



US GAAP Today

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

Winter 2019

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

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Forward

PwC's **US GAAP Today** provides updates and insights on financial and corporate reporting for Canadian companies using US GAAP as their accounting framework. Each quarter, we publish views on, analysis of, and news about relevant financial accounting, internal control for financial reporting, corporate reporting, and auditing developments that have occurred during the most recently completed calendar quarter.

US GAAP Today provides guidance primarily by summarizing, interpreting, and supplementing the discussion papers and proposals; exposure drafts; final standards, rules and regulations; reports; and summaries of meetings and conferences of the following organizations and their respective committees:

- Financial Accounting Standards Board (FASB),
- Public Company Accounting Oversight Board (PCAOB),
- American Institute of Certified Public Accountants (AICPA),
- The Securities and Exchange Commission (SEC), and
- The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Consistency and comparability across companies is a continuing challenge in a principles based set of standards, rules, regulations and policies. We support consistent application through our work with companies, with the standard setters, with regulators, and with other stakeholders.

Financial and corporate reporting requires professional accountants and preparers to make judgments when applying the standards, rules and regulations. Sound judgment derives from experience. We share our practical knowledge with those charged with preparing, auditing, enforcing, and perhaps most importantly using the corporate reporting published by companies.

PwC guides

PwC also publishes a series of Guides to help our professionals, clients, and others to understand US GAAP accounting for various types of transactions and events. The Guides listed in the table below were updated during the most recently completed quarter.

PwC Guide	Date updated
Bankruptcies and liquidations	October 2018
Financial statement presentation	October 2018
Financing transactions	December 2018
Leases	December 2018
Loans and investments	October 2018
Property, plant, equipment and other assets	September 2018
Reinsurance – short duration contracts	September 2018
Revenue from contracts with customers	September 2018
Stock-based compensation	November 2018
Utilities and power companies	December 2018

These Guides are available (1) through **Inform** if you are a subscriber; (2) in EBook format for downloading to your iPad by using this **CFodirect** link <http://www.pwc.com/us/en/cfodirect/publications/accounting-guides.html>; or (3) in printed format by contacting your local PwC representative.



Collaboration and transparency in financial reporting

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The annual AICPA Conference on *Current SEC and PCAOB Developments* was held in early December 2018. The theme of the conference focused on collaboration and transparency, emphasizing that all participants in the financial reporting supply chain need to work together to provide investors with transparent and decision-useful information. This is especially important in today's dynamic financial reporting environment. These comments were echoed by the SEC Chair Jay Clayton, SEC Chief Accountant Wes Bricker, other SEC Staff members, and participants from the PCAOB, FASB, IASB, AICPA, and the preparer and auditor communities.

In this edition of **US GAAP Today**, we cover the highlights of the Conference that Canadian SEC registrants should consider, including issues focusing on US GAAP, internal control over financing reporting, SEC reporting and PCAOB auditing guidance.

Audit committee effectiveness

One of the key links in the financial reporting supply chain is the independent audit committee. Speeches given at the Conference by the SEC Staff and other participants highlighted certain roles of audit committees in overseeing the financial reporting process. While some Canadian SEC registrants may prepare their proxy circulars using guidance issued by the CSA, the comments on audit committee effectiveness provide beneficial insights into maintaining an effective audit committee.

The SEC Chief Accountant stated that audit committees should have a balanced agenda toward understanding the accounting, internal controls, and reporting requirements. Some key points raised at the Conference were:

- Audit committees should understand management's approach to designing and maintaining effective internal controls, especially given changes in technology, accounting and reporting requirements.

- Audit committees should understand (a) management's implementation plans for new accounting standards, including controls and procedures to achieve high quality implementation and ongoing application; and (b) how the effects of new standards will be communicated to investors.
- There should be clear and candid discussions with the auditor to promote audit quality, including the evaluation of the auditor's performance, and understanding the audit firm's investment in quality control functions and technology safeguards.
- Audit committees should support the auditors when issues arise.
- Cybersecurity is a significant risk for some companies and the audit committees should understand how management oversees this risk within the company.

Risks

Speeches and panel discussions at the Conference spotlighted certain hot topics for consideration by management, audit committees and others. The hot topics warranting consideration are cybersecurity, Brexit, and the transition away from LIBOR.

Cybersecurity is a major issue

“... important that investors are sufficiently informed about the material cybersecurity risks and incidents affecting companies ...”

– Jay Clayton, Chair of SEC

The SEC Chair highlighted cybersecurity risks in his opening speech for the Conference and stressed that it is essential that companies move from a mindset that focuses on prevention of cyber breaches to a more forward-looking perspective that also considers how data can be protected. In October 2018, the SEC Staff released a report (see our article on *Cyber threats result in losses* under Section 5: *SEC developments*), which highlighted the need to be aware of cyber related threats, and consider these risks when designing and maintaining a system of internal accounting controls as required by federal securities laws.

Cyber risks, if material, should be disclosed in the applicable filings with the SEC. SEC Staff emphasized that these disclosures should be tailored to the issuer's facts and circumstances, and not be boilerplate and generic discussions. Other considerations for dealing with cyber incidents are:

- Disclosure controls and procedures should be designed to identify cyber incidents and escalate such breaches to the appropriate levels within the company, including the IT and financial reporting functions.
- Insider trading policies should take into account cyber risks and procedures when a significant cyber incident occurs.
- Disclosure of the role of board in cyber risk oversight are important for investors.

The SEC will be reviewing future disclosures about cyber risks and incidents. Issuers were encouraged to continually update these disclosures as cyber risks evolve. The SEC will also be following up on breaches reported in the media.

