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

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- ***Business combinations and noncontrolling interests – global edition*** (Updated December 2017)
- ***Derivatives and hedging*** (January 2018)
- ***Foreign currency*** (November 2017)

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US GAAP Today

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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
SICAD	Sistema Complimentario de Administracion de Divisas
TRG	FASB/IASB Joint Transition Resource Group for Revenue Recognition

In this issue

News

Accounting standards updates

FASB projects in progress

Broad recognition and measurement projects

Narrow recognition and measurement projects

Presentation and disclosure projects

Presentation and disclosure projects (cont'd)

Conceptual framework projects

Implementation notes

SEC developments

Auditing developments

PwC contacts

News on ASUs issued

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 Standard Updates issued during the most recently completed quarter.

Freeing stranded tax effects from US tax reform

ASC Topic 220: *Income statement – reporting comprehensive income*

ASU 2018-02: *Reclassification of certain tax effects from accumulated other comprehensive income*

The US *Tax Cuts and Jobs Act* is expected to have a significant impact on accounting for income taxes in the financial statements of some companies. We reported on these effects in our winter 2018 edition of *US GAAP Today*. One of the possible consequences of the US tax reform is the stranding of income taxes within other comprehensive income (OCI).

When items are included in OCI, the corresponding income tax effects are also included in OCI. These tax effects are only removed when the items are reclassified from OCI to income. Current US GAAP requires the effects of all changes in tax laws to be reflected in the income statement within continuing operations, irrespective of whether the original tax consequences were reporting in OCI. As a result of the US tax reform, significant amounts of income taxes would be stranded in OCI until the corresponding items were reclassified. Upon release of these items, the income provisions may be skewed because the stranded income tax effects are included.

To address these concerns, the FASB issued ASU 2018-02: *Reclassification of certain tax effects from accumulated other comprehensive income*. The ASU allows companies to reclassify the disproportionate income tax effects of the 2017 *Tax Cuts and Jobs Act* (the Act) on items within accumulated other comprehensive income (AOCI) to retained earnings. The reclassification is optional and applies only to the income tax effects of applying the Act.

The ASU will require certain disclosures when the Act is adopted about the transition elections and methods used by companies. In addition, all companies must disclose their accounting policy for releasing disproportionate income tax effects from AOCI. This latter disclosure is ongoing and not specific to the Act.

These amendments are effective for all companies for years ending after December 15, 2018, but may be adopted early for financial statements that have not yet been issued.

There are several complexities to applying the ASU. Companies will want to consult with their tax specialists to assess whether to apply the option and to understand the complexities of applying the option.

Separately, the FASB has a research project under way to consider backward tracing for income taxes in a more comprehensive manner.

Land easements under transition

ASC Topic 842: *Leases*

ASU 2018-01: *Land easement practical expedient for transition to Topic 842*

The FASB did not establish a Transition Resource Group for its new leases standard because the concepts in the new standard were similar to those in the existing leases standard. As implementation has started, some issues have surfaced. The FASB has addressed the issue of land easements, which are leases, and is considering an alternative transition method as well as an expedient for lessors for nonlease components (see the section on *FASB projects in progress*).

Land easements accommodation

Land easements are the right to use, access, or cross another party's land for a specified purpose. Many entities do not account for these land easements as leases under current US GAAP and information on land easements may not be readily available.

Due to the cost and complexity of applying the new lease requirements to land easements, the FASB has provided an optional transitional practical expedient, which will allow land easements existing or expired at the transition date to be exempt from the new accounting rules. Instead these lease easements will continue to be accounted for using the company's current accounting policies. New or modified land easements would be subject to the new standard. Companies that do not elect this option, would apply the new leases standard to land easements.

These changes included in ASU 2018-01: *Land easement practical expedient for transition to Topic 842* are effective on the same date as the new leases standard, which is for years beginning on or after December 15, 2018 for public business entities, and 2019 for other entities.

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.

Broad recognition and measurement projects

Distinguishing liabilities from equity

ASC Topic 480: *Distinguishing liabilities from equity*

Objective:

- Improve the understandability and reduce the complexity for distinguishing liabilities from equity. Project will focus on indexation and settlement (in the context of the derivative scope exception), convertible debt, disclosures and earnings per share.

Status:

- Initial deliberations.

This Q's developments

There were no developments during the most recent quarter.

Insurance—targeted improvements to accounting for long-duration contracts

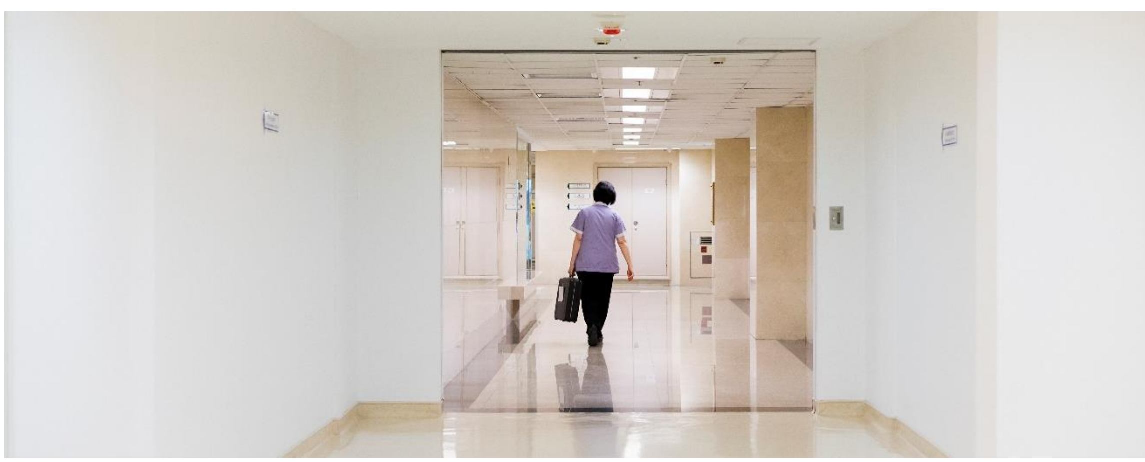
ASC Topic 944: *Financial services – insurance*

Objective:

- Improve, simplify, and enhance the financial reporting requirements for long-duration contracts issued by insurance entities by providing more decision-useful information about the amount, timing, and uncertainty of cash flows related to such contracts.

