.

7. Topic 944: *Financial services – insurance* – *clarifies* the election on transition to ASU 2010-26, which permitted entities not to capitalize acquisition costs not previously capitalized, is still effective for the ongoing accounting.



News on FASB projects in progress

News on FASB projects in progress provides information on projects within the FASB's and EITF's agendas. The News covers developments including agenda decisions; initial deliberations and tentative decisions made by the FASB and EITF; exposure drafts of proposed ASUs; feedback from comment letters, hearings and roundtables; and redeliberations based on stakeholders' feedback. This section includes developments during the most recently completed quarter.

LOOK FOR THIS SYMBOL FOR TOPICS WITH SIGNIFICANT UPDATES DURING THE MOST RECENT QUARTER.

Recognition and measurement projects

Broad projects

Distinguishing liabilities from equity

ASC Topic 480: *Distinguishing liabilities from equity*

Objective:

- Improve the understandability and reduce the complexity for accounting for instruments with the characteristics of liabilities and equity (including convertible debt).

Status:

- Initial deliberations. Research being conducted on accounting for convertible instruments and instruments indexed to an entity's own stock.

This Q's developments

There were no further discussion on this topic during the most recently completed quarter.

Narrow projects

Accounting for asset acquisitons and business combinations

ASC Topic: This project may affect multiple topics within the ASC.

Objective:

- Improve the accounting for asset acquisitions and business combinations by aligning the accounting for the recognition and derecognition of assets and businesses.

Status:

- Initial deliberations. Staff is conducting further research.

This Q's developments

There were no developments during the most recently completed quarter.

Key proposals

The Board decided to focus on specific areas such as the accounting for transaction costs, in process research and development, and contingent consideration.

Omnibus clarifications—credit losses, hedging, and financial instruments

ASC Topic 326: *Credit losses*
ASC Topic 815: *Derivatives and hedging*
ASC Topic 825: *Financial instruments*

Objective:

- Clarify and improve guidance in recently issued ASUs for the above ASC Topics.

Status:

- Initial deliberations completed. Staff is drafting a proposed ASU for release in Q4, 2018.

This Q's developments

The FASB met twice to discuss several implementations issues. Several items were added to the agenda, tentative conclusions were reached on these issues, and a proposed ASU being drafted.

Key proposals

Credit losses

1. *Accrued interest receivable balances*
   a. The allowance for credit losses on accrued receivable balances may be measured separately from other components of the amortized cost of associated financial assets and net investment in leases;
   b. An accounting policy election is allowed to present accrued interest receivable balances and the related allowance for credit losses separately from the associated financial assets and net investments in leases. Additional disclosure may be required; and
   c. A practical expedient simplifies disclosure requirements.

2. *Reversal of accrued interest on nonaccrual loans*
   a. An election, by class of financing receivable or major security type, permits the entity to reverse accrued interest either by an adjustment to interest income or writing off accrued interest by deducting amounts from the allowance for credits losses; and
   b. An election, by class of financing receivable or major security type, allows an entity to exclude accrued interest receivable balance from the calculation of the allowance for credit losses, provided the entity has an accounting policy that results in the timely reversal or write-off of any unpaid accrued interest.

3. *Transfers of loans and debt securities between categories*
   a. An existing allowance for credit losses for loans and debt securities is to be reversed before the transfer between

held-for-sale and held-for-investment or available-for-sale categories. After the transfer, an appropriate allowance for credit losses would be established, if applicable.

b. The existing write-off guidance is applicable to all transfers between held-for-sale and held-for-investment or available-for-sale categories.
c. All transfers between categories are to be presented on a gross basis in the income statement.

4. *Recoveries*
   a. Expected recoveries are to be considered when measuring the allowance for credit losses.
   b. The scope of expected recoveries is limited to only the amount collected from borrowers.
   c. Fair value amounts greater than the amortized cost basis of financial assets are not included when measuring the allowance for credit losses at the reporting date.

5. *Effective interest rate for variable loans* – the effective interest rate and expected cash flows can be determined using an entity's own expectations of future interest rate environments when estimating credit losses using a discounted cash flow (DCF) method.

6. *Effective interest rate for prepayment expectations* – clarifies entities can elect, by class of financing receivable, to use an effective interest rate adjusted for prepayment expectations when using the DCF method to determine the allowance for credit losses.

7. *Costs to sell when foreclosure is probable* – should be considered in measuring fair value when foreclosure is probable if the entity intends to sell the collateral.

8. *Reinsurance recoverables* – are within the scope of ASC Topic 326: *Financial instruments – credit losses*, regardless of the measurement basis of those recoverables.

Hedging

1. *Partial term fair value hedges for both interest rate risk and foreign exchange risk* are allowed.

2. *Amortization of fair value hedge basis adjustments*
   a. Amortization period is applicable only if an entity elects to begin amortization when the hedging relationship is outstanding.
   b. Remaining life of a partial-term fair value hedge is the period until the hedged item's assumed maturity, as documented in the concurrent with hedge inception.

3. *Disclosure of fair value hedges basis adjustments*
    a. Cumulative fair value hedge basis for hedges of foreign exchange risk should be excluded from table disclosure of fair value hedges.
    b. The amortized cost basis of a hedged AFS debt security should be disclosed as the carrying amount.

4. *Consideration of the hedged contractually specified interest rate under hypothetical derivative method* – eliminates the exception that the index on which the variable leg of the hypothetical swap is based does not have to match the designated contractually specified interest rate.

5. *Hedge accounting provisions applicable to private companies that are not financial institutions* – the assumption that the last-of-layer is expected to remain outstanding at the hedged item's maturity date is to be documented concurrently with the last-of-layer hedge inception.

6. *Application of "first of" cash flow hedging technique to overall cash flows on a group of variable interest payments* – implementation guidance to be clarified to indicate that in certain circumstances the designation of overall cash flows under a "first-of" technique as a hedged risk is permissible.

7. *Transition*
    a. The rebalancing of a fair value hedge at transition may not add new hedged items or new hedging instruments to an existing hedging relationship.
    b. At transition, an entity may switch from assessing hedge effectiveness using a quantitative long-haul approach to using a qualitative critical-terms-match method as long as all requirements for applying the critical-terms-match method are met.
    c. Reclassification of debts securities from the held-to-maturity to the available-for-sale category does not (i) call into question the intent and ability to hold the debt securities to maturity; (ii) require designation of reclassified securities in a last-of-later hedging relationship; or (iii) restrict the sale of reclassified securities.

Financial instruments – recognition and measurement

1. *The measurement alternative for equity securities without a readily determinable fair value*
    a. Clarifies that the measurement alternative is a nonrecurring fair value measurement based on observable price changes occurring in orderly transactions for identical or similar investment of the issuer or upon identification of impairment in the equity security.
    b. Current period adjustment for subsequently identified observable price changes in orderly transactions from a prior period would be permitted, provided the entity had made reasonable efforts to identify orderly transactions in all prior periods.

2. *Marketable securities as nonmonetary balance sheet items* – only equity securities without readily determinable fair values measured using the measurement alternative should be remeasured using historical exchange rates when initially recorded in the functional currency.

Clarifications for credit losses—scope and effective date

ASC Topic 326: *Credit losses*

Objective:

- Clarify the original intent related to the scope and effective date of ASU 2016-13: *Measurement of credit losses on financial instruments.*

Exposure draft

- *Codification improvements to Topic 325, financial instruments – credit losses* was issued August 20, 2018. Comments were due on September 19, 2018.

Status:

- Initial deliberations completed. Awaiting comments on proposed ASU.

This Q's developments

The FASB met during the summer to discuss the two implementation issues and proposed amendments for comment. A proposed ASU was published with the proposals.

Key proposals

The proposed ASU clarifies that the effective date for non-public business entities is for fiscal years beginning after December 15, 2021, including interim periods within those years.

Receivables arising from operating leases are not within the scope of Topic 326 and impairment guidance in Topic 842 should be applied.

Assumed liability in a revenue contract in a business combination

ASC Topic 805: *Business combinations*

Objective:

- Clarify the recognition of an assumed liability in a revenue contract acquired in a business combination after the effective date of Topic 606: *Revenue from contracts with customers.*

Status:

- Initial deliberations completed with proposed ASU being drafted. However, when a draft of the proposed ASU was reviewed, two additional issues were identified, which require further research.

This Q's developments

The EITF discussed the issue during the quarter. Based on feedback received from its last meeting, the EITF discussed whether (1) payment terms in an acquired contract would have an effect on the subsequent amount of revenue recognized after the business combinations, and (2) cost of activities involved in fulfilling the performance obligation used in the acquirer's measurement of the assumed liability's fair value should take into account the other assets and liabilities acquired in the set. The EITF decided more research was required and will publish a discussion document to solicit further input.

The EITF asked that the proposed ASU be published along with the discussion paper.

Key proposals

A liability should be recognized in a business combination for a revenue contract using the performance obligation concept. The liability would be measured using the fair value of the assumed liability.

Collaborative arrangements—targeted improvements

ASC Topic 808: *Collaborative arrangements*

Objective:

- Clarify when transactions between participants in a collaborative arrangement are within the scope of the revenue guidance.

Exposure draft:

- *Targeted improvements* issued on April 26, 2018 and comments were due June 11, 2018.

Status:

- Exposure draft redeliberations complete and final ASU being drafted. A final ASU is expected to be published in Q4, 2018.

This Q's developments

The FASB completed its redeliberations and directed staff to draft a final ASU.

Key proposals

The Board decided that certain transactions between collaborative participants that are unrelated to third party sales resulting from the collaboration could result in revenue from contracts with customers. If any units of accounting from the collaborative arrangements are deemed to be revenue, all of the principles of the revenue standard would apply to those units. The final ASU will not address the accounting for non-revenue transactions.

The Board decided not to add additional implementation guidance to the revenue standard to clarify the transfer of control and customers in the context of collaborative arrangements.

When adopted the proposals would be applied on a modified retrospective basis.

Consolidation reorganization and targeted improvements

ASC Topic 810: *Consolidation*

Objective:

- Reorganize the guidance in ASC 810 to assist in its application.
- Provide clarifications on certain terms and concepts.