Brexit is a matter of increased focus

“... potential adverse effects of Brexit are not well understood and ... are underestimated”

– Jay Clayton, Chair of SEC

The SEC Chair shared his views on the potential impact of Brexit on the global economy, capital markets, and SEC registrants. Disclosures made by some registrants have been fairly detailed, while others simply state Brexit is a risk. Clayton stated that disclosures that are more robust are required about how management is dealing with Brexit and the effect it may have on its business and operations. The SEC Staff have been asked to focus on Brexit disclosures in future filings.

Companies should provide sufficient information about the potential implications of Brexit, including how the company is planning and preparing for the transition. The extent of disclosure should be based on materiality.

Companies will have to manage the transition away from LIBOR

Banks that currently report information used to set LIBOR are expected to stop doing so in 2021. This will eliminate LIBOR as a benchmark reference for short-term interest rates. This elimination of LIBOR as a benchmark interest rate may have a number of potential accounting consequences, including hedge accounting. Some issuers may face significant risks and uncertainties as they transition from LIBOR to a new benchmark interest rate. The SEC Staff expects to see disclosures about these risks and uncertainties in SEC filings, if material.

The SEC Staff identified two transition issues at the Conference for registrants to consider:

- Are LIBOR based interest payments in a cash flow hedged documentation probable of occurring? The SEC Staff did not object to a view that hedge documentation involving LIBOR based cash flows implicitly considers the rate that would replace



LIBOR and therefore allow an entity to continue to assert that the hedged item is probable of occurring.

- Will the expected transition away from LIBOR impact the assessment of hedge effectiveness of a cash flow hedge of LIBOR based variable rate debt and how? SEC Staff did not object to the view that the anticipated transition away from LIBOR in and of itself would not affect the effectiveness of the hedge.

Non-GAAP measures

The number one topic of SEC comment letters in 2018 was non-GAAP measures (NGMs). Both Clayton and Bricker acknowledged the role of NGMs in making investment decisions, but they also called attention to the importance of policies to support NGMs that are complete, accurate and consistent with the objective of communicating operating results through the eyes of management. Clayton emphasized that registrants should use the same diligence in preparing NGMs as they do in preparing financial statements. NGMs have been a focus of securities regulators around the globe, and the CSA has made proposals to tighten its rules on the disclosures about NGMs.

The SEC Staff focused attention on the need for controls designed to ensure consistency in NGMs and to prevent errors and manipulation. Policies to deal with errors, including how to correct and communicate them, are also important.

In comment letters, the SEC Staff will often raise questions about why and how management uses the NGMs reported in the evaluation of the business. SEC Staff believe these answers are relevant to investors to understand the measures that are important in running the business.

Reasons for any changes in measurement of NGMs are required to be disclosed. However, SEC Staff believe changes should not occur from period to period unless there is an underlying change in the business or in the way management is running the business.

The SEC has been focusing on individually tailored accounting principles used by companies to adjust GAAP measures by changing the accounting policy or method of recognition when presenting a NGM. This approach is different from the simply including or excluding a GAAP determined amount to arrive at a NGM. SEC Staff are objecting to NGMs that result from the application of individually tailored accounting principles and believe they can be misleading. The SEC Staff acknowledged that it may be challenging to identify individually tailored accounting principles and provided four questions for companies to

consider in deciding whether a NGM results from the application of an individually tailored accounting principle:

- Does the adjustment shift GAAP from an accrual basis of accounting to cash or modified cash basis (for example, using cash receipts or billings as a proxy for revenue for a subscription based business that recognizes revenue over time)?
- Does the adjustment add transactions that are also reportable in another company's financial statements (for example, making adjustments to gross up revenue as if an entity were a principal when it is the agent in the transactions; or adjustments to consolidate an equity accounted for investment)?
- Does the adjustment reflect part, but not all, of a transaction (for example, adjusting for the income tax effects for cash taxes paid, but not for temporary or permanent differences)?
- Does the adjustment render the measure inconsistent with the economics of the transaction or ignore certain terms of the agreement (for example, adjusting revenue for sale-type or financing leases as if they were operating leases)?

Effective ICFR

Internal control over financial reporting (ICFR) was a key topic at the Conference for both the SEC Staff and other panelists. Bricker noted that adequate ICFR is not just the first line of defense against preventing and detecting errors or fraud, they are good for business and can influence the cost of capital. He believes it is essential for audit committees, auditors and management to have appropriate discussions about ICFR in all areas.

Operating effectiveness of ICFR

SEC Staff noted that the assessment of ICFR was especially important this year as companies implement the new revenue accounting standard. Two broad concepts were laid out to assist in the upfront planning of the evaluation of operating effectiveness.

- *Is the control operating as designed?* Issuers were encouraged to consider a number of factors, including (a) how the control operates; (b) the consistency of application of the control over a period; and (c) the competency and authority of personnel operating the control.
- *Are the nature, timing, and extent of the assessment procedures linked to the assessed risk of control failure and risk of material misstatement?* Management should consider the sufficiency of their assessment procedures.



Some considerations set out by the SEC Staff covered (a) the use of sample sizes consistent with the number of instances in which the control operated; (b) the quality and extent of evidence needed based on the level of risk; (c) consideration of whether the control is automated or manual; and (d) the extent of evaluation procedures applied to the completeness and accuracy of information relied on by a control.

Assessing significant deficiencies

While the SEC Staff has seen improvement in the assessment of whether significant deficiencies are material weaknesses, the Staff has noted, “There are still some bad habits yet to be fully shaken off.” The SEC Staff discussed a number of observations directed at making improvements to the assessment of the severity of control deficiencies. Some of the observations expressed at the Conference are noted below.

- The evaluation of the severity of the control deficiency should be not limited to actual misstatement, when, depending on the cause of the control deficiency, it is reasonably possible other financial areas may be affected.
- It is important to define the control deficiency, considering all areas of financial statements that might be affected. A clear definition is necessary to evaluate the severity of the control deficiency, to develop an effective remediation strategy, and make the required disclosures.
- An honest analysis of the severity of the control deficiency should be conducted, considering the magnitude of a reasonably possible misstatement because of the control deficiency.