Status:

- Exposure draft redeliberations.
- Exposure draft *Targeted improvements to the accounting for long-duration contracts* was issued on September 29, 2016.



This Q's developments

During the most recent quarter, there were no further discussions about the proposed standard. Staff is continuing its outreach with stakeholders on the proposals.

Key proposals

Our winter 2018 edition of *US GAAP Today* summarized the key proposals tentatively decided by the FASB.

Narrow recognition and measurement projects

Codification improvements

Objective:

- Provide regular updates and improvements to the ASC based on feedback received from stakeholders. The project facilitates updates for technical corrections, clarifications, and other minor improvements.

Project tenure:

- The project is a standing project.

October 3, 2017 proposals

Exposure draft:

- *Codification improvements* issued on October 3, 2017.

Status:

- Exposure draft redeliberations.

This Q's developments

There were no further developments on these codification improvements during the most recently completed quarter.

Key proposals

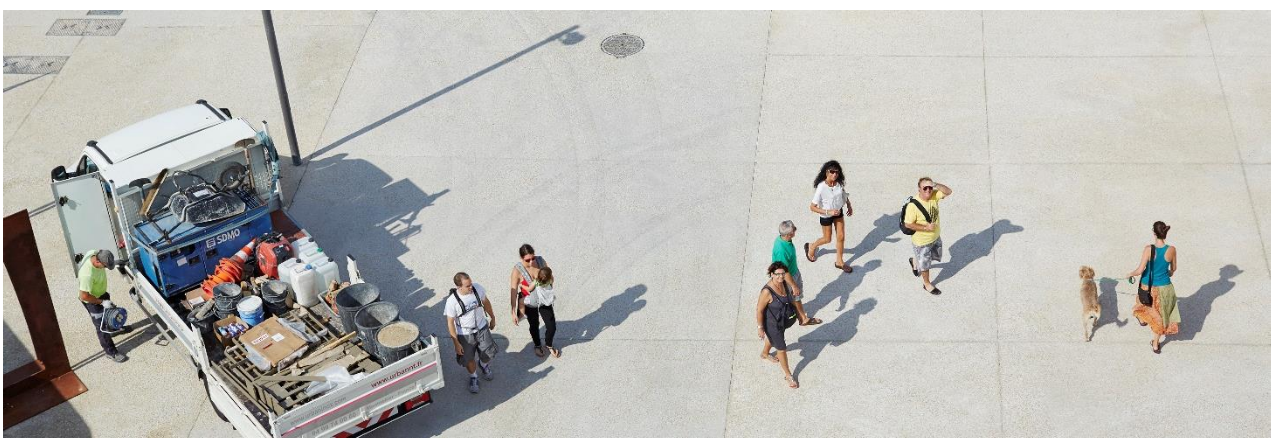
The key proposals involving simplifications, clarifications, and improvements are listed below.

- Topic 260: *Earnings per share* – *simplifies* the wording in the ASC and *clarifies* certain references to and the example illustrating the two class method for calculating EPS.

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

- 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.

- Topic 720: *Other expenses* – *clarifies* the wording in the guidance for accounting for advertising costs and insurance acquisition costs.



- Topic 740: *Income taxes* – *clarifies* that transactions between a taxpayer and a government are limited to those when a government acts in its capacity as a taxing authority.

  Clarifies that the "permanent duration" criteria for the indefinite reversal exemption (i.e., when to recognize deferred tax assets) for investments in subsidiaries and corporate joint ventures applies only to corporate joint ventures.

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

- 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 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.

- Topic 830: *Foreign currency matters* – *clarifies* that historical exchange rates are used to remeasure marketable securities carried at cost consisting of equity securities without readily determinable fair values and debt securities intended to be held to maturity.

- Topic 940: *Financial services – brokers and dealers* – *improves and clarifies* the offsetting guidance for broker dealers by removing the guidance in ASC Topic 940 and referring to ASC Topic 210. Previously, the existing guidance could be interpreted to allow offsetting of borrowed and loaned transactions.

- 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.

- 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.

Improving the accounting for asset acquisitions 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 deliberations on this project during the most recently completed quarter.

Implementation costs for cloud computing

ASC Topic 350: *Intangibles – goodwill and other*

Objective:

- Reduce diversity in practice for accounting for implementation costs incurred in a cloud computing arrangement that is a service contract.

Status:

- Exposure draft comment period.
- Exposure drafts *Customer's accounting for implementation costs incurred in a cloud computing arrangement that is considered a service contract* and *Disclosures for implementation costs incurred for internal-use software and cloud computing arrangements* were issued on March 1, 2018. Comments are due by April 30, 2018.

This Q's developments

The EITF completed it deliberations and reached a consensus for exposure. The FASB ratified the EITF's draft consensus for publication as a proposed ASU.

Key proposals

For hosting arrangements that are service contracts, a company would follow the guidance on internal-use software to determine which costs would be capitalized and which costs would be expensed. This would require a company to capitalize costs for implementation activities in the application development stage, if the costs are eligible for capitalization. Costs incurred during the preliminary project and postimplementation stages would be expensed. Any capitalized costs would be amortized over the term of the hosting arrangement and presented in the same line item as other fees for the hosting element. The proposed ASU also enhances disclosures about these types of arrangements.