Exposure draft:

- *Reorganization* was issued on September 20, 2017 and comments were due December 4, 2017.

Status:

- Exposure draft redeliberations.

This Q's developments

The FASB did not address this project during the most recently completed quarter.

Key proposals

The Board has decided to:

- Reorganize the current guidance into a new ASC Topic with separate subtopics for VIEs and voting interest entities.
- Add language on the application of "expected" in the VIE guidance, as well as nonauthoritative education materials.

Consolidation improvements to related party guidance for VIEs

ASC Topic 810: *Consolidation*

Objective:

- Make targeted improvements to the related parties under common control in applying the VIE guidance.

Exposure draft:

- *Targeted improvements to related party guidance for variable interest entities* was issued on June 22, 2017 with comments due September 5, 2017.

Status:

- Final ASU being drafted with expected finalization in Q4, 2018.

This Q's developments

The FASB addressed a scope clarification to the private company alternative, clarifying that private companies cannot use the alternative for a legal entity which is controlled directly or indirectly by the private company. FASB staff was directed to continue drafting the final ASU.

Key proposals

The FASB also decided to make targeted improvements to the VIE guidance for common control arrangements by:

- Providing an accounting alternative for private companies to exempt those companies from having to apply the VIE guidance to private companies under common control. Common control would be based on existing guidance. This would be an accounting election and be available only when the reporting entity, the common control parent and the legal entity being evaluated are not public business entities. Enhanced disclosures would be required if the alternative is applied. If the reporting entity becomes a public business enterprise, it would apply the VIE guidance on a prospective basis.

- Eliminating the current alternative exemption for private company leasing arrangements under common control.

- Amending the guidance on fees paid to decision makers to state that an indirect interest held by a decision maker in a VIE through a related party under common control should be considered on a proportional basis.

- Amending the related party tie-breaker test by requiring consolidation for a related party under common control when substantially all of the activities of a VIE involve or are conducted on behalf of that related party. The amendment would also provide criteria for a reporting entity to consider determining whether a related party in a common control arrangement has a controlling financial interest in a VIE.

The proposed effective date is for fiscal years beginning after December 15, 2020 for private companies and after December 15, 2019 for all other entities. Earlier adoption is permitted for private companies.

Adding a benchmark interest rate for hedging

ASC Topic 815: *Derivatives and hedging*

Objective:

- Update benchmark interest rates based on actions by the Federal Reserve Bank of New York.

Exposure draft:

- *Inclusion of the overnight index swap (OIS) rate based on the secured overnight financing rate (SOFR) as a benchmark interest rate for hedge accounting purposes* was issued on February 20, 2018 with comments due on March 30, 2018.

Status:

- Redeliberations were completed with a final ASU being drafted for release in Q4, 2018.

This Q's developments

The FASB reviewed comments from the exposure draft, which overwhelmingly supported the changes proposed. There were requests for inclusion of a broader swap rate. The FASB confirmed its previous decisions and a final ASU is to be drafted.

Key proposals

The FASB decided to add the overnight index swap rate based on the secured overnight financing rate (SOFR OIS) as a benchmark interest rate for fair value hedges of fixed-rated financial instruments and cash flow hedges of forecasted purchases or issuances of fixed-rated financial instruments. The provisions would be applied on a prospective basis.

The final ASU would be effective on the same date as the updated hedging guidance being fiscal years beginning after December 15, 2018 for public companies and a year later for other entities.

Clarifications to hedge accounting—use of "prepayable" and cash flow hedges

ASC Topic 815: *Derivatives and hedging*

Objective:

- Clarify the use of the word "prepayable" under the shortcut method guidance.
- Clarify FASB's intent related to the change in hedged risk guidance for cash flow hedges.

Status:

- Initial deliberations.

This Q's developments

The FASB added the two issues to its agenda, which it could not resolve in the other codification improvements being considered as these issues required further research. No decisions have been made.

Hedging issues–last-of-layer method

ASC Topic 815: *Derivatives and hedging*

Objective:

- Address issues related to accounting for basis adjustments and multiple-layer strategies within the last-of-layer method.

Status:

- Initial deliberations.

This Q's developments

The FASB discussed proposed amendments to be included on a proposed ASU.

Lessor narrow scope improvements

ASC Topic 842: *Leases*

Objective:

- Clarify the accounting for (1) sales and other similar taxes collected from lessees; (2) certain lessor costs paid directly by lessees (e.g. property taxes and insurance); and (3) variable payments for contracts with lease and non-lease components.

Exposure draft

- *Narrow scope improvements for lessors* issued August 13, 2018 with comments due September 12, 2018

Status:

- Initial deliberations completed and proposed ASU issued.

This Q's developments

The Board completed its initial deliberations and approved a proposed ASU for comment.

Key proposals

The FASB tentatively decided that lessors could make an accounting policy election to present sales and other taxes collected from lessees on a net basis. Certain disclosures would be required.

For property taxes and insurance, the FASB decided that lessors could exclude the amounts from the transaction price when the uncertainty in the transaction price is not expected to ultimately be resolved. This would occur when the lessor does not know the amount of the property taxes and insurance paid to the tax authority and insurer, respectively. Separate further guidance may be considered for this issue.

For variable payments allocated to nonlease components, the Board's intent is these payments should be recognized using the revenue standard. The Board proposes to clarify this in the proposed ASU.

Cost capitalization for episodic television series

ASC Topic 926: *Entertainment – films*

Objective:

- Address changes in the business environment in the media industry to consider alternative cost capitalization models.

Status:

- Initial deliberations completed by EITF and draft proposed ASU prepared for FASB approval. Proposed ASU expected to be published in Q4, 2018.

This Q's developments

The EITF discussed the issues and reached certain tentative conclusions on impairment, amortization, presentation and disclosures.

Key proposals

The capitalization guidance for episodic content would be aligned with the guidance for films.

The amortization method would not be changed, but guidance will be clarified to specify that changes in estimate of the use of a film are accounted for prospectively.

Film impairment tests will be updated to allow impairment at a group level, rather than individual film level, when there is limited to no direct contracted revenue for the film. Specific guidance will be applied to assess whether films are included in a group. Impairment indicators will be provided for both individual and groups of films. Further the impairment model for licensed content would be aligned with the fair value model for produced content.

The balance sheet classification guidance would be eliminated; however, additional disclosures would be required.

These changes would be applied on a prospective basis.

Presentation and disclosure projects

Classification of debt

ASC Topic 210: *Balance sheet*

Objective:

- Provide guidance to reduce the cost and complexity of determining current versus noncurrent balance sheet classification of debt.

Exposure draft

- *Simplifying the classification of debt in a classified balance sheet (Current versus noncurrent)* was issued on January 10, 2017.

Status:

- Final standard being drafted with expected release in Q4, 2018.

This Q's developments

During the quarter, the FASB discussed the proposed ASU and reversed its previous decision that an unused long-term financing arrangement would be considered in determining current maturities of other debt arrangements. The Board also clarified the principles for grace periods when a debt covenant violation exists, added disclosures, and decided the effective dates.

Key proposals

The project establishes a principle for determining the classification of a debt or other instrument as current or noncurrent at the balance sheet date.

Guidance applies to all debt arrangements, including convertible debt, liabilities classified mandatorily redeemable financial instruments, and lease liabilities.

An instrument will be classified as noncurrent, based on facts and circumstances at the reporting date, if either:

- The liability is contractually due to be settled more than one year (or the operating cycle, if longer) after the balance sheet; or
- The entity has a contractual right to defer settlement of the liability for at least one year (or the operating cycle, if longer) after the balance sheet date.

In applying the principle, subjective acceleration clauses will affect the classification only when triggered.

Subsequent refinancing of a debt, either by another debt or equity, would not be considered in determining the classification. Also, an unused long-term financing arrangement in place at the balance sheet date would not affect the classification of outstanding debt.

The issuance of equity instruments will not be a settlement when considering the classification of the liability.

An exception to the principles is provided if a waiver of debt covenant violations is received after the reporting date, but before the date the financial statements are issued. This exception will apply to all waivers except those that result in a debt modification or extinguishment. An entity will have to assess whether the violations of any other covenants not covered by the waiver is probable within the 12 months following the reporting date. If such violations are probable, the debt would be classified as current. Any debt classified as noncurrent because of a waiver would be presented separately in the balance sheet.

Disclosures will be required about debt covenant violations as well as significant acceleration clauses and debt covenants when they are triggered.

These provisions would be applied prospectively to all debt that exists at the effective date.

The changes would be effective for public companies for years after December 15, 2020 and other entities after December 15, 2021. Early adoption will be permitted.

Financial performance reporting—disaggregation of performance information

ASC Topic 225: *Income statement*

Objective:

- To focus on disaggregation of performance information, with functional lines disaggregated into natural components.

Status:

- Initial deliberations.

This Q's developments

There were no further developments during the most recently completed quarter and no tentative decisions have been made.

Key proposals

The FASB is focusing on lines that represent the cost of revenue and selling, general and administrative expenses.

Interim reporting disclosures

ASC Topic 270: *Interim reporting*

Objective:

- Evaluate and improve existing disclosure requirements for interim reporting through the consideration of the concepts in the Board's decision process.
- Promote the use of discretion by the entity.

Status:

- Initial deliberations.

This Q's developments

The FASB discussed the approach to the project and directed staff to develop principles for interim disclosure and perform research and outreach.

Key proposals

The FASB has decided that interim reports should update disclosures about matters required in annual financial statements if there is a substantial likelihood that the updated information would be viewed by a reasonable investor as significantly altering the "total mix" of information available to the investor.

Segment reporting

ASC Topic 280: *Segment reporting*

Objective:

- Improve the segment aggregation criteria and disclosure requirements.

Status:

- Initial deliberations.

This Q's developments

There were no more developments during the most recently completed quarter.

Inventory disclosures

ASC Topic 330: *Inventory*

Objective:

- Evaluate and improve existing disclosure requirements for inventory through the consideration of the concepts in the Board's decision process.
- Promote the use of discretion by the entity.

Exposure draft:

- *Changes to disclosure requirements for inventory* was issued on January 10, 2017 and comments were due March 13, 2017.