- Compensating controls may reduce the severity of an identified control deficiency by limiting the extent of a reasonably possible misstatement; however, those compensating controls need to operate to prevent or detect a possible material misstatement and be designed to achieve the same objective as the control identified to be deficient.

The SEC encourages a more holistic and effective evaluation of the severity of deficiencies, as opposed to some of the more narrow evaluations they have observed. Management should evaluate the level of detail and assurance needed to support its conclusions by considering what a “prudent official” would do in conducting their own affairs.

Disclosure of material weaknesses

Meaningful disclosures of material weaknesses is important to provide investors with enough information to understand the cause of the weaknesses and assess the potential impacts on the issuer’s financial reporting. While the SEC Staff have noted improvements in disclosures of material weaknesses, these disclosures could be more informative for investors.

The SEC Staff suggested management consider whether the disclosures (a) allow investors to understand what went wrong in the control that resulted in the material weakness; (b) clearly explain the impact of the material weakness on the financial statements (is the weakness pervasive or isolated to specific accounts or disclosures); and (c) provide sufficient details to understand management’s plans to remediate the material weakness. These three suggestions are a starting point for management, the audit committee, and the auditor to consider whether the disclosures provide the most meaningful and useful information for investors.

Implementation of new GAAP standards

Companies are implementing some significant new accounting standards starting this year. The Conference participants discussed the application and implementation issues for these new standards. The SEC Chief Accountant reiterated the importance of collaboration in the implementation of new accounting standards by stating, “Quality in financial reporting starts at the front of the process, management’s accounting.”

The SEC Staff confirmed that it would continue to accept reasonable judgments in the application of new standards. However, issuers and auditors were reminded that well-reasoned judgment requires consideration of all the facts, the accounting alternatives, and a rigorous analysis of the facts to faithfully apply the new standards to a company’s facts and circumstances.

The SEC Staff also commented on the disclosures required by Staff Accounting Bulletin 74 in advance of the adoption of new accounting standards. They highlighted their expectation that the disclosures of the impact the new standards may have is generally expected to be more robust in this last period prior to adoption. The SEC Staff, also emphasized the importance of focusing on the implications on internal control over financial reporting when a new accounting standard is adopted, including the impact on the Risk Assessment component of COSO.

Revenue

Most public companies adopted the new revenue standard at the beginning of 2018. SEC Staff commented that they are generally happy with issuer’s implementation efforts for the revenue standard. They have noted that the application of reasonable judgments could result in diversity in application; however, the SEC Staff is not aware of any issues that require amendments to the standard. A preparer panel also highlighted the importance of well-documented judgments in the selection of accounting policies.

The SEC Staff commented that filing reviews have focused on significant judgments when the nature, amount, or timing of revenue or cash flows were unclear or the application of the standard appeared to conflict with applicable guidance. Frequent areas of comment included the identification of performance obligations, principal versus agent assessments, and disaggregated revenue disclosures.

The SEC outlined certain observations from consultations about areas that require significant and challenging judgments:

- The principal versus agent guidance, particularly when the company never obtains physical possession of the goods – The SEC Staff have indicated that companies should consider the definition of control, of which inventory risk is only one indicator. However, the SEC Staff cautioned issuers that significant judgment does not mean optionality.
- Identifying performance obligations when a transaction includes multiple items – Judgment is required to determine whether the transaction involves the transfer to a customer of a combined item or multiple items individually. The SEC Staff pointed out that this evaluation should consider whether the items significantly affect each other.
- Timing of revenue recognition – Both the point in time when control is transferred and the measure of progress for performance obligations satisfied over time require appropriate judgments.
- Financing component – All factors that contribute to the difference in the contract price and the cash-selling price should be considered in the analysis. In one specific consultation, there was an upfront payment, which was accepted as not having a financing component on the basis that (a) the upfront payment provided protection from the possibility that the customer could fail to satisfy its obligations under the contract; (b) the registrant could obtain financing at favorable rates in the market if needed; and (c) the parties did not consider structuring the arrangement without the upfront payment.
- Disclosures of significant judgments – Management should assess whether the disclosure is clear about the nature, amount, timing, or uncertainty of revenue being recognized; or whether there are conflicts with other publicly available information. In addition, determining the appropriate disaggregation of revenue for disclosures requires judgment.

Leases

The new leases standard under US GAAP will be effective for 2019. Many participants at the Conference noted that implementation of the new standard is requiring more time and is more costly than anticipated, particularly in accumulating the necessary information to record leases on the balance sheet. These concerns are compounded by the fact that software vendors are still refining their solutions and companies may require manual processes to implement the standard. The FASB and the SEC Staff have indicated there are no plans to defer the effective date of this US GAAP standard.

Bricker indicated that registrants should ensure they have sufficient time to identify arrangements that are leases including embedded leases and to collect information required for new disclosures. The SEC Staff also reminded issuers of the importance of the transitional disclosures required under SEC rules. Issuers were reminded that one size does not fit all and the information provided should help investors assess the impact the standard will have on the financial statements.

The SEC Staff has responded to consultations from SEC registrants and commented on the following matters of interest:

- On transition, the SEC will not object to lessees continuing to follow their current accounting policy of including executory costs in minimum rental payments. Lessees can also exclude executory costs from minimum rental payments on transition.
- On transition, lessees can also continue to use their current accounting policies for measuring minimum rental payments that are based on an index or rate. Such policies may be based on the index or rate at inception of the lease or at the reporting date. Changes to the policy could be made at the implementation date if the change is preferable.
- Costs incurred by a lessee to place a lease into use may be capitalized similar to costs for property, plant and equipment.
- Lessors may elect as an accounting policy to defer and amortize costs incurred to transport equipment to the lessee similar to contract costs under the new revenue standard.