The amendments would be applied either prospectively or retrospectively.

Nonemployee share-based payment accounting improvements

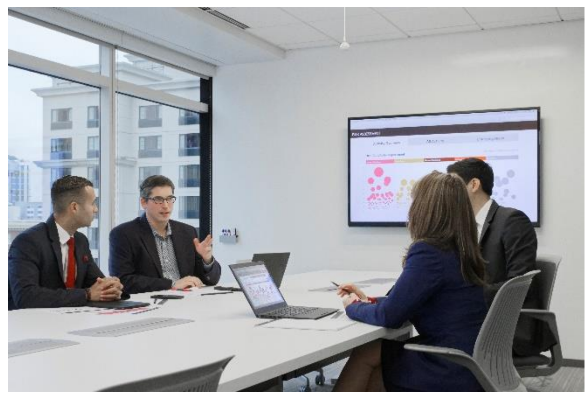
ASC Topic 718: *Compensation – stock compensation*

Objective:

- Reduce the cost and complexity of and improve the accounting model for nonemployee share-based payments.

Status:

- Final ASU being prepared for expected release in Q2, 2018.
- Exposure draft *Improvements to nonemployee share-based payment accounting* was issued on March 7, 2017.



This Q's developments

There were no further developments during Q1, 2018.

Key proposals

The FASB Board has tentatively decided that the standard should apply to all share-based payment transactions for acquiring goods and services from non-employees for the use in an entity's operations.

With respect to accounting for these awards, the Board tentatively decided to align the accounting for nonemployee share-based payments with the provisions for employee share-based payments by:

- Requiring share-based payment transactions to be measured by:
  - Estimating the fair value of the equity instruments at the grant date.

– Considering for awards with performance conditions the probability of satisfying the performance conditions.
– Using the vesting period, based on the contractual terms, unless this presumption is rebutted with sufficient support to use the expected term.
– Permitting non-public companies to use a calculated value instead of using expected volatility as an input in measuring the award.
– Permitting non-public companies to use intrinsic value to measure share-based liabilities.

- Aligning the criteria for post-vesting classification as equity or liability for non-employment awards with those for employee awards.

- Requiring the changes to be applied on a modified retrospective basis to outstanding awards, with a catch-up adjustment to the opening balance of retained earnings on adoption, except for the use of the calculated value, which would be prospective.

- On transition, all unsettled non-employee awards would be measured at fair value on the adoption date (except for vested equity-classified awards). The cost basis of assets cannot be retrospectively adjusted on transition.

The ASU would be effective for public entities for years beginning after December 15, 2018 and for other entities after December 15, 2019.

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:

- Project added to agenda in Q1, 2018.

This Q's developments

During Q1 2018, the FASB decided to add this project to the EITF's agenda.

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.

Status:

- Initial deliberations completed, proposed ASU being drafted for publication.

This Q's developments

During Q1 2018, the FASB decided on the scope of the project and reached tentative decisions on the transitional provisions for a new standard.

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 proposed 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.

The proposals when adopted would be applied retrospectively.

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.

Status:

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

This Q's developments

This topic was not discussed by the FASB 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.

Status:

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

This Q's developments

This project was not on the FASB's agenda for the most recently completed quarter.

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.

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.

Status:

- Exposure draft comment period.
- 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.

This Q's Developments

The exposure draft was issued during the quarter with the comment period closing on March 30, 2018.

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.

Hedging implementation issues

ASC Topic 815: *Derivatives and hedging*

Objective:

- Address certain aspects of the last-of-layer approach.
- Clarify the guidance on changes in the hedged risk of a cash flow hedge.

Status:

- Added to agenda during Q1, 2018.

This Q's Developments

During Q1 2018, the FASB was updated on the staff's implementation activities on ASU 2017-12: *Targeted improvements to accounting for hedging activities* and decided to address two issues arising from implementation questions.

Lease implementation issues on transition

ASC Topic 842: *Leases*

Objective:

- Address implementation issues raised by stakeholders on the new leases standard.

Status:

- Exposure draft redeliberations.
- Exposure draft *Targeted improvements* was issued on January 5, 2018.

This Q's Developments

During Q1 2018, the FASB affirmed its decision to allow the additional transition method for adopting the new leases standard and to allow a lessor a practical expedient on transition for separating lease and nonlease components in a contract.

Key proposals

An additional transitional method will be added to the standard, which will allow entities to apply the transitional requirements at the effective date with a cumulative effect adjustment to retained earnings in the adoption years. This method would result in the prior periods not being comparative and would require additional disclosures.

Lessors will be allowed to apply a practical expedient, by class of underlying asset, to not separate nonlease components from the related lease components if (a) the timing and pattern of transfer for the lease and nonlease components are the same; and (b) the lease component is classified as an operating lease. Under this expedient, the components would be accounted for as a single lease component. Certain disclosures would be required.

These amendments would be effective when the new leases standard is effective for an entity.

Sales taxes, property taxes and insurance payments for leased assets

ASC Topic 842: *Leases*

Objective:

- Clarify the accounting for (1) sales taxes collected from the lessee; and (2) property taxes and insurance either paid directly by the lessee or paid by the lessor and reimbursed by the lessee.

Status:

- Initial deliberations.

This Q's Developments

During Q1 2018, while addressing other lease implementation issues, the FASB was asked whether lessors could apply guidance from Topic 606: *Revenue from contracts with customers* to leases. The FASB decided to provide similar elections.

Key proposals

The FASB tentatively decided that lessors could make an accounting policy election to present sales taxes collected from lessees on a net basis.

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.

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:

- Agenda decision made in quarter.

This Q's Developments

During Q1 2018, the FASB added this project to the EITF's agenda.

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.