Status:

- Exposure draft redeliberations.

This Q's developments

The FASB has not discussed this project since mid-2017.

Key proposals

The proposals include an objective for the disclosures and a statement that individual disclosures need not be provided if immaterial. Any changes would be applied prospectively.

The FASB has tentatively decided on the following disclosure changes:

Disclosures added:

Inventory disaggregated by component (raw materials, work-in-process, finished goods, and supplies).

Inventory disaggregated by measurement basis.

Changes to inventory balances that are not specifically related to the purchase, manufacture, or sale of inventory in the ordinary course of business (for example, atypical losses, reclassifications, business combinations, divestitures, and unrealized gains and losses on inventories recorded above cost or at selling prices).

A qualitative description of costs capitalized into inventory.

The effect of LIFO liquidations on income.

The replacement cost of LIFO inventory.

Critical assumptions, qualitative and quantitative, used in the calculation of the cost of inventory under the retail method.

Facts and circumstances leading to impairment losses.

Public business entities only: Inventory by reportable segment or by component for each reportable segment if the information is regularly provided to the chief operating decision maker. This information would be required in both annual and interim periods.

Disclosures eliminated:

Measurement basis of inventories when inventories are stated above cost or at sale prices.

Relationship between costs under a recognized measurement method and standard costs.

Income taxes disclosures

ASC Topic 740: *Income taxes*

Objective:

- Evaluate and improve existing disclosure requirements for income taxes through the consideration of the concepts in the Board's decision process.
- Promote the use of discretion by the entity.

Exposure draft:

- *Disclosure framework – Changes to the disclosure requirements for income taxes* was issued in July 2016 and comments were due September 30, 2016.

Status:

- Exposure draft redeliberations.

This Q's developments

There have been no further developments since January 2017.

Key proposals

The proposals include an objective for the disclosures and a statement that individual disclosures need not be provided if immaterial. Any changes would be applied prospectively.

The proposals add several new disclosures, modify some disclosures, and eliminate a couple of disclosures as noted in the following table.

Disclosures added:

Balance sheet related disclosures

Amount of federal, state, and foreign carry forwards (not tax affected).

Public business entities: By time period of expiration for each of the first five years and total for remaining years.

Non-public business entities: Disclose expiration dates only.

Public business entities only: Amount of deferred tax assets for federal, state, and foreign carry forwards (tax affected) before the valuation allowance, in total and disaggregated by time period of expiration for first five years and total for remaining years.

Public business entities only: Total amount of unrecognized tax benefits that offset the deferred tax assets attributable to carry forwards.

Public business entities only: The amount and expiration of the valuation allowance recognized or released during the period.

Public business entities only: Line items and related amounts in which unrecognized tax benefits are presented, with separate disclosure of amounts not presented in balance sheet.

Income statement related disclosures

Income or loss from continuing operations before income tax expense or benefit disaggregated between domestic and foreign.

Income tax expense or benefit from continuing operations disaggregated between domestic and foreign.

Cash flow related disclosures

Income taxes paid disaggregated by domestic and foreign, including the amount paid to any country that is significant to total income taxes paid.

Other disclosures

Description of an enacted change in tax law that will have an effect on future periods.

Description of a legally enforceable agreement with a government that reduces or may reduce income taxes, including duration of agreement, and governmental commitments.

Aggregate cash, cash equivalents, and marketable securities held by foreign subsidiaries.

Explanation of circumstances that changed the assertion about the indefinite reinvestment of undistributed foreign earnings, including the amounts.

Disclosures modified:

Income statement related disclosures

Public business entities only: Tax rate reconciliation between the amounts computed at the applicable federal statutory rate and the total amount of income tax expense or benefit from continuing operations with individual reconciling items equal to or greater than five percent of the computed amount being reported. When the rate used is other than the US federal corporate income tax rate, the rate used, and the basis of the rate. An explanation of year-to-year changes in reconciling items.

Public business entities only: Settlements of unrecognized tax benefits to be disclosed separately between the use of existing deferred tax asset and those to be settled in cash.

Disclosures eliminated:

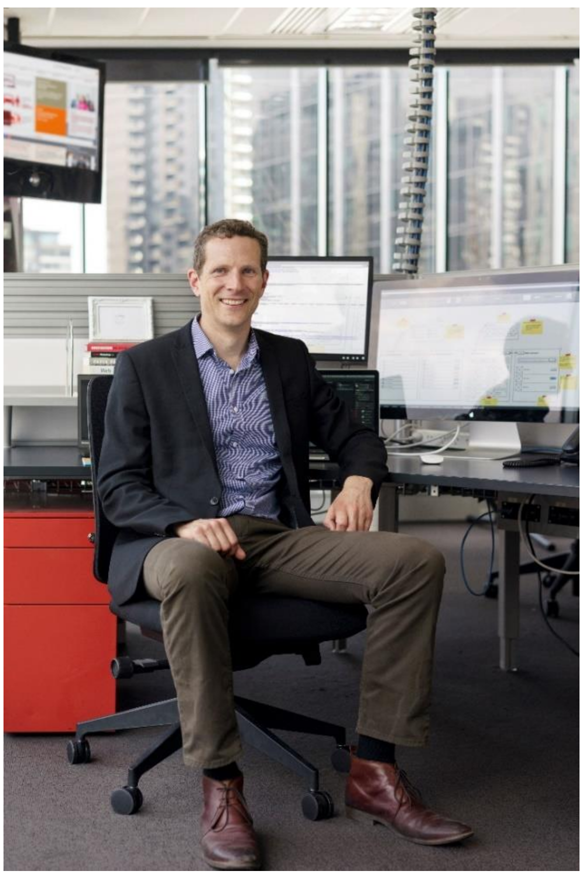
Balance sheet related disclosure

The amounts and expiration dates of operating loss and tax credit carry forwards for tax purposes.

Income statement related disclosures

Disclosure of government grants included in income tax expense or benefit.

Reasonably possible increase or decrease in unrecognized tax benefits within 12 months of the reporting date, including nature of uncertainty, the nature of the event that would cause the change and the estimate of the reasonable possible change.



Disclosures by business entities about government assistance

ASC Topic 832: *Government assistance*

Objective:

- Develop disclosure requirements about government assistance that improves the content, quality, and comparability of financial information and financial statements and is responsive to the emerging issues in the changing financial and economic environment in which reporting entities operate.

Exposure draft:

- *Disclosures by business entities about government assistance* was issued on November 12, 2015 with comments due February 10, 2016.

Status:

- Exposure draft redeliberations.

This Q's developments

This project was not discussed during the most recent quarter.

Key proposals

The objectives of the disclosures about government assistance would be to enable a user to assess the nature of the assistance, the accounting policies of accounting for government assistance, the effect of government assistance on the entity's financial statements, and significant terms and conditions of legally enforceable agreements. Various disclosures have been proposed to meet these objectives.

The Board has decided benefits that are available in determining taxable income or that are determined or limited on the basis of income tax liability would be outside the scope of the project.

Conceptual framework projects

Elements

Objective:

- Develop concepts related to the elements of financial statements, which include assets, liabilities, equity, revenues, expenses, gains, losses, investments by owners, distributions to owners, and comprehensive income.

Status:

- Initial deliberations.

This Q's developments

The FASB discussed issues associated with concepts on distinguishing liabilities from equity, but made no tentative decisions.

Key proposals

The Board has reviewed the definitions of revenue and expenses and made some minor tweaks to the definitions.

A working definition of a liability was presented as follows: "A liability is a present obligation of an entity to transfer an economic benefit." The Board agreed the term "present obligation" adequately distinguishes business risks and liabilities; the present description of constructive obligations is adequate; and there are present obligations with uncertain outcomes.

Measurement

Objective:

- Develop concepts related to measurement, including the meanings of key terms; appropriate types of measurements; and which measurements to use in specific circumstances.

Status:

- Initial deliberations.

This Q's developments

There were no further developments on this project during the most recent quarter.

Key proposals

The Board has made the following tentative decisions on initial measurement:

- There are three categories of initial measurement: (1) entry price, (2) exit price, and (3) estimated future cash flows.

- Exit price is appropriate as an initial carrying amount of an asset when the subsequent measurement of the asset will be at exit price. When the consideration for a transaction is other than cash, the exit price for the asset transferred may be used as the initial measure of an asset.

- Costs to be included in the initial carrying amount of an asset at entry price should capture the costs incurred to bring the asset to the condition necessary for it to be capable of operations. These types of costs that should be included are government-imposed charges, costs of services related to the acquisition of the asset and readying the asset for use, and costs to participate in the market for the asset. Gains and losses on cash flow hedges are neither part of the entry price of assets nor a cost to be included in the initial carrying amount of assets.

Presentation

Objective:

- Develop concepts on how information should be grouped into reasonably homogeneous groups and the association between changes in assets, liabilities, and equity instruments.

Exposure draft:

- *Concepts Statement No. 8: Conceptual Framework for Financial Reporting – Chapter 7: Presentation* was issued in August 2016 with comments due November 9, 2016.

Status:

- Exposure draft redeliberations.

This Q's developments

There were no discussions on this topic during the most recently completed quarter.

Key proposals

Chapter 7 will address the presentation of information in the primary financial statements, as a means of communicating financial information with users of financial statements.

The FASB describes presentation as "the display of line items, totals, and subtotals in the financial statements," excluding notes to the financial statements. Subtotals represent broad classes of often-heterogeneous items, while line items reflect more homogeneous classes of items. A critical aspect of creating line items is to include classes that are as nearly homogeneous as possible. Classification of items in lines would consider:

- The cause of, the activity associated with, and the frequency of the item to be recognized – a transaction, a change in circumstances or conditions, an accounting adjustment, or an accounting change;
- The time expected to pass before realization or settlement of an asset or liability;
- The expected form of realization or settlement of an asset, liability or equity instrument – cash, financial instruments or equity instruments;
- The response to changes in economic conditions and other factors affecting an existing asset or liability, or future revenues, expenses and gains or losses; and
- The measurement method used for the item.