Credit losses

Registrants are beginning to focus on the implementation of the new credit losses standard. The SEC Staff has been fielding questions on some implementation issues, of which three were mentioned at the Conference.

- The SEC Staff will not object to loan write-offs or charge-offs being made at the individual loan level, even though the allowance is made at the pool level.
- The SEC Staff will not object to registrants considering all relevant information, including individual loan attributes and historical loss experience for similar loans in determining when a loan is deemed uncollectible.
- The SEC discussed the evaluation of subsequent events in the new credit losses model. The SEC indicated that loan-specific information about factual conditions that existed at the balance sheet date should be considered in the evaluation.

Information related to forecasting assumptions used to establish expected credit losses would be permitted to be used. However, SEC Staff noted that if such information indicated a weakness or deficiency in the estimation process, the information would have to be taken into account. Information received after the estimation process is completed would not be recognized, unless the information indicates as weakness or deficiency in the estimation process.

Other accounting matters

The SEC Staff discussed the impact of the highly inflationary economy in Argentina on entities with material operations in Argentina. Disclosures in the MD&A, risk factors, and Other sections of SEC filings will need to be tailored to reflect the issuer's particular circumstances to highlight the impact of operating in Argentina.

Auditing

Audit regulations

One aspect contributing to high quality audits is the PCAOB inspection of auditors. Both the SEC Staff and the PCAOB Staff raised concerns over access to working papers of foreign auditors, in particular the audit working papers and practices of PCAOB-registered auditing firms in China and Hong Kong for US-listed companies with operations in China. The PCAOB publishes lists of companies where the PCAOB has been unable to conduct inspections, which currently shows 224 companies for which the auditor's working papers have not been made available to the PCAOB (213 companies with auditors based in China or Hong Kong and 11 companies with auditors based in Belgium).



Critical Audit Matters

Beginning in 2019, under PCAOB standards, auditors will be required to report critical audit matters (CAMs) in their auditors' reports for some public companies. The SEC Staff, PCAOB Staff, and other panelists discussed the implementation of the requirements to report CAMs.

Some of the expectations for the reporting of CAMs outlined at the Conference were as follows:

- Almost every audit should have at least one CAM to report. Auditors were advised not to approach the process expecting to identify no CAMs.
- CAMs should convey issuer-specific information in plain English and avoid boilerplate disclosures.
- CAMs are disclosures about the audit, and should not replicate or replace disclosures in the issuer's financial statements. While CAMs may overlap with disclosures about critical accounting estimates and areas of significant risk, it is unlikely there would be a CAM for every critical accounting estimate.

Some practical tips for implementing the new requirements given at the Conference were:

- Start the discussion about CAMs early and conduct "dry runs" this year to foster dialogue among the auditors, management, and the audit committee.
- Share implementation questions and observations with PCAOB and SEC early so appropriate guidance can be provided on a timely basis.
- Understand the similarity and differences in disclosure requirements and standards – Management must discuss critical accounting estimates and assumptions used in the financial statements, whereas CAMs focus on the audit of these estimates and assumptions.

In panel discussions, some observed that the requirements for reporting CAMs provides an opportunity for companies to take a fresh look at their disclosures.

SEC comment letters

A panel on SEC comment letters discussed the typical comment letter process and frequency of review. There has been a decrease in the volume of comments, driven by many factors including improved disclosures and more tailored and specific comments being issued by the SEC Staff. The SEC Staff view the comment letter process as a dialogue between a registrant and the Staff. If the registrant does not understand a comment, a clarification should be requested. In addition, if a comment relates to an immaterial transaction or disclosure, the SEC Staff should be advised early in the process to avoid spending significant resources on the question.

The panel also provided a list of the most frequent SEC Staff comment focused areas, which were generally consistent with the topics communicated last year. The topic receiving the highest volume of comments this year was non-GAAP measures. Other common topics receiving attention included MD&A, revenue recognition, and fair value measurements. The SEC Staff also focused on state sponsors of terrorism, intangible assets and goodwill, acquisitions and business combinations, income taxes, segment reporting, and contingencies.

Taking into consideration comments from the Conference

The Conference provided many insights for the various participants in the financial reporting supply chain. We encourage management and the audit committee to carefully consider these matters and discuss them with your auditors and advisors to facilitate the most appropriate communications with your investors.



Accounting standards updates

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At the end of the standard setting process, the FASB issues an Accounting Standards Update (Update or ASU) that replaces or amends an existing standard in the Accounting Standards Codification (ASC). Each ASU sets out the specific changes to the ASC, explains the nature of and reasons for the changes, the effective dates, and the transition method. This section summarizes the Updates finalized and issued during the most recently completed quarter. For specific details of the changes, you should consult the ASC or the ASU.

Reducing complexity for lessors

ASC Topic 842: Leases

ASU 2018-20: Lessor narrow-scope amendments

In December 2018, the FASB issued further amendments to the new leases standard to make lessors adoption of this standard easier. ASU 2018-20 provides:

- As an accounting policy election, a lessor may account for sales tax and other similar taxes collected from a lessee as lessee costs. If this policy were elected, a lessor would exclude these costs from contract consideration and variable consideration and present revenue net of these costs. Certain disclosures will be required. A lessor's gross receipt taxes are excluded from this policy election.
- A lessor should exclude from variable payments all lessor costs that are explicitly required to be paid directly by a lessee on behalf of the lessor to a third party. Examples include property taxes and insurance. This means that the lessor would report revenue net of these amounts.
- Costs that are not part of contract consideration that are paid by a lessor to a third party and reimbursed by the lessee are considered lessor costs and would be accounted for as variable payments by the lessor. The lessor would therefore report these amounts gross on the income statement.