Status:

- Final standard being drafted with expected release in Q2, 2018.
- Exposure draft *Simplifying the classification of debt in a classified balance sheet (Current versus noncurrent)* was issued on January 10, 2017.

This Q's developments

During the quarter, there were no further developments.

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.

The scope of the ASU will include lease liabilities.

An instrument will be classified as noncurrent 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.

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

Further, debt will continue to be classified as noncurrent if a waiver of debt covenant violations is received after the reporting date, but before the date the financial statements are issued. This exception to the principle 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, 2019 and other entities after December 15, 2020. 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

The FASB discussed this project in March 2018 with a focus on disaggregation in particular lines that represent the cost of revenue and selling, general and administrative expenses. Further outreach is planned and no tentative decisions were made.

Disclosure framework— entity's decision process

ASC Topic 235: *Notes to financial statements*

Objective:

- Improve the effectiveness of disclosures in the notes to the financial statements by clearly communicating the information that is important to users of each entity's financial statements.
- Promote the use of discretion by reporting entities when evaluating ASC Topics' disclosure requirements.

Status:

- Exposure draft redeliberations completed and amendments to Conceptual Framework being drafted.
- Proposed concept statement: *Notes to financial statements–Assessing whether disclosures are material* was issued on September 24, 2015.

This Q's developments

The FASB completed its redeliberations of the exposure draft and decided to make amendments to FASB Concept Statement No. 8: *Conceptual Framework for Financial Reporting* – Chapter 3: *Qualitative characteristics of useful financial information* and Chapter 8: *Notes to financial statements*.

Key proposals

The changes are designed to focus companies on applying materiality when they prepare notes to the financial statements. The amendments would provide additional guidance on applying materiality to note disclosures by indicating:

- Materiality is applied to disclosures individually and in aggregate (so, some, all, or none of the disclosure requirements in a Section may be material);

- A disclosure is material if it meets the US Supreme Court's description of materiality (based on court cases and interpretations);

- Qualitative and quantitative disclosures generally should be evaluated as material based on whether there is a substantial likelihood that the omitted disclosure would have been viewed by a reasonable user as having significantly altered the total mix of information made available in making a decision; and

- If a GAAP disclosure is not made because management concluded the information is not material, the omission should not be considered an accounting error.

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

No developments have occurred since January 2015.

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

The Board met to discuss implications of modifying or re-ordering the process for determining reportable segment, including moving the quantitative thresholds earlier in the process. Discussions also considered potential changes to the quantitative thresholds. These discussions were to provide guidance for preparer outreach and no decisions were made by the FASB.

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.

Status:

- Exposure draft redeliberations.
- Exposure draft *Changes to disclosure requirements for inventory* was issued on January 10, 2017.

This Q's developments

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

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.

Defined benefit plan disclosures

ASC Topic 715: *Compensation – retirement benefits*

Objective:

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

Status:

- Final standard update is being drafted.
- Exposure draft *Changes to disclosure requirements for defined benefit plans* was issued in January 2016.

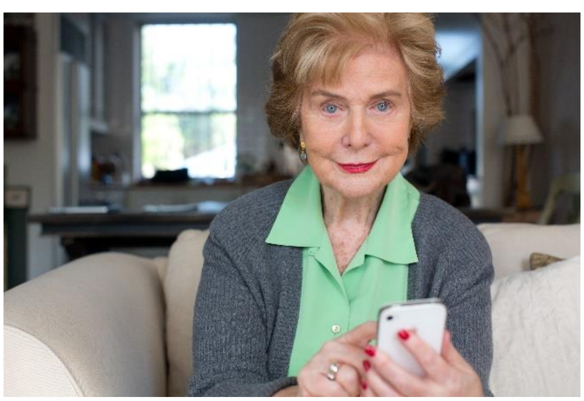
This Q's developments

The FASB completed its redeliberations and the staff is preparing a final ASU for vote and publication.

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 for public business entities for years ending after December 15, 2020 and other entities for years ending after December 15, 2021. Earlier adoption will be permitted.

The FASB is proposing to add new requirements and delete certain existing requirements as outlined in the following table.



The disclosure changes will be applied on a retrospective basis, except for the quantitative disclosures about assets measured at net asset value.

Disclosures added
Weighted average interest crediting rate for cash balance plans.
The reasons for significant gains and losses affecting benefit obligations and plan assets, in narrative form.

Disclosures removed
Disclosure of one-percentage-point increase or decrease in assumed health care costs trend rates.
The amount and timing of plan assets expected to be returned to the entity.
Information related to the June 2001 *Japan Welfare Insurance Law*.
Amount of future annual benefits and annuity contracts placed with related parties.
Significant transactions between the employer or related parties and the plan.
The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year.
Private companies only: Reconciliation of the opening balances to closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy.

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.

Status:

- Exposure draft redeliberations.
- Exposure draft *Disclosure framework – Changes to the disclosure requirements for income taxes* was issued in July 2016.

This Q's developments

There were 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 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 disclosures
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.

Fair value measurement disclosures

ASC Topic 820: *Fair value measurement*

Objective:

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

Status:

- Final standard being drafted.
- Exposure draft *Disclosure framework – Changes to the disclosure requirements for fair value measurement* was issued in December 2015.

This Q's developments

During Q1 2018, the FASB completed its redeliberations of the exposure draft and a final standard is being prepared for a vote by the Board.

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 is proposing to add new requirements, delete certain existing requirements and modify some other current requirements as follows:

Disclosures added

Public business entities only: Changes in unrealized gains and losses for the period included in other comprehensive income and earnings, or changes in net assets for recurring Level 3 fair value measurements.

Public business entities only: The range and weighted average used to develop any significant unobservable inputs that are based on historical data.

Disclosures removed

Non-public business entities only: The change in unrealized gains and losses for the period included in earnings or change in net assets related to recurring Level 3 fair value measurements held at the end of the reporting period.