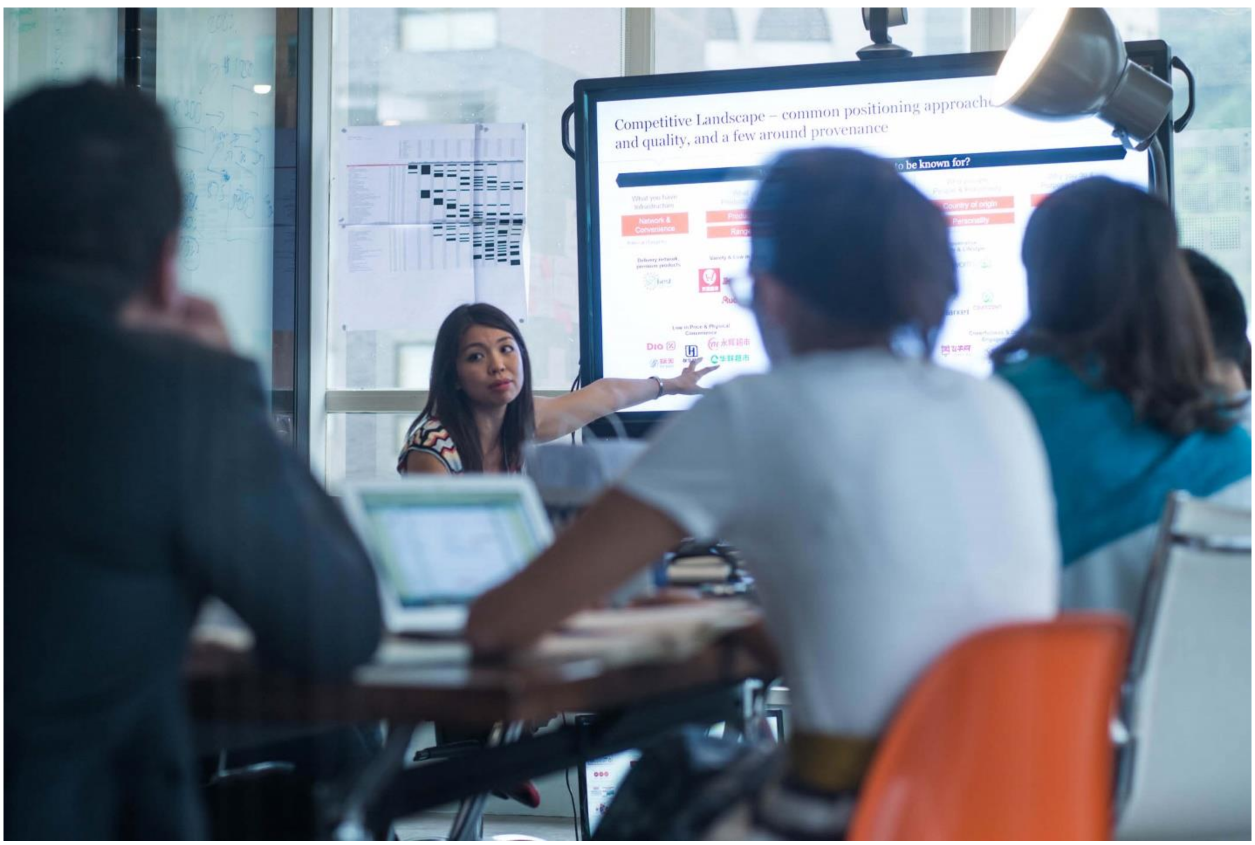
Although the proposal addresses how the Board would consider financial statement presentation when setting future standards, authoritative guidance on financial statement presentation would come from a standards level project. The FASB has a project on financial performance reporting on its research agenda. The topic is also included in the Board's recently released Invitation to Comment on the Board's future agenda.

Research projects

Research projects consider current issues and provide the background to the FASB for a decision as to whether the project should be developed further as a standard development project. The following research projects are on the FASB agenda:

- ***Accounting for certain intangible assets in a business combination and subsequent accounting for goodwill for public entities*** – considering whether:
  - Certain customer related intangibles and all non-compete agreements should be subsumed into goodwill;
  - Goodwill impairment should be tested upon a triggering event;
  - Goodwill impairment testing should be completed at reporting unit level or entity level; and
  - Goodwill should be amortized.
- ***Income taxes – backwards tracing*** – considering whether the prohibition should be eliminated or whether there are other alternatives for dealing with the consequence of tax rate and legislation changes.

- ***Inventory and cost of sales*** – considering the objectives of inventory costing, the costing methods, the impairment models, and gaps in the guidance.
- ***Simplifications for income taxes*** – eliminating unnecessary complexities in the existing standard.
- ***Targeted improvements to the statement of cash flows*** – reducing the existing diversity in how cash flows are presented in the cash flow statement.
- ***Disclosure reviews***
  - Intangibles.
  - Share-based payment.
  - Foreign currency.
- ***Financial performance reporting*** – considering whether a measure of operations should be included and how it should be defined.
- ***Variable interest entity related party guidance*** – determining the frequency for which the VIE related guidance part in the consolidation standard is applied to arrangements where related parties are under common control.



Implementation notes

Implementation notes provide information to support the implementation of the new major accounting standards, including news on recent FASB developments, matters discussed at the various standard setting bodies and regulators, aids developed by accounting organizations, and PwC publications. Time to effective date is based on time from most recently completed calendar quarter end to the effective date for public companies.

Revenue from contracts with customers

Effective NOW

Effective dates for years beginning after:

Public entities – December 15, 2017

Other entities – December 15, 2018

ASC Topic 606

Primary ASU: 2014-09

Related ASUs:

- **2016-08:** ***Principal versus agent considerations (reporting revenue gross versus net)***
- **2016-10:** ***Identifying performance obligations and licensing***
- **2016-12:** ***Narrow-scope improvements and practical expedients***
- **2016-20:** ***Technical corrections and improvements***
- **2017-05:** ***Clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets***
- **2017-13:** ***Amendments to SEC paragraphs pursuant to the Staff announcement at the July 20, 2017 EITF meeting and rescission of prior SEC staff announcements and observer comments***

FASB implementation resources

Inquiries

The FASB has a technical inquiry service through which the FASB staff assist people in understanding the FASB standards. Questions may be submitted to the FASB to obtain clarifications on FASB standards. For more information on these services, visit www.fasb.org at Projects / Technical Inquiry Service.

The FASB's Transition Resource Group for revenue recognition has completed its work and is no longer discussing any issues.

Educational resources

The FASB has provided various educational resources on the revenue recognition standard beyond the ASUs and their *FASB in Focus* publication as listed in the following table. These resources are available through the FASB website at www.fasb.org under Projects / Revenue Recognition / Revenue Recognition Educational Resources.

Videos
Introduction to the revenue recognition standard Three-part series
Webcasts
Aerospace and defense revenue recognition (November 2017)
Software revenue recognition (June 2017)
Airline revenue recognition (October 2017)
Health care services revenue recognition (October 2017)
FASB / IASB implementation update (September 2016)
Guides
Taxonomy Implementation Guide (March 2017)

AICPA implementation guidance

The AICPA provides implementation guidance for the revenue recognition through their website at www.aicpa.org under Topics / Financial Reporting / Accounting and Financial Reporting / Revenue Recognition.

The website provides information on the new revenue standard and includes links to resources from the AICPA and the various industry task forces that are considering implementation issues. Some of these resources are free, while others are available for a fee.

Revenue Guide

The AICPA published its ***Accounting and Auditing Guide: Revenue Recognition*** in October 2017, which is updated to August 20, 2018. The *Guide* focuses on revenue recognition for the sale of goods and services in the ordinary course of business.

The Financial Reporting Executive Committee (FinREC) of the AICPA is responsible for the accounting and financial reporting material in the *Guide*. The *Guide* identifies the key requirements of ASC 606, an understanding of industry practice on certain issues, and FinREC's views on preferred practices.

The *Guide* includes a chapter on general accounting considerations providing an overview of ASC Topic 606 and guidance on several more complex topics. Specific guidance on industry questions and issues are provided covering the following industries:

- Aerospace and defense;
- Airlines;
- Asset management;
- Brokers and dealers;
- Construction contractors;
- Depository institutions;
- Gaming;
- Health care;
- Hospitality;
- Insurance;
- Oil and gas;
- Power and utility;
- Software;
- Telecommunications; and
- Timeshare.

Other AICPA resources

Other resources available from the AICPA to help understand and implement the new standard include:

- *Financial reporting brief – Tax effects of ASU 2014-09;*
- *Financial reporting brief – Roadmap to understanding the new revenue recognition standards;*
- *New revenue recognition accounting standard – learning and implementation plan;*
- *Brief – Revenue recognition primer for audit committees*; and
- *AICPA Alert – Understanding revenue recognition: Changes to US GAAP.*

The AICPA website also provides access to some webcasts and courses on the new standard.

PwC resources to help you

PwC has prepared several resources to assist you with your implementation of the new revenue standard. These resources include printed publications and webcasts.

PwC's webpage: *Revenue recognition – Effectively managing accounting change* provides developing insights into the new revenue standard (www.pwc.com/us/en/cfodirect/issues/revenue-recognition.html).

PwC general resources

The following table lists general resources currently available, which have been released after December 31, 2016. New resources issued during the quarter are highlighted by shading. You can access these materials through the link at the bottom of the table.