These amendments will be applicable to all leases that exist as of the effective date and all new leases entered into on or after the effective date of the new leases standard.

The effective date for these amendments will be the same as the effective date for the new leases standard. Entities already applying the new standard may apply these amendments (1) as of the entity's original effective date of the new leases standard; (2) in the first reporting period ending after the issuance of the amendments; or (3) in the first reporting period following the issuance of the amendments. Either retrospective or prospective adoption is permitted for such entities.

These amendments are expected to save lessors time and cost and reduce complexity.

Minor improvements to credit losses standard

ASC Topic 326: Financial instruments – Credit losses

ASU 2018-19: Codification improvements

The FASB issued ASU 2018-19 which provides a narrow-scope improvement to deal with leasing receivables and extends the effective date for non-public business entities. These amendments are not expected to have a significant impact.

Credit losses on operating leases

The ASU clarifies that operating lease receivables recorded by lessors are explicitly excluded from the

scope of Topic 326. Credit losses for these receivables would be considered under the leasing guidance.

Effective date extended for non-public business entities

The ASU extends the effective date of the new credit losses standards for non-public business entities. The new standard will be effective for these entities fiscal years beginning after December 15, 2021, including interim periods within those years.

Simplifying consolidation rules for VIEs

ASC Topic 810: Consolidation

ASU 2018-17: Targeted improvements to related party guidance for variable interest entities

On October 31, the FASB updated the guidance for determining whether a decision-making fee is a variable interest and expanded the application of a specific private company accounting alternative related to VIEs. These changes are expected to reduce the cost and complexity of applying the VIE guidance.

Decision making fees

The amendments in the ASU provide that indirect interests held through related parties under common control will be considered on a proportional basis when determining whether fees paid to decision makers and service providers are variable interests. Such indirect interests were previously treated the same as direct interests. The consideration of indirect interests on a proportional basis is consistent with how indirect interests held through related parties under common control are treated when determining if a reporting entity within a related party group is the primary beneficiary of a VIE.

The ASU will likely result in more decision makers not consolidating VIEs.

Private company alternative

The ASU allows private companies to elect to not apply the VIE guidance to legal entities under common control, when certain criteria are met. This alternative expands the previous exception provided for common control leasing arrangements. The alternative, if elected, must be applied to all current and future legal entities under common control that meet the specified criteria.

The alternative can be applied only when (a) the reporting entity and the legal entity are under common control; (b) the reporting entity and the legal entity are not under common control of a public business entity; (c) the legal entity under common control is not a public business entity; and (d) the reporting entity does not directly or indirectly have a controlling financial interest in the legal entity.

Companies electing the alternative will have to provide disclosures about its involvement with and exposure to the legal entity under common control.

This guidance is expected to result in fewer consolidations of VIEs by private companies, yet provide useful information about their involvement with such entities.

Effective date

The new guidance is effective for entities that are not private entities for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. For private entities, the amendments are effective for fiscal years beginning after December 15, 2020 and interim periods in the following year.

Retrospective adoption is required. Early adoption is permitted, including adoption in an interim period.

Collaborations may result in revenue

ASC Topic 606: Revenue from contracts with customers

ASC Topic 808: Collaborative arrangements

ASU 2018-18: Clarifying the interaction between Topic 808 and Topic 606

Collaborative arrangements are contractual arrangements that involve a joint operating activity among two or more parties that actively participate in the activity and are exposed to the significant risks and rewards of the activity. These arrangements are often used to commercialize intellectual property such as a pharmaceutical product or a film. On November 5, 2018, the FASB completed its project to make targeted improvements to the accounting for collaborative arrangements by issuing ASU 2018-18.

Currently, Accounting Standards Codification (ASC) Topic 808: *Collaborative arrangements* provides guidance on accounting for collaborative arrangements; however, ASC Topic 808 does not include comprehensive recognition and measurement guidance for such arrangements. Instead, companies apply other accounting literature by analogy, or develop their own accounting policies. This approach has resulted in diversity in practice. With the introduction of ASC Topic 606: *Revenue from contracts with customers*, questions were raised as to how that guidance should be applied to collaborative arrangements.

The amendments clarify that:

- Certain transactions between participants in a collaborative arrangement should be accounted for as revenue under ASC Topic 606 when a participant is a customer.
- The unit of accounting for determining whether all or part of a collaborative arrangement is a revenue transaction is a distinct good or service (or combination of goods or services).

First, companies would identify a unit of account determining whether a good or service or a combination of goods or services in the arrangement is distinct. Then, companies would assess whether the unit of account is transferred to a customer. If the unit of account, in its entirety, is transferred to a customer, it would be accounted for as a revenue transaction.

- If all or a portion of the unit of account is not with a customer, the entire unit of account is not within the scope of ASC 606. The company would use judgment to determine the appropriate accounting for these units of account consistent with other transactions. The ASU precludes the amounts from these transactions being presented together with revenue from contracts with customers.

Transactions with collaborative partners in the scope of ASC Topic 606 are subject to all of the presentation and disclosure guidance in that standard.

For public business entities, the amended guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For other entities, the changes are effective for fiscal years beginning after December 15, 2020 and interim periods in the following year. Companies can early adopt the new guidance, but no earlier than their adoption of ASC 606.

The ASU is to be applied retrospectively as of the earliest period presented or the initial application of ASC Topic 606. Practical expedients have been included to assist in transition.

Monitoring inflation

US GAAP prescribes specific guidance for the translation of financial information when the functional currency of the operations are in a highly inflationary economy. There are specific guidelines for assessing whether an economy is highly inflationary.

The Center for Audit Quality (CAQ) International Practices Task Force of the AICPA has developed a framework for compiling inflation data to assist companies in determining the inflationary status of countries in which they have operations. Based on this framework the Task Force reported the inflation rate status for various countries as outlined in the table below.