The valuation policies and procedures for Level 3 fair value measurements.

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.

Disclosures modified

Non-public business entities only: Reconciliation of opening to closing balances of Level 3 fair value measurements changed to disclosure of transfers into and out of Level 3 and purchase of Level 3 assets.

For investments in certain entities that calculate net asset value, disclosures of the estimated timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse required only if this information has been communicated to the reporting entity.

Public business entities only: Quantitative information about significant unobservable inputs used in fair value measurements should include both the range of unobservable inputs used and the weighted average of the unobservable inputs used.

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.

Status:

- Exposure draft redeliberations.
- Exposure draft *Disclosures by business entities about government assistance* was issued on November 12, 2015.

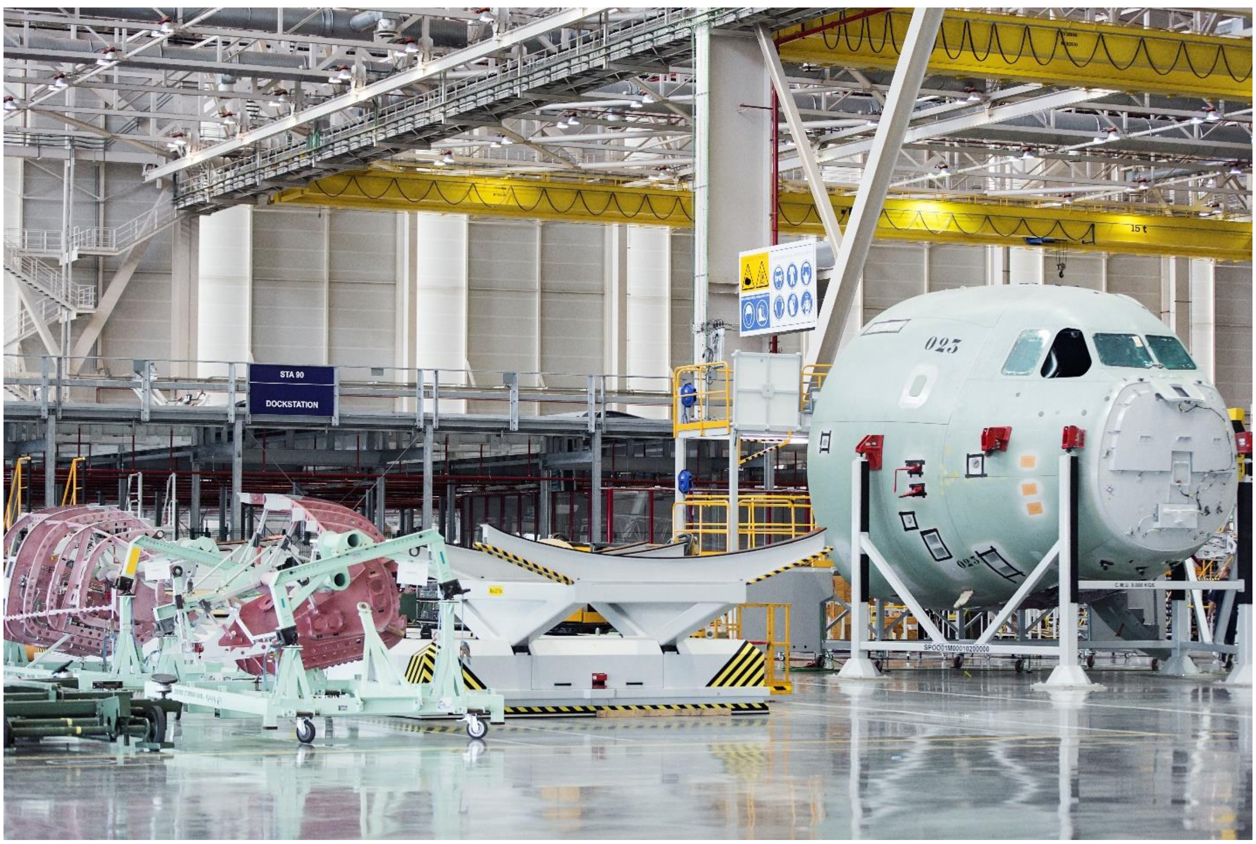
This Q's developments

This project was discussed during the most recent quarter, but no decisions were made by the FASB.

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 did not have any discussions on this project during the first quarter of 2018.

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 winter of 2018.

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.

Status:

- Exposure draft redeliberations.
- Exposure draft *Concepts Statement No. 8: Conceptual Framework for Financial Reporting – Chapter 7: Presentation* was issued in August 2016 (File Reference #2016-300).

This Q's developments

There were no discussions on this topic during Q1, 2018.

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.

Disclosure framework— Board's decision process

Objective:

- Improve the effectiveness of disclosures in notes to financial statements by clearly communicating the information that is most important to users of each entity's financial statements.
- Aid the FASB in identifying disclosures to be considered when developing disclosure requirements for accounting standards and in evaluating existing requirements.

Status:

- Exposure draft redeliberations.
- Exposure draft *Chapter 8: Notes to financial statements* was issued in March 2014 (File Reference #2014-200).

This Q's developments

The FASB completed its redeliberations of the exposure draft and decided to make amendments to FASB Concepts Statement No. 8: *Conceptual Framework for Financial Reporting*.

Key proposals

The proposals describe the primary purpose of notes to financial statements as a supplement or further explanation of information on the face of the financial statements. Notes should contain information about financial statement line items, the reporting entity, and past events and conditions and circumstances that have not met the criteria for recognition that can affect the entity's cash flows.

Generally information about uncertain future events that are not reflected in the financial statements will not be required. Future oriented information is acceptable for disclosure when it relates to estimates and assumptions used, but not when it is about the effect of specified future changes in existing conditions.