Title	Description	Format
Revenue from contracts with customers – Global accounting and financial reporting guide (3rd edition – September 2017)	Comprehensive guide describing the accounting for revenue under US GAAP ASC Topic 606 and IFRS 15. The *Guide* summarizes the 5-step revenue recognition model, discusses key aspects of the model and provides examples to illustrate the application of the standard.	PDF
Beyond 606 compliance: Optimize revenue recognition (June 2018)	Ideas on automating revenue recognition, improving operations, reducing risk, and realizing greater value.	PDF
New revenue guidance: first quarter recap (June 2018)	PwC benchmarking of disclosures in Q1 public filings.	PDF
The new revenue standard – SEC staff comments to early adopters (Episode 37 – June 2018)	Podcast identifies trends and provides insights into implementing the new standard based on SEC comment letters on 2017 filings of early adopters.	Podcast
Revenue recognition "next-stage" implementation insights (February 2018)	Lessons learned and suggestions from a panel of preparers and a PwC partner.	Webcast
Significant financing components under the new revenue standard (January 2018)	Covers key considerations for assessing revenue contracts for a significant financing component.	Webcast
Variable consideration under the new revenue standard (November 2017)	Discussion about estimating variable considerations, including considering any constraints on the consideration.	Webcast
Capitalizing costs under the new revenue standard (November 2017)	Discussion of when to capitalize costs to obtain and fulfill a contract, including whether the practical expedient can be applied.	Webcast
Disclosures under the new revenue standard (October 2017)	Review of the five important revenue disclosure requirements.	Webcast
Warranties under the new revenue standard (September 2017)	Perspectives on the new model for assessing warranties, including the assessment of service elements, the impact of cash payments, and more.	Webcast
Bill and hold transactions under the new revenue standard (September 2017)	Description of bill and hold transactions and what criteria must be met under the new standard.	Webcast
The new revenue recognition standard – Frequently asked questions about SEC reporting matters, disclosures, and transition under US GAAP (August 2017)	Provides views on frequently asked questions, with a focus on SEC reporting matters, disclosure, and transition implications, as well as implications for equity method investees and business acquisitions.	PDF

Title	Description	Format
Tax considerations when adopting the new revenue standard (August 2017)	Review of tax accounting considerations when implementing the new revenue standard, including US tax and international tax considerations.	PDF
The ASC 606 clock is ticking – It may be time for brute force (Summer 2017)	Reviews the timeline for a systems based approach and the alternative of using a manual approach as a stopgap if you are slow in developing your implementation plan.	PDF
Revenue recognition change: Lessons learned from Alphabet, Ford & Lockheed Martin (June 2017)	Implementation stories from Alphabet (Google's parent company) and Ford Motor Company, both of whom adopted ASC 606 early, and Lockheed Martin Corporation, who is working toward adoption in 2018. The panel, including representatives from the companies, share first hand experiences, lessons learned, and their advice for working through the revenue recognition transition.	Webcast
Revenue automation solutions and data challenges (2017)	A series of discussions on solutions that automate the revenue recognition process and the challenges of these solutions.	Webcast
CFODirect Podcast Series: Revenue disclosures (Episode 25 – May 2017)	How the revenue standard will affect disclosures.	Podcast
Revenue: Implementation in the technology sector (April 2017)	Reflect implementation developments and highlights certain challenges specific to the technology industry.	PDF
In depth: Revenue Transition Resource Group issues impacting the banking industry (March 2017)	Recap of TRG issues specific to the banking industry.	PDF
Revenue: Licenses of intellectual property (March 2017)	Discussion of what to do when a license is bundled with other promised goods and services in a contract, how to determine when the license is distinct, and how to determine if the intellectual property is functional or symbolic.	Webcast
Governance considerations (February 2017)	Some pointers on what those in oversight roles should be asking managements about the implementation of the new standard.	PDF

Link to resources: http://www.pwc.com/us/en/cfodirect/issues/revenue-recognition.html

PwC industry resources

To supplement PwC's general guidance on revenue recognition, various industry groups have produced supplemental guidance to provide insights into industry issues and circumstances. The supplemental guidance is provided in publications and webcasts, which can be found at the link listed at the end of the table.

Industry	Publication date	Webcast date
Aerospace & defense	September 2017	July 2014
Asset management	September 2014	
Automotive	June 2014	
Broker-dealers	October 2017	
Consumer markets	September 2017	
Communications	July 2017	June 2014

Industry	Publication date	Webcast date
Engineering & construction	September 2017	June 2014
Entertainment & media	August 2017	June 2014
Health services	May 2015	
Industrial products & manufacturing	August 2017	June 2016
Insurance entities	May 2016	
Insurance intermediaries	July 2015	
Mining	July 2015	
Oil & gas	September 2017	
Pharmaceutical & life sciences	September 2017	June 2014
Power and utilities	May 2015	June 2016
Private equity	March 2016	
Real estate	September 2014	
Retail & consumer	September 2014 / January 2016	July 2014
Software	July 2017	
Technology	April 2017	June 2014
Transportation & logistics	August 2017	

Link to resources: http://www.pwc.com/us/en/cfodirect/issues/revenue-recognition.html

Leases

Effective in 3 months

Effective dates for years beginning after:
Public entities – December 15, 2018
Other entities – December 15, 2019

ASC Topic 842

Primary ASU: **2016-02**

Related ASUs:

- **2017-13:** ***Amendments to SEC paragraphs pursuant to the Staff announcement at the July 20, 2017 EITF meeting and rescission of prior SEC staff announcements and observer comments***
- **2018-01:** ***Land easement practical expedient for transition to Topic 842***
- **2018-10:** ***Codification improvements to Topic 842, Leases***
- **2018-11:** ***Targeted improvements***

FASB implementation resources

Inquiries

The FASB has a technical inquiry service through which the FASB staff assist people in understanding the FASB standards. Questions may be submitted to the FASB to obtain clarifications on FASB standards. For more information on these services, visit www.fasb.org at Projects / Technical Inquiry Service.

The FASB did not strike a Transition Resource Group for the leases standard.

Proposals for amendments

The FASB has issued an exposure draft, *Narrow scope improvements for lessors,* for which the comment period is completed.

This exposure draft considers:

- Sales and other similar taxes;
- Certain lessor costs paid directly by lessees; and
- Variable payments for contracts with lease and non-lease components.

For further details on the exposures, see our article under *FASB projects in progress*.

Educational resources

The FASB has provided various educational resources on the leases standard beyond the ASUs and their *FASB in Focus* publication as listed below. These resources are available through the FASB website at www.fasb.org under Projects / Leases / Leases Educational Resources.

The FASB has provided certain educational resources on the leases standard beyond the ASUs and their *FASB in Focus* publication.

The FASB has issued the following videos on leases:

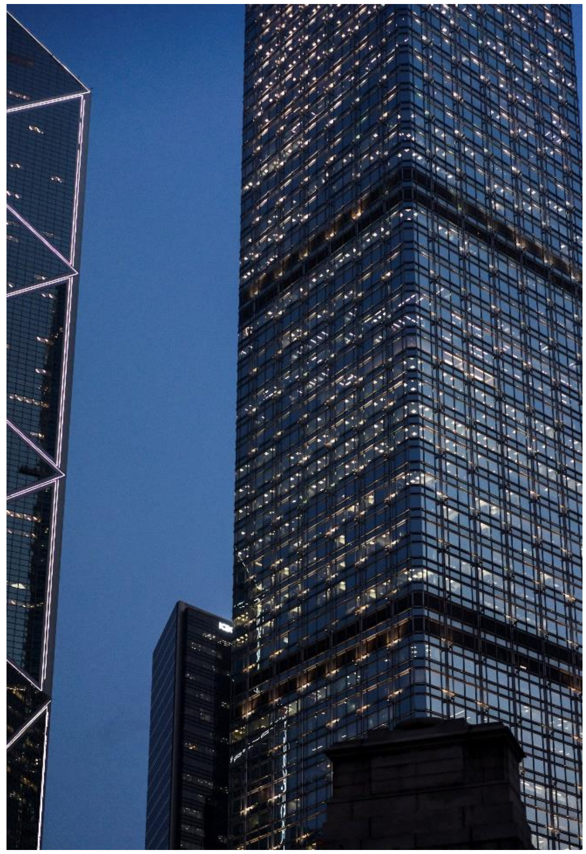
- *Why a new leases standard?*
- *Putting leases on the balance sheet*
- *Leases: A quick example of the display approach*
- *Accounting for leases primer*

The FASB has also provided a ***Taxonomy Implementation Guide*** for the leases standard (March 2017).

AICPA implementation guidance

The AICPA has established a section on Accounting for Leases on their website at www.aicpa.org under Topics / Financial Reporting / Accounting and Financial Reporting / Leases.

The section provides information on the new leases standard including AICPA TV discussing the implications of the new standard, links to news and views from various AICPA magazines and publications, access to AICPA resources, and



links to AICPA webcasts and courses. Some of these resources are free, while others are available for a fee.

Some resources available from the AICPA include:

- *New Leases Accounting Standard – Learning and Implementation Plan* – a practice aid providing a roadmap to understanding the new standard, its transition requirements, training resources, and education tools for stakeholders.

- *Financial reporting brief: Leases* – covers the key aspects of the new standard, and points out some differences with the IASB standard on leases.

- *New leases standard alert* by the Center for Plain English Accounting which provides reminders, observations, and practice notes on various aspects of the standard.

The AICPA also provides access to online self-study programs:

- *Leases: Mastering the New FASB requirements;* and
- *The Bottom Line on the New Lease Accounting Requirements.*

PwC resources to help you

PwC has prepared several resources to assist you with your implementation of the new leases standard. These resources include printed publications and webcasts.

For current insights into the US GAAP lease accounting standard, you can visit the PwC webpage for leases (www.pwc.com/us/en/cfodirect/issues/lease-accounting.html).

PwC general resources

The following table lists general resources currently available. You can access these materials through the link at the bottom of the table.