Three-year cumulative inflation rates exceeding 100%

Angola	Sudan
Argentina	Suriname
South Sudan	Venezuela

Projected three-year cumulative inflation rates greater than 100% in current year

Democratic Republic of Congo	Libya
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Recent three-year cumulative inflation rates exceeding 100% after a spike in inflation in a discrete period

Ukraine

Projected three-year cumulative inflation rates greater between 70% and 100% in current year, or with a significant (25% or more) increase in inflation during the last calendar year, or a significant increase in projected inflation in the current year, or projected three-year cumulative inflation rates greater than 100% in the next year

Egypt	Liberia
Islamic Republic of Iran	Yemen

There were no countries with three-year cumulative inflation rates between 70% and 100% in last calendar year.

While the CAQ guidance is not authoritative, the information may be beneficial to management in applying US GAAP and assessing whether a country's economy is highly inflationary. Management should continue to consider the facts and circumstances of the operations in the foreign jurisdictions and apply appropriate judgment when using the data provided by the Task Force.

The full document is available from the CAQ website at www.thecaq.org under Resources / Publications / Discussion Document: Monitoring Inflation in Certain Countries, November 2018.



FASB projects in progress

3





FASB projects in progress provides information on projects within the FASB's and EITF's agendas, covering developments during the standard-setting process including pre-agenda research; 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 all projects that were in development at the end of the most recently completed quarter.

We have identified topics for which there were significant developments in the most recently completed quarter by shading the ASC Topic.

Recognition and measurement projects

Broad projects

Distinguishing liabilities from equity

ASC Topic 480: *Distinguishing liabilities from equity*

Objective:

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

Status:

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

This Q's developments

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

Identifiable intangible assets and subsequent accounting for goodwill

ASC Topic 350: *Intangibles – Goodwill and other*

Objective:

Revisit the subsequent accounting for goodwill and identifiable intangible assets for all entities.

Status:

Initial deliberations. Formal input being obtained from stakeholders on the subsequent accounting of goodwill, the accounting for certain intangible assets, and the scope of the project.

This Q's developments

The FASB decided to add the project to its agenda during this quarter.

Narrow-scope projects

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 developments during the most recently completed quarter.

Key proposals

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

Improvements to financial instruments

ASC Topic 320: Investments – Debt and equity securities

ASC Topic 321: Investments – Equity securities

ASC Topic 830: Foreign currency matters

Objective:

Clarify and improve guidance in recently issued ASU for financial instruments recognition and measurement.

Exposure draft:

Codification improvements – financial instruments issued November 19, 2018 with comments due December 19, 2018.

Status:

Initial deliberations completed. Proposed ASU issued and comments received for review.

This Q's developments

The proposed ASU was issued and comments were received.

Key proposals

Held-to-maturity debt securities fair value disclosures – Clarifies that these disclosures apply only to public business entities.

The measurement alternative for equity securities without a readily determinable fair value

- Clarifies that the measurement alternative is a nonrecurring fair value measurement based on observable price changes occurring in orderly transactions for identical or similar investments of the issuer or upon identification of impairment in the equity security.
- Fair value measurement disclosures are required for nonrecurring fair value measurements.

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

Improvements to credit losses

ASC Topic 326: Credit losses

Objective:

Clarify and improve guidance in recently issued ASUs for credit losses.

Exposure draft:

Codification improvements – financial instruments issued November 19, 2018 with comments due on December 19, 2018.

Status:

Initial deliberations completed. Staff is drafting a proposed ASU, which will incorporate these proposals and other proposals for codification improvements to the standards on the recognition and measurement of financial instruments and derivatives, and hedging.

This Q's developments

The FASB discussed feedback received from the TRG and proposed additional amendments to the standard.

Key proposals

Accrued interest receivable balances

- The allowance for credit losses on accrued receivable balances may be measured separately from other components of the amortized cost of

associated financial assets and net investment in leases.

- An accounting policy election is allowed to present accrued interest receivable balances and the related allowance for credit losses separately from the associated financial assets and net investments in leases. Additional disclosure may be required.
- A practical expedient simplifies disclosure requirements.
- An accounting policy election is allowed to write-off accrued interest amounts by either reversing interest income or adjusting the allowance for credit losses.
- An accounting policy election is allowed not to measure an allowance for credit losses on accrued interest receivable amounts if an entity writes off the uncollectible accrued interest receivable on a timely basis.

Transfers of loans and debt securities between categories

– An existing allowance for credit losses for loans and debt securities is to be reversed before the transfer between held-for-sale and held-for-investment or available-for-sale categories. After the transfer, an appropriate allowance for credit losses would be established, if applicable.

Recoveries

- Expected recoveries are to be considered when measuring the allowance for credit losses.
- Recoverable amounts included in the valuation allowance should not exceed the aggregate of amounts previously written off and expected to be written off.
- For collateral dependent financial assets, an allowance for credit losses that is added to the amortized cost basis of the financial assets should not exceed amounts previously written off.

Effective interest rate for variable loans – The effective interest rate and expected cash flows can be determined using the same projections or expectations of the future interest rate environments in estimating expected cash flows and determining the effective interest rate used to discount those expected cash flows.

Effective interest rate for prepayment expectations – The effective interest rates used to discount expected future cash flows for expected prepayments on financial assets and on available-for-sale debt securities may be adjusted to isolate credit risk when determining the allowance for credit losses. However, the rate should not be adjusted for subsequent changes in expected prepayments if the financial asset is restructured in a troubled debt restructuring.

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

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

Negative allowances – Are permitted so long as the negative allowance does not exceed the aggregate of previous or expected write-offs of the financial assets.