Similarly, information about matters not specific to the entity and that are common knowledge or readily and cost effectively available from other sources will not be required. Information about existing plans and strategies should be limited to those that affect recognition and measurement.

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*** – the following key topics are being considered:
  - whether certain customer related intangibles and all non-compete agreements should be subsumed into goodwill;
  - whether goodwill impairment should be tested upon a triggering event;
  - what level goodwill impairment testing should be completed – reporting unit level or entity level; and
  - whether goodwill should be amortized.
- ***Income taxes – backwards tracing*** – consider 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*** – improve the standard by considering the objectives of inventory costing, the costing methods, the impairment models, and gaps in the guidance.
- ***Simplifications for income taxes*** – eliminate unnecessary complexities in the existing standard.
- ***Targeted improvements to the statement of cash flows*** – reduce the existing diversity in how cash flows are presented in the statement.
- ***Disclosure reviews*** of information required for intangibles, share-based payment and foreign currency.

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.

Revenue from contracts with customers

Effective[1] 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***
- **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***

1. *Countdown from March 31, 2018 to the effective date for public companies with December 31 year-ends.*

Transition Resource Group

The FASB has formed a Transition Resource Group for Revenue Recognition (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 to discuss any items since November 2016. There are no further expected meetings of this TRG.

FASB educational resources

The FASB has provided certain educational resources on the revenue recognition standard beyond the ASUs and their *FASB in Focus* publication. Webcasts and podcasts have been provided for the following:

- Software/SaaS (Webcast – June 2017);
- Airlines (Podcast – October 2017);
- Health Care Services (Podcast – October 2017);
- Aerospace and Defense (Webcast – November 2017); and
- Software (Podcast – November 2017).

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

These resources are available through the FASB website at www.fasb.org.

AICPA implementation guidance

The AICPA has established a section on Revenue Recognition within its Financial Reporting Center (see www.aicpa.org).

The section 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 was last updated on January 19, 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.

Sixteen industries have considered the accounting implications of the new revenue standard. Each industry chapter in the Guide will cover the application of the five-step model for revenue recognition, the revenue streams for the industry, and specific topics for each industry.

The publication is available through the AICPA (www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/RevenueRecognition).

Exposure drafts for issues for inclusion in revenue guide

The AICPA has issued for exposure several industry issues that are expected to be included in the Revenue Guide. The outstanding exposure drafts cover the following issues listed by industry:

- Aerospace and defense
  - Accounting for performance obligations under non-US government contracts over time rather and at a point in time.
- Brokers and dealers
  - Effect of new standard on selling and distribution fees for funds.
  - Accounting for soft dollar revenue.
- Engineering and construction
  - Accounting for contract costs, including pre-contract costs and costs that qualify for capitalization.
  - Disclosures.
- Gaming
  - Accounting and presentation for pari-mutuel racetrack wagers received from gaming customers and various fees directly or indirectly received.
- Health care
  - Assessing performance obligations under life care resident agreements by retirement communities and estimating of the transaction price.
  - Contract costs for acquiring and fulfilling contracts.
  - Identification of promised goods and services in a contract with a patient and determination of which represent separate performance obligations.
  - Discussion of the interplay between health care organizations and healthcare providers that receive fee for service payments from the Centers for Medicare and Medicaid Services.

- Insurance
    - Accounting for third party extended service warranty contracts.
- Power and utilities
    - Accounting for contract modifications for blend-and-extend modifications and partial terminations.
    - Assessment of multiple elements and the appropriate timing of revenue recognition for electricity and capacity sales.
    - Timing of revenue recognition from sales of self-generated renewable energy credits.
- Software
    - Considerations to determine whether a customer's right to acquire additional users or copies of a delivered software product constitute an option to acquire additional software rights or variable consideration related to software rights already purchased.
- Telecommunications
    - Considerations for determining the contract duration of month-to-month service contracts when customers also purchase equipment under an equipment instalment plan.
    - Considerations when evaluating the impact of present enforceable rights and obligations on the contract terms.
- Time share
    - Accounting for costs incurred to obtain a contract with a customer, costs incurred in fulfilling the contracts, and amortization of costs that are capitalized.
    - Assessment of the satisfaction of the performance obligation of transferring goods and services to the customer.

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).

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
Revenue recognition "next stage" implementation insights (February 2018)	Lessons learned and suggestions from a panel of preparers and 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 and 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
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

Title	Description	Format
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

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
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

Industry	Publication date	Webcast date
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[1] in 9 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***

1. *Countdown from March 31, 2018 to the effective date for public companies with December 31 year-ends.*

Transition Resource Group

The FASB did not establish a Transition Resource Group for leases because the Board believes that the concepts in the new standard are similar to those in the current standard.

FASB implementation developments

The FASB is addressing some issues that have been raised as companies begin the implementation of the new leases standard.

Land easements

The FASB has issued an ASU to deals with the cost and complexity of dealing with land easements. See the article *Land easements under transition* in the section *Accounting standards updates*.

Exposure drafts on other issues

Other matters being addressed include:

- A simplified transition approach (in addition to the existing approach) permitting retrospective application without restatement of prior periods; and
- A practical expedient allowing lessors to continue to classify existing leases at transition as under prior GAAP.
- Narrow scope improvements to:
  - Correct cross references to other standards and clarify certain language.
  - Remove inconsistencies in terminology or language.
  - Clarify that the rate implicit in the lease cannot be less than zero.

More information about these developments can be found under the section *FASB projects in progress* in this edition of *US GAAP Today*.

FASB 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).

These resources are available through the FASB website at www.fasb.org.

AICPA implementation guidance

The AICPA has established a section on Accounting for Leases within its Financial Reporting Center (see www.aicpa.org).

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 Plan 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 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 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).

Mark your calendar

Lessons learned for the way forward.