Title	***Description***	***Format***
Leases – 2016 edition (2016 – with updates in March 2017)	PwC guide on lease accounting covering the scope of the leases standard, classification and accounting for leases, accounting for modifications, unique leasing transactions, presentation of leases in the financial statements, and transitional guidance.	PDF iBook
Leasing – Lessor practical expedient (September 2018)	Covers the practical expedient that allows lessors to avoid separating lease and non-lease components in a contract.	Webcast
Leasing – How lessees should account for finance leases (August 2018)	Covers the basic mechanics of how a lessee should account for a finance lease, including journal entries and related calculations.	Webcast
Leasing – How lessees should account for operating leases (August 2018)	Covers how to calculate the initial lease liability and right-of-use asset and the subsequent accounting for an operating lease.	Webcast
Lease accounting transition: Index or rate for measuring operating lease liability (August 2018)	Outlines SEC views on use of the current index or rate for operating leases on transition.	PDF
Lease accounting implementation insights (August 2018)	Covers lesson learned to date from companies that have made substantial progress with their implementation.	PDF
Adopting the new leases standard just got easier (July 2018)	Covers the additional transition method provided by the FASB and the new lessor expedient for components.	PDF
Leases: What you need to know as you prepare to adopt the new guidance (June 2018)	PwC lease specialists highlight important decisions lessees and lessors need to make before the effective date and discuss how those decisions may affect the transition plan and financial statements.	Webcast
Leasing – Accounting for variable lease payments (June 2018)	Covers which variable payments are included when measuring and classifying a lease and how to account for changes in variable payments.	Webcast
Leasing – Discount rate for the lease liability (June 2018)	Covers key factors when determining the discount rate, including the definition of incremental borrowing rate (IBR), what can be used as collateral in determining the IBR, and the term used for the IBR.	Webcast

Title	Description	Format
Leasing – Identifying embedded leases under the new standard (May 2018)	Covers how to identify an embedded lease and what to do when you do.	Webcast
Leasing – Determining the lease term (May 2018)	Covers factors in identifying the lease term.	Webcast
Leasing – Practical expedients (April 2018)	Covers transitional options available and how companies might benefit from the practical expedient.	Webcast
Assessing land easements under the new leases standard (April 2018)	Explanation of how lease accounting may affect the accounting for land easements.	PDF
Lease accounting implementation insights from Bridgestone and Verizon (April 2018)	Hear lessons learned and suggestions for the way forward from finance executives who have advanced their implementation and insights from PwC specialists.	Webcast
Next up: The new leasing standard (April 2018)	Summary of the recent and proposed amendments to the leasing standard.	PDF
Leasing – Transition (April 2018)	Discussion of the modified retrospective transition approach and the practical expedients designed to make it easier.	Webcast
CFOdirect podcast series: Leasing – recent proposals, impairment and subleases (Episode 33 – February 2018)	Covers the new FASB proposals related to transition as well as accounting for impairments and subleases.	Podcast
CFOdirect podcast series: Leasing – remeasurement, modifications and terminations (Episode 31 – November 2017)	A look at some complex questions related to remeasuring a lease, accounting for lease modifications, and accounting for lease terminations.	Podcast
PwC's rapid readiness approach (November 2017)	Reviews PwC's approach to help clients select lease management software to provide an integrated solution for transition.	PDF
PwC's lease automation services: Innovative tax leasing solutions delivered in real time (October 2017)	Information on PwC services to automate the identification and categorization of lease management system transactions for tax information.	PDF
FASB proposes to simplify the new leases guidance (November 2017)	Brief outline of the proposed amendments to the new leases standard to address transition.	PDF
Lease accounting implementation issues – How to think about some frequently asked questions in the new leases standard (August 2017 and revised in September 2017)	Highlights some frequently raised questions to assist entities with transition to the new standard.	PDF
Lease accounting series: Updates and insights – on demand (July 2017)	Two part webcast on implementation issues, potential impacts on an organization, and how to prepare for transitioning to the new leases standard.	Webcast
How organizations are adopting the new lease accounting standard leveraging their SAP investment (June 2017)	Discussion of transition roadmaps, project lessons learned, and technology capabilities for first movers and early adopters.	Webcast
2017 lease accounting survey summary (May 2017)	Results from an online survey of over 600 finance and real estate professionals on the current state of adoption of new leasing standard.	PDF

Title	Description	Format
Lessor accounting: The interaction of leasing and revenue (May 2017)	Discussion of the interaction between adopting both the lease accounting and the revenue standards.	Webcast
Data sieve (2017)	A suite of transition tools to mobilize your leasing transition, using advanced technologies, and deep accounting and industry knowledge to digitize lease agreements.	Tool
In depth: The leasing standard – A comprehensive look at the new model and its impact (March 2017)	Comprehensive review of the key provisions accounting for leases under US GAAP, including observations about key differences with existing US GAAP.	PDF
Equipped for success: The right equipment lease management solution can provide benefits beyond compliance (December 2016)	Covers the world of equipment leasing, the challenges of managing equipment leases, and the benefits of an equipment lease management program.	PDF
New lease standard: Implementation issues and responses (December 2016)	Discussion of the most difficult implementation issues companies are encountering when they consider the leases standard and how you can respond.	Webcast
Impacts of the new leasing standard – beyond accounting (November 2016)	Covers challenges of implementing the new standard.	PDF
Supply arrangement as leases (November 2016)	Discussion of how to identify arrangements that may be considered leases, and how these arrangements may affect your financial statements.	Webcast
Potential tax considerations associated with the new leasing standard (November 2016)	The implementation of the new leases standard may affect several areas within a company's tax function, including US tax accounting methods, deferred tax accounting, state taxes, transfer pricing, and tax processes and systems. This insight summarizes several potential tax considerations.	PDF
10 minutes on the new US lease standard (August 2016)	Overview of the impact of the new standard on your business, key financial metrics, timing of implementation, and key considerations for implementation.	PDF

Link to resources: http://www.pwc.com/us/en/cfodirect/issues/lease-accounting.html

PwC industry resources

Supplementing the *In depth* publication, a number of industry specific supplements have been published, which include examples and further insights into ways entities within the industry are likely to be affected by the new leases standard. Additional supplements will be added.

Industry	Publication date	Webcast date
Automotive	December 2016	
Banking and capital markets	November 2017	
Chemicals	November 2017	
Energy	December 2016	

Industry	Publication date	Webcast date
Entertainment & media	September 2016	
Higher education	January 2017	
Industrial products	September 2017	
Insurance	August 2016	
Pharmaceutical & life sciences	August 2016	
Retail & consumer	May 2016	
Technology	August 2016	
Telecommunications	March 2017	
Transportation & logistics	November 2016	

Link to resources: http://www.pwc.com/us/en/cfodirect/issues/lease-accounting.html

Hedge accounting

Effective in 3 months

Effective dates for years beginning after:
SEC public entities – December 15, 2018
Other entities – December 15, 2019

ASC Topic 815: ***Derivatives and hedging***

Primary ASU: 2017-12

Related ASUs: None

FASB implementation resources

Inquiries

The FASB has a technical inquiry service through which the FASB staff assist people in understanding the FASB standards. Questions may be submitted to the FASB to obtain clarifications on FASB standards. For more information on these services, visit www.fasb.org at Projects / Technical Inquiry Service.

The FASB did not strike a Transition Resource Group for the hedging amendments standard.

Proposed amendments

The FASB has addressed a number of implementation issues resulting from the amendments to the hedging standard.

The FASB has decided to issue three proposed ASUs to address eleven issues where additional clarifications or guidance was needed. See our articles in the section *FASB projects in progress* under the titles of:

- *Omnibus clarifications–credit losses, hedging, and financial instruments;*
- *Clarifications to hedge accounting–use of prepayable and cash flows hedges;* and
- *Hedging issues–last-of-layer method.*

FASB staff interpretations

The FASB staff have been providing interpretations on the hedging guidance. These interpretations were reviewed by the FASB, but do not require amendments to the hedging standard. These interpretations can be found on the FASB website at www.fasb.org under Projects / Recently completed projects / Accounting for financial instruments: Hedging.

The topics addressed include:

- The scope of the guidance for prepayable instruments and its impact on application of the designation and measurement guidance for hedges of interest rate risk, the eligibility to apply the last-of-layer method for prepayable financial assets, and the ability to apply the transition guidance.
- Switching hedge effectiveness methods for net foreign investment hedges.
- Timing of initial quantitative hedge effectiveness assessment.
- Simultaneous designation of the hedged item for fair value and cash flows hedges.
- Sale or transfer of assets out of a closed portfolio in a last-of-layer hedge.
- Documentation of fallback long-haul hedge effectiveness assessment method
- Change in hedged risk guidance for a cash flow hedge of forecasted issuance of fixed-rate debt.
- Reclassification of prior period information.

Educational resources

The FASB has provided various educational resources on the revenue recognition standard beyond the ASUs and their *FASB in Focus* publication as listed in the table below. These resources are available through the FASB website at www.fasb.org under Projects / Financial Instruments: Hedging / Financial Instruments: Hedging Educational Resources.

The FASB has issued the following videos on hedging:

- *Hedging: A new standard*
- *FASB Investor Podcast: Hedging*

PwC resources to help you

PwC has prepared several resources to assist you with your implementation of the amendments to the hedging standard. These resources include printed publications and webcasts.

For current insights into the US GAAP hedging accounting standard, you can visit the PwC webpage for financial instruments (www.pwc.com/us/en/cfodirect/issues/financial-instruments.html).

PwC's ***Derivatives and Hedging Guide*** addresses the accounting for hedges of financial, nonfinancial, and foreign currency risks, and how to assess effectiveness. The *Guide* also covers presentation, disclosure, and transitional requirements. The *Guide* was updated in January 2018.

The following list outlines general resources currently available. You can access these materials through the link noted earlier.

- ***Hedging – are you early adopting the FASB's new guidance*** discusses certain considerations for early adopters.
(Video – February 2018)

- ***In brief: FASB clarifies certain provisions within recently issued hedging guidance*** summarizes the FASB review of implementation issues.
(PDF – February 2018)

- ***Hedge accounting: What you need to know about the FASB's new guidance*** discusses the new guidance and other considerations.
(Webcast – September 2017)

- ***FASB hedging guidance simpler and better aligned with risk management*** summarizes the key changes by type of hedge, address transitional requirements and elections, addresses SEC reporting considerations, and highlights internal control considerations. (PDF – October 2017)

Credit losses

Effective in 1 year + 3 months

Effective dates for years beginning after:

SEC public entities – December 15, 2019
Other public entities – December 15, 2020
Other entities – December 15, 2020

ASC Topic 326

Primary ASU: 2016-13

Related ASUs: None

FASB implementation resources

Inquiries

The FASB has a technical inquiry service through which the FASB staff assist people in understanding the FASB standards. Questions may be submitted to the FASB to obtain clarifications on FASB standards. For more information on these services, visit www.fasb.org at Projects / Technical Inquiry Service.

Transition Resource Group

The FASB has formed a Transition Resource Group for Credit Losses (TRG) to solicit, analyse and discuss issues arising from the implementation of the new standard; to inform the FASB about issues that may need to be addressed by the FASB; and provide a forum for stakeholders to learn about the new guidance.