Vintage disclosures – For line-of-credit arrangements converted to term loans based on an additional credit decision, the amortized cost basis should be disclosed within each credit quality indicator in the origination year in which the most recent credit decision was made. If there is not an additional credit decision or there is a troubled debt restructuring, the term loans are to be presented in a separate column.

Contractual extensions – Extensions and renewal options that are included in the original or modified contract and are not unconditionally cancellable by the entity should be evaluated in determining the contractual term of a financial asset.

Targeted transition relief for credit losses

ASC Topic 326: *Credit losses*

Objective:

Provide transitional relief for use of the fair value options for financial assets.

Status:

Initial deliberations commenced and completed. Staff is drafting a proposed ASU.

This Q's developments

The FASB added the project to its agenda and reached tentative decisions for exposure.

Key proposals

The FASB decided, upon adoption of the new credit losses standard, entities might irrevocably elect the fair value option for financial assets that are eligible for the fair value option, on an instrument-by-instrument basis. However, entities will not be allowed to discontinue fair value measurement for financial assets currently measured at fair value.

Share-based consideration payable to customer

ASC Topic 718: *Compensation – Stock compensation*

Objective:

Provide guidance on the measurement of share-based payments to a customer.

Status:

Initial deliberations completed with proposed ASU being drafted.

This Q's developments

The issue was added to the agenda and tentative conclusions reached for exposure during the most recently completed quarter.

Key proposals

Share-based payments to customers should be measured and classified using the guidance in ASC Topic 718, which requires measurement at the grant date.

Improvements for measuring share-based payment for private companies

ASC Topic 718: *Compensation – Stock compensation*

Objective:

Develop a practical expedient for private companies for measuring equity-classified share-based payment awards.

Status:

Initial deliberations by Private Company Council.

This Q's developments

Initial concepts were discussed at a meeting of the Private Company Council with a plan to align the measurement for accounting with tax requirements.

Assumed liability in a revenue contract in a business combination

ASC Topic 805: *Business combinations*

Objective:

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

Status:

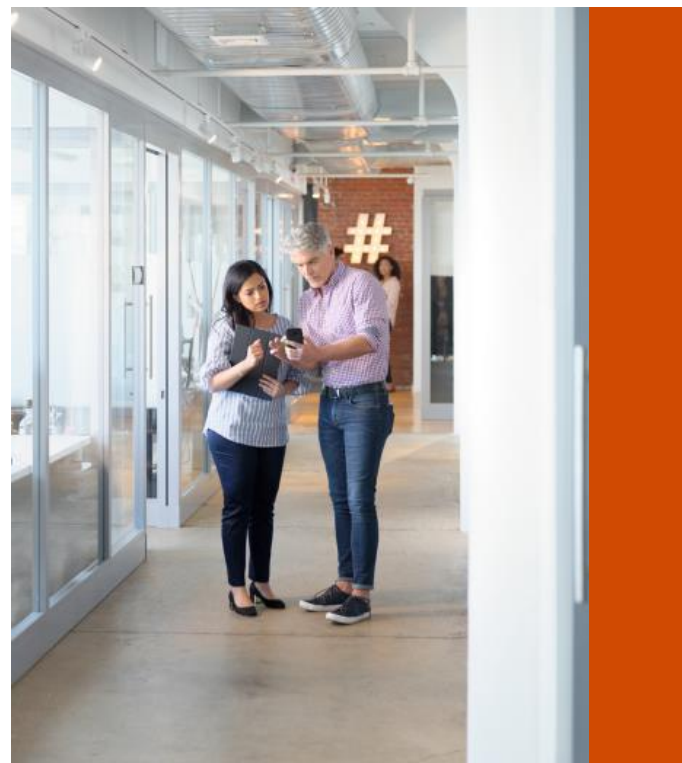
Initial deliberations completed with proposed ASU being drafted. In addition, FASB will request comments on the measurement of liabilities for assumed revenue contracts.

This Q's developments

The FASB ratified the EITF's consensus for exposure, along with the request for input about measurement and other topics related to the proposed consensus.

Key proposals

The EITF concluded that the performance obligation definition in the new revenue standard should be used to determine whether a liability is assumed by the acquirer in a business combination for a contract liability from a revenue contract with a customer.



Consolidation reorganization and targeted improvements

ASC Topic 810: Consolidation

Objective:

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

Exposure draft:

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

Status:

Exposure draft redeliberations.

This Q's developments

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

Key proposals

The Board has decided to:

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

Adding a benchmark interest rate for hedging

ASC Topic 815: Derivatives and hedging

Objective:

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

Exposure draft:

Inclusion of the Overnight Index Swap (OIS) Rate based on the Secured Overnight Financing Rate (SOFR) as a Benchmark Interest Rate for Hedge Accounting Purposes was issued on February 20, 2018 with comments due on March 30, 2018.

Status:

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

This Q's developments

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

Key proposals

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

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

Improvements to hedge accounting

ASC Topic 815: Derivatives and hedging

Objective:

Clarify and improve guidance in recently issued ASUs for derivatives and hedging.

Exposure draft

Codification Improvements – Financial Instruments was issued November 19, 2018 with comments due December 19, 2018.

Status:

Initial deliberations completed. Proposed ASU issued and comment letters submitted.

This Q's developments

The FASB did not have any further discussions on these improvements to hedge accounting. The tentative



conclusions previously reached were issued for comment during the quarter.

Key proposals

Partial term fair value hedges for both interest rate risk and foreign currency risk – would be allowed. In addition, one or more separately designated partial-term fair value hedging relationships of a single financial instrument can be outstanding at the same time.

Amortization of fair value hedge basis adjustments – is permitted, but not required, before the fair value hedging relationship is discontinued. Further, the amortization of the basis adjustment during an outstanding partial-term hedge must be completed on or before the hedged item's assumed maturity date.