90-minute webcast to hear about lessons learned and suggestions for the way forward in implementing the new leases standard from two finance executives:

- **Katie Lindsey**, Senior Manager of Accounting Policy and Procedure, Bridgestone Americas; and
- **Tracy Krause**, Vice President – Accounting & External Reporting, Verizon.

PwC panellists will also share their insights.

Date: Wednesday, April 4, 2018
Time: 1:00pm to 2:30pm (ET)

Register for this webcast by following the link @ https://www.pwc.com/us/en/cfodirect/multimedia/webcasts/leasing-implementation-bridgestone-verizon.html.

Available resources

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

PwC general resources

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
CFOdirect podcast series: Leasing – recent proposals, impairment and subleases (Episode 33 – February 2018)	Covers the new FASB proposals related to transaction 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
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

Title	*Description*	*Format*
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

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	
Entertainment & media	September 2016	
Higher education	January 2017	
Industrial products	September 2017	
Insurance	August 2016	

Industry	Publication date	Webcast date
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[1] in 9 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

Transition Resource Group

The FASB did not establish a Transition Resource Group for hedge accounting because the changes made are considered to be targeted improvements to the existing standard.

FASB implementation developments

The FASB staff has been handling technical enquiries on the changes to the hedging standard. Two issues were brought to the Board's attention during the first quarter of 2018:

- Prepayable financial instruments – the ASU made several changes which eased the hedging requirements for these instruments. Questions have been received on the scope of the prepayable financial instruments. The FASB accepted the staff's conclusions that prepayable instruments include:
    - Instruments that are currently exercisable and prepayable at any time;
    - Instruments with certain contingent prepayment features based on the passage of time, the occurrence of a specified event other than the passage of time, and the movement in a specified interest rate;
    - Instruments with conversion features; and
    - Instruments for which the contractual maturity can be accelerated due to a credit event would not meet the definition.

  The FASB is considering whether this should be included in a codification improvement.
- Net investment hedges under the spot method – questions have been received about the use of cross-currency interest swaps to hedge a net investment. The staff concluded that the entire "clean" fair value of the swap could be deferred in the currency translation adjustment account. The excluded components of the cross-currency interest swap should be amortized such that at the end of the hedging relationship only amounts of the swap related to spot changes on the notional amount remain in the currency translation adjustment. The FASB agreed with this conclusion.

Tabular disclosure requirements for basis adjustments in fair value were clarified. Only the basis adjustments that do not affect future cash flows need to be included in the disclosure. For available for sale securities, the carrying value disclosure in the table should be the amortized cost basis, not the fair value.

FASB educational resources

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

The FASB has issued the following videos on hedging:

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

These resources are available through the FASB website at www.fasb.org.

PwC resources to help you

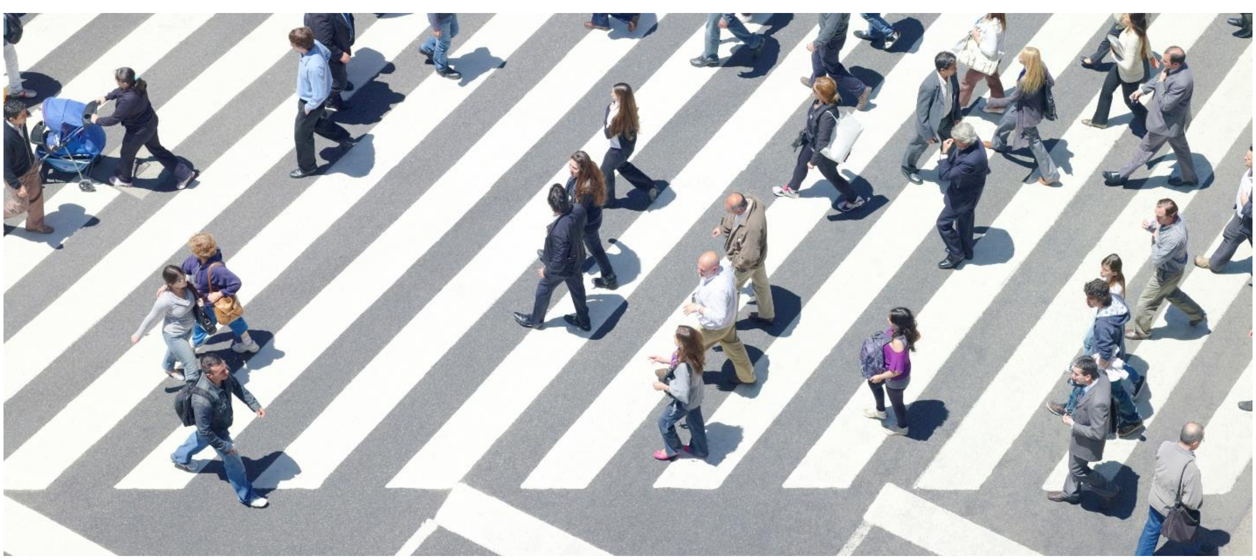
PwC has prepared several resources to assist you with your implementation of the new revenue standard. These resources include printed publications and webcasts.

For current insights into the US GAAP hedging accounting standard, you can visit the PwC webpage for leases (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 heading 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 highlight internal control considerations.
(PDF – October 2017)



Credit losses

Effective[1] in
1 year + 9 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

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 to discuss any items since June 2017.

FASB 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.

AICPA implementation guidance

The AICPA has established a section on Accounting for Credit Losses within its Financial Reporting Center (see www.aicpa.org).

The section provides information on the new credit losses standard, including issues identified by the AICAP 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.

The Experts Panel for Depository and Lending Institutions has identified 22 issues related to the Current Expected Credit Loss model. As of March 31, 2018, none of these issues have been addressed.