The TRG has not met since June 2018. No further meetings are currently scheduled.

Proposed amendments

The FASB has addressed a number of implementations issues related to the new credit losses standard. The FASB has decided to add two projects to its agenda to address eight issues where additional clarifications or guidance was

needed. See our articles in the section *FASB projects in progress* under the titles of:

- *Omnibus clarifications–credit losses, hedging, and financial instruments,* and
- *Clarifications for credit losses–scope and effective date.*

Educational resources

The FASB has provided certain educational resources on the measurement of credit losses on financial instruments beyond the ASUs and their *FASB in Focus* publication.

The FASB has issued the following videos on credit losses:

- *Why a new credit losses standard?*
- *FASB Investor Podcast: Credit losses*

These resources are available through the FASB website at www.fasb.org under Projects / Credit Losses / Credit Losses Educational Resources.

AICPA implementation guidance

The AICPA has established a section on Accounting for Credit Losses on its website at www.aicpa.org under Topics / Financial Reporting / Accounting and Financial Reporting / Credit Losses.

The section provides information on the new credit losses standard, including issues identified by the AICPA Experts Panels, interpretative issues, links to news and views published in AICPA magazines, and AICPA webcasts and courses. Some of these resources are free, while others are available for a fee.

Resources provided include:

- *Current Expected Credit Loss (CECL) Accounting Standard: An introduction for Bank CEOs and their Board* (by American Bankers Association)
- *CECL Implementation: Practical implementation and operational considerations of the CECL model for credit unions*
- *FASB's Current Expected Credit Loss (CECL) Model: Interpretative issues*. These issues have been identified by the Experts Panel for Depository and Lending Institutions.

The AICPA also provides online self-study programs about the new FASB requirements and the IFRS requirements.

PwC resources to help you

PwC has prepared several resources to assist you with your implementation of the new credit losses standard. These resources include printed publications and webcasts.

To keep on top of emerging developments, you can visit the PwC webpage on financial instruments (www.pwc.com/us/en/cfodirect/issues/financial-instruments.html).

PwC's ***Loans and Investment Guide*** discusses the accounting for debt and equity investments. Chapter 4, *Accounting for loans,* covers credit losses and was last updated in May 2017.

The following list provides general resources currently available.

- ***CECL – Accounting impacts to guarantees*** discusses requirements for guarantees under the new standard and how it will require an additional credit loss estimate for guarantees. (Webcast – August 2018)
- ***In brief: Recent developments related to the new credit loss standard*** outlines FASB proposal to give private companies more time to adopt the CECL standard and provide FASB and SEC insights on the interaction of subsequent events and CECL. (PDF – August 2018)

- ***Transition Resource Group for credit losses: June 2018*** covers the topics discussed at the June 2018 meeting.
(PDF – June 2018)

- ***How the credit impairment standard impacts non-financial services companies*** summarizes how the new impairment standard affects trade receivables, loans, debt securities, lease receivables and financial guarantees held by non-financial services companies.
(PDF – June 2018)

- ***In depth: Recent development in financial instruments*** highlights developments in the accounting for financial instruments.
(PDF – October 2017)

- ***In depth: Contrasting the new US GAAP and IFRS credit impairment models*** covers the differences in the two models.
(PDF – September 2017)

- ***Current expected credit losses – is your data ready*** provides insights into assessing your data sources and technology to gather data to support the new standard.
(PDF – September 2017)

- ***In depth: Transition Resource Group for credit losses discusses implementation issues*** covers the discussions at the first TRG meeting.
(PDF – June 2017)

- ***Financial asset impairment: the latest implementation issues*** provides an update on questions arising on implementation. (Webcast – June 2017)

- ***In the loop: Preparing for the new credit loss model*** considers the evidence, documentation, corporate governance, and internal control required to make credit loss estimates.
(PDF – May 2017)

- ***Available for sale debt securities and the new credit loss model*** shares perspectives on the application of the standard to available for sale debt securities.
(Video – February 2017)

- ***Credit losses on financial instruments – are you an early adopter?*** Provides key considerations for early adopters.
(PDF – August 2016)

- ***In depth: The FASB's new financial instruments impairment model*** reviews the new standard and provides PwC's observations on the application of the new standard.
(PDF – July 2016)

- ***Financial asset impairment: Overview of FASB's new guidance*** provides an information discussion on various aspects of the standard, including the CECL model. (Webcast – July 2016)

- ***In brief: Allowance for loan and lease losses – FASB issues final impairment standard*** provides a high level overview of the new standard.
(PDF – June 2016)

Long-duration insurance contracts

Effective in
2 years + 3 months

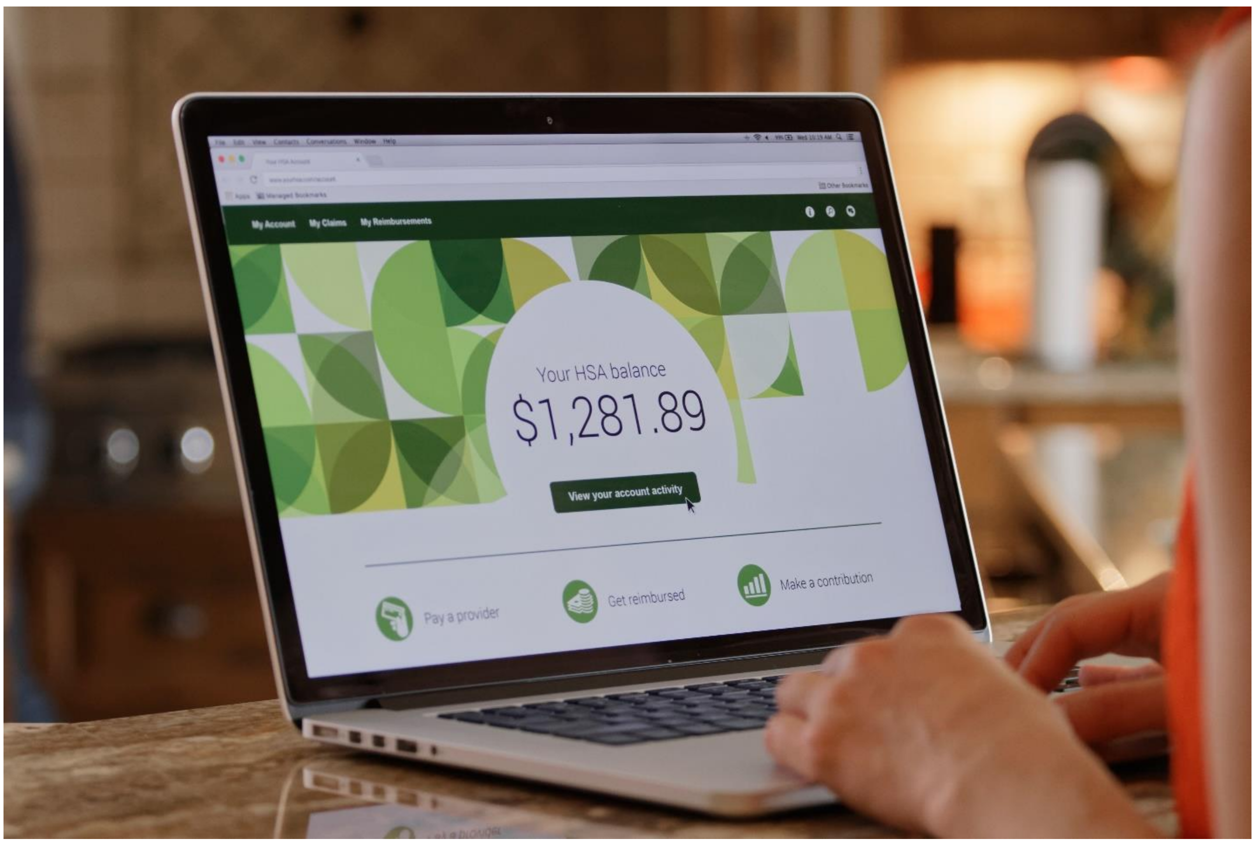
Effective dates for years beginning after:
Other public entities – December 15, 2020
Other entities – December 15, 2021

ASC Topic 944

Primary ASU: 2018-12

Related ASUs: None

For more information on this ASU, please consult our Insurance team member Larissa Dyomina (larissa.dyomina@pwc.com).

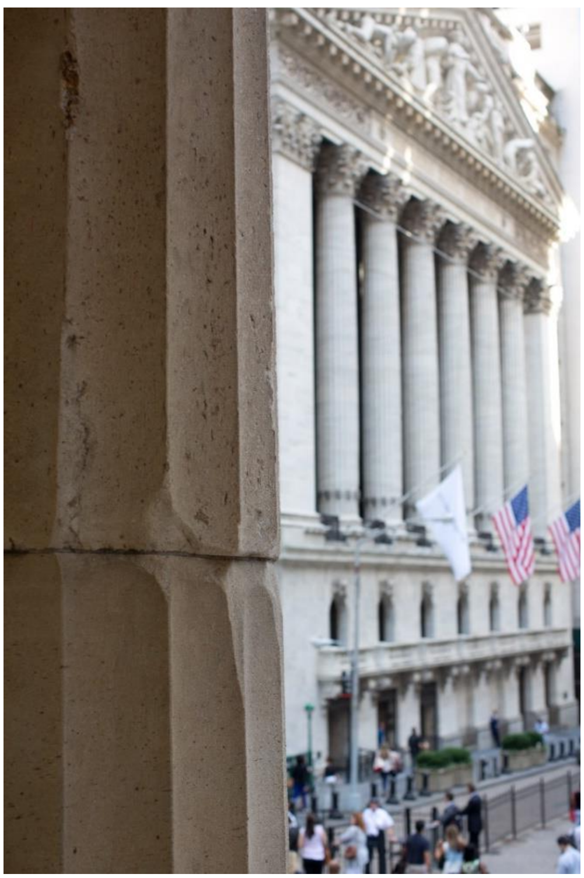


News on SEC developments

SEC developments provides news and analysis of accounting requirements of the SEC, including final rules, findings of SEC reviews, and SEC comments on accounting issues.