Disclosure of fair value hedge basis adjustments – The amortized cost basis of a hedged available-for-sale debt security should be disclosed as the carrying amount and exclude the fair value basis adjustments related to foreign exchange risk.

Consideration of the hedged contractually specified interest rate under hypothetical derivative method – required.

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

Application of "first of" cash flow hedging technique to overall cash flows on a group of variable interest payments – permitted.

Transition

- The adjustments to amend measurement methodology of a hedged item in a fair value hedge of interest rate risk should be made on the date of initial application of the amendments to ASC 815.
- The rebalancing of a fair value hedge at transition may not add new hedged items or new hedging instruments to an existing hedging relationship.
- At transition, an entity may switch from assessing hedge effectiveness using a quantitative long-haul approach to using a qualitative critical-terms-match method as long as all requirements for applying the critical-terms-match method are met.

- Reclassification of debt securities from the held-to-maturity to the available-for-sale category does not (i) call into question the intent and ability to hold the debt securities to maturity; (ii) require designation of reclassified securities in a last-of-later hedging relationship; or (iii) restrict the sale of reclassified securities.

Clarifications about use of "prepayable" and cash flow hedges

ASC Topic 815: Derivatives and hedging

Objective:

Clarify (a) the use of the word "prepayable" under the shortcut method guidance; and (b) FASB's intent related to the change in hedged risk guidance for cash flow hedges.

Status:

Initial deliberations.

This Q's developments

There were no developments during the most recently completed quarter on this issue.

Hedging issues—Last-of-layer method

ASC Topic 815: Derivatives and hedging

Objective:

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

Status:

Initial deliberations.

This Q's developments

There were no further developments on this issue during the most recently completed quarter.

Improvements to lessor accounting

ASC Topic 842: Leases

Objective:

Address issues related to (a) the determination of the fair value of an underlying asset by lessors that are not manufacturers or dealers; and (b) the presentation on the statement of cash flows for sales-type and direct financing leases.

Exposure draft:

Codification Improvements for Lessors issued December 19, 2018 with comments due January 15, 2019.

Status:

Initial deliberations completed and proposed ASU issued.

This Q's developments

The Board added the issues to its agenda and reached tentative conclusions for exposure during the quarter.

Key proposals

Fair value of the underlying asset when the lessor is not a manufacturer or dealer – should be the cost, net of any volume or trade discounts, at lease commencement. If there is a lapse of time between the acquisition of the underlying asset and the lease commencement, the definition of fair value in the standard should be applied.

Presentation in statement of cash flows for sales-type and direct financing leases – Lessors within the scope of ASC Topic 942: *Financial services – Depository and lending* would present all principal payments received under leases within investing activities as opposed to operating activities.

These amendments would be effective for all entities for fiscal years beginning after December 15, 2019. Early application is permitted.

Cost capitalization for episodic television series

ASC Topic 926: Entertainment – Films

Objective:

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

Status:

Initial deliberations completed by EITF and draft proposed ASU being finalized.

This Q's developments

The FASB ratified the EITF's consensus for exposure.

Key proposals

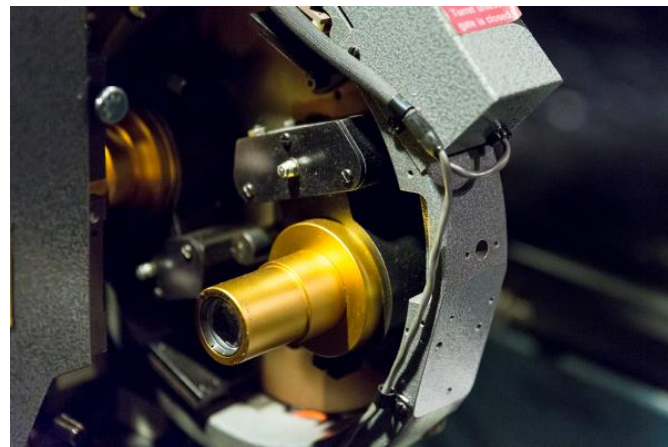
The capitalization guidance for episodic content would be aligned with the guidance for films.

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

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

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

These changes would be applied on a prospective basis.





Presentation and disclosure projects

Classification of debt

ASC Topic 210: *Balance sheet*

Objective:

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

Exposure draft

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

Status:

Final standard being drafted.

This Q's developments

The FASB completed its redeliberations and asked Staff to draft a final ASU. Staff are also conducting additional research to consider whether the contractual linkage between certain debt arrangements and unused long-term financial arrangements in place at the balance sheet should affect classification.

Key proposals

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

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

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

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

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

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

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

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

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

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

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

Financial performance reporting— Disaggregation of performance information

ASC Topic 225: *Income statement*

Objective:

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

Status:

- Initial deliberations.
-

This Q's developments

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

Key proposals

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

Interim reporting disclosures

ASC Topic 270: *Interim reporting*

Objective:

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

Status:

Initial deliberations.

This Q's developments

The FASB did not have any discussions on this project during the most recently completed quarter.

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

During the most recently completed quarter, the Board discussed aggregation criteria but did not make any decisions on changes. To date, the Board has not reached any tentative decisions on possible changes. Staff have been directed to focus on the financial disclosure about each reportable segment and consider how the guidance on the management approach can be improved.

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 and promote the use of discretion by the entity.

Exposure draft:

Changes to Disclosure Requirements for Inventory was issued on January 10, 2017 and comments were due March 13, 2017.

Status:

Exposure draft redeliberations.

This Q's developments

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

Key proposals

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

Tentative proposals for disclosures changes

Disclosures added:

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

Inventory disaggregated by measurement basis.

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

A qualitative description of costs capitalized into inventory.

The effect of LIFO liquidations on income.

The replacement cost of LIFO inventory.

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

Facts and circumstances leading to impairment