The AICPA has prepared a PowerPoint presentation on the CECL model as introduction to the standard for Bank CEOs and their Board. Also available from the AICPA website are presentations on CECL model made at the AICPA National Credit Union Conference and the AICPA National Depository Institutions Conference.

The AICPA also provides access to 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 revenue 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.

- ***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 2916)

- ***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)

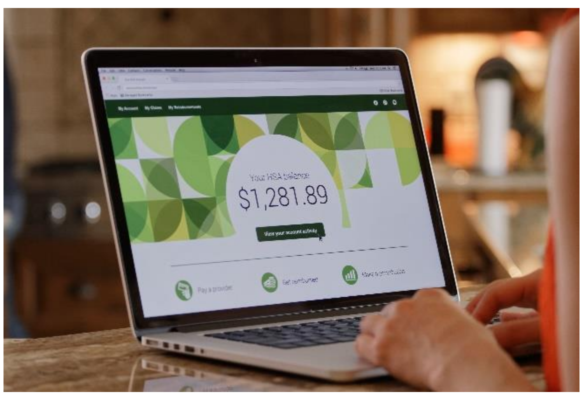
News on SEC developments

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.

Getting serious about cybersecurity disclosures for investors

The SEC issued a statement from the SEC Chair and interpretative guidance in February 2018 to assist public companies in preparing their disclosures about cybersecurity risks and incidents. The guidance, based on existing reporting requirements, addresses the importance of cybersecurity policies and procedures.

In the statement from the SEC Chair, Jay Clayton stated, “cybersecurity is critical to the operations of companies and our markets” and requested public companies to stay focused on these issues and take required action to inform investors about material cybersecurity risks and incidents on a timely basis.



The interpretative release (1) stresses the importance of establishing and maintaining comprehensive policies and procedures related to cybersecurity risks and incidents; and (2) reminds companies and their insiders about insider trading and use of selective disclosures when cybersecurity risks or incidents occur.

Companies are encouraged to adopt comprehensive policies and procedures for cybersecurity and assess the company’s compliance regularly; including their disclosure controls to ensure there is timely reporting of risks and incidents. The controls and procedures should enable companies to identify the risks and incidents, assess and analyze their impact, evaluate their significance, involve the appropriate personnel with expertise in the area, and make timely disclosures as appropriate.

In assessing the materiality of disclosures about cybersecurity risks and incidents, the SEC indicates that importance of the compromised information and its impact on company operations, considering the range, nature, extent and potential magnitude of the harm such incidents could cause. Harm may result to the company’s reputation, financial performance, customer and vendor relationships, or consequences of litigation or regulatory actions. The SEC does not expect detailed disclosures of a company’s security plan and understand that information about incidents may evolve. The information is expected to be tailored to each company’s particular risks and incidents and companies are discouraged from making generic cybersecurity related disclosures.

SEC disclosure requirements for annual reports on Form 10-K or 20-F require companies to disclose risk factors. In evaluating disclosure of cybersecurity risks, companies should considered the severity and frequency of past cybersecurity incidents, the probability and magnitude of potential incidents, the adequacy of the company’s preventative actions, company specific risks that may heighten cybersecurity risks, costs of maintaining cybersecurity protections, potential of reputational harm, and other consequence of a cybersecurity breach.

MD&A disclosures may be required considering the cost of ongoing cybersecurity efforts and the costs and consequences of cybersecurity incidents. The description of a business may warrant disclosure about cybersecurity matters if cybersecurity incidents or risks materially affect a company's products, services, relationships, or competitive conditions. Any material legal proceedings from a cybersecurity incident would require disclosure in the annual report. Disclosures about a board's oversight of risk management may also need to consider cybersecurity when such risks are material.

Further information on the SEC guidance can be found in SEC Release Nos. 33-10459 and 34-82746: *Commission statement and guidance on public company cybersecurity disclosures.*

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.

AICPA roadmap on non-GAAP measures

The AICPA issued a publication for audit committees in March 2018 to provide a set of considerations for audit committees on non-GAAP measures presented by companies. The publication: ***Non-GAAP measures: A roadmap for audit committees*** was released with a companion video featuring interviews with audit committee chairs on their experiences in overseeing non-GAAP measures.

The objective of the publication is to support audit committees in carrying out their oversight of non-GAAP measures and achieve more transparency, consistency, and understanding of non-GAAP measures.

In addition to presenting the current environment surrounding the preparation, presentation and oversight of non-GAAP measures, the AICPA has provided audit committees with guidance on assessing non-GAAP measures including:

- Topics of discussion between management and the audit committee on the non-GAAP measures to be presented;
- Understanding the auditor's role regarding non-GAAP measures; and
- Best practices that can be applied to support the presentation of non-GAAP measures.

Copies of the publication can be obtained from the Center for Audit Quality of the American Institute of Certified Public Accountants.

Improper foreign audits result in fines and loss of profits

In March 2018, the SEC charged the foreign affiliates of the principal auditors of two SEC registrants with improperly relying on the work of two foreign component auditors that were not registered with the PCAOB. The foreign component auditors had audited the majority of the assets and revenues of the publicly traded companies. The SEC claims that the principal auditors had failed to consider the registration status of the firms that did the majority of the audit work.

The SEC found that (1) the foreign component auditors had violated the Sarbanes-Oxley Act because they were not registered with the PCAOB; and (2) the principal auditors had engaged in improper professional conduct, violated the auditing requirements of Regulation S-X, and caused their audit clients to violate their reporting requirements.

Without admitting or denying the charges, the principal auditors agreed to pay significant fines and the secondary auditors agreed to disgorge the profits from their audits as well as interest.

The key message of this SEC action it that it is important that all auditors substantially involved in the audit of a SEC registrant be properly registered with the PCAOB to allow the PCAOB to exercise its oversight responsibilities.

Our US GAAP reporting team

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.

National

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