SEC view on operating leases with indexed payments

Under the new leases standard (ASC 842), on transition for operating leases, a lessee should measure lease liabilities at the applicable date using the "remaining minimum rental payments," as defined under the current leases guidance. For operating leases with rent payments that depend on an index or rate, the current leases guidance defines minimum lease payments as being based on the index or rate in effect at lease inception (unless there has been a modification to that lease, in which case the index or rate at the modification date should be used). Lessees are required to base straight-line rent expense accruals for operating leases on this definition.



For disclosures under the current standard, some lessees prepare their disclosures consistent with the required recognition model and others update the inception date index or rate to reflect the current index or rate.

Considering the diversity in practice, the SEC staff recently concluded that lessees may use an index or rate for transitioning operating leases to ASC 842 that is consistent with the policy used for footnote disclosures under the current leases guidance.

The SEC staff noted that a lessee may choose to change the policy it is currently using for ASC 840 operating lease footnote disclosures for purposes of transitioning such leases to the new leases standard. However, this would be a change in accounting policy and the lessee would be required to apply ASC 250: *Accounting Changes and Error Corrections,* which may require obtaining a preferability letter from its independent accountant. The SEC staff observed that it was reasonable to conclude that the use of a current index or rate better reflects the lease liability, and is therefore preferable.

News on auditing developments

Auditing developments provides news and analysis about auditing requirements directly affecting SEC registrants, including final PCAOB rules, PCAOB inspection, and PCAOB tools and aids for audit committees.

CAQ resource on CAMs

In July 2018, the Center for Audit Quality (CAQ) published a new resource, *Critical Audit Matters: Key Concepts and FAQs for Audit Committees, Investors, and Other Users of Financial Statements,* to help audit committees and investors understand the reporting of critical audit matters (CAMs) in the new PCAOB auditor's report. The new resource focuses on the auditor's responsibility to determine and communicate CAMs.

A CAM is any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee; and that:

- Relates to accounts or disclosures that are material to the financial statements, and
- Involved especially challenging, subjective, or complex auditor judgment.

The reporting of CAMs will begin to take effect for audits of large accelerated filers for fiscal years beginning on or after June 30, 2019.

The publication looks at the identification of CAMs and their communication in the auditor's report and compares the PCAOB model to that applied in other jurisdictions having similar models. Several frequently asked questions and responses are provided for a deeper insight into the reporting of CAMs.

A copy of the resource can be found at www.thecaq.org under Resources / Publications.

Investor confidence in market oversight

Each year since 2007, the CAQ has conducted a survey of retail investors to assess the trust these investors place in the US capital markets system. In September, the CAQ released its 2018 *Main Street Investor Survey*. The survey of 1,100 American investors was conducted in August 2018. The survey indicated a high-level of confidence, particularly for US markets.

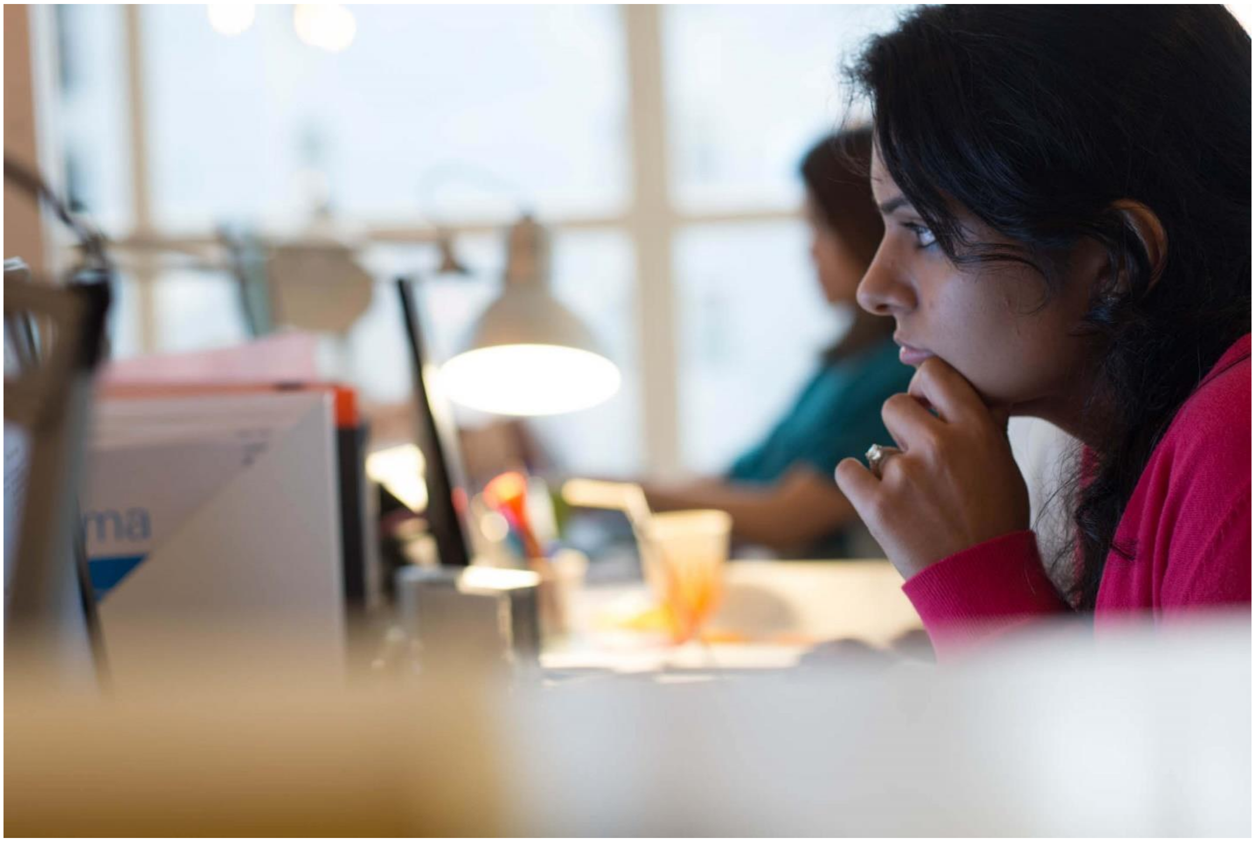
The survey measured investor confidence in a number of areas as noted in the table.

	2018	2017	2016
US markets	74%	85%	74%
Markets outside US	56%	54%	42%
US publicly traded companies	78%	83%	81%
Audited financial statements	75%	78%	75%
Public company auditors	81%	84%	81%
Independent audit committees	80%	82%	77%
Financial analysts	79%	80%	76%
Stock exchanges	77%	82%	76%
Financial advisors & brokers	75%	79%	75%
Credit rating agencies	71%	71%	76%
Investigative journalists	69%	65%	68%
Corporate management	63%	69%	68%
Government regulators	62%	58%	54%
Corporate boards of directors	59%	63%	61%
Congress	44%	32%	34%

The key drivers of investors' confidence in the markets and public companies was largely based on the strength of the economies and the performance and resilience of the capital markets. Investors raised several concerns including the lack of leadership in the Trump administration and Congress, fear about trade wars and uncertainty of trade agreements, fear of unstable and corrupt foreign governments, US problems affecting foreign markets, benefits from corporate performance only flowing to certain individuals, unethical practices of corporations, transfer of US jobs overseas, and corporations being too profit driven.

Investors expressed confidence in audited financial statements primarily because the reputations of companies are at stake if they get it wrong, auditors provide honest and independent third party scrutiny, and auditing is well regulated. Confidence in audited financial statements was diminished by concerns that companies were not trustworthy and companies or auditors have conflicts of interest.

The levels of confidence in the audit committees and auditors indicate investors value the oversight and assurance provided by the audit committees and auditors in ensuring financial statements are reliable.



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.

Our US GAAP reporting team

National

Leader US GAAP Reporting Group

Ryan Lundeen
Calgary
403 441 6303
ryan.w.lundeen@pwc.com

National Accounting Consulting Services

Michael Walke
Leader
416 815 5011
michael.walke@pwc.com

Carolyn Anthony
Toronto
416 815 5266
carolyn.anthony@pwc.com

Scott Bandura
Calgary
403 509 6659
scott.bandura@pwc.com

Sean Cable
Toronto
416 814 5831
sean.c.cable@pwc.com

Michel Charbonneau
Montreal
514 205 5127
michel.a.charbonneau@pwc.com

Robert Marsh
Vancouver
604 806 7765
robert.marsh@pwc.com

Capital Markets & Accounting Advisory Services

Geoff Leverton
Leader
Toronto
416 815 5053
geoff.m.leverton@pwc.com

Paul Feetham
Toronto
416 365 8161
paul.feetham@pwc.com

Calgary

Robert Hawley
403 509 7546
robert.j.hawley@pwc.com

Shannon Ryhorchuk
403 509 7506
shannon.g.ryhorchuk@pwc.com

John Williamson
403 509 7507
john.m.williamson@pwc.com

Greater Toronto Area

Adam Boutros
416 687 8123
adam.boutros@pwc.com

Dean Braunsteiner
416 869 8713
dean.braunsteiner@pwc.com

Paul Fitzsimon
416 869 2322
paul.fitzsimon@pwc.com

Lorna Fraser
416 815 5020
lorna.fraser@pwc.com

Derek Hatoum
416 869 8755
derek.hatoum@pwc.com

Ryan Leopold
416 869 2594
ryan.e.leopold@pwc.com

James Lusby
416 365 8181
james.m.lusby@pwc.com

Neil Manji
416 687 8130
neil.manji@pwc.com

Swati Patel
416 947 8292
swati.patel@pwc.com

John Simcoe
416 815 5231
john.b.simcoe@pwc.com

Montreal

Michel Larouche
514 205 5239
michel.larouche@pwc.com

Marc-Stephane Pennee
514 205 5006
marc-stephane.pennee@pwc.com

Michael Trudeau
514 205 5320
michael.trudeau@pwc.com

Vancouver

John DeLucchi
604 806 7575
john.delucchi@pwc.com

Craig McMillan
604 806 7724
craig.mcmillan@pwc.com

Mark Platt
604 806 7093
mark.r.platt@pwc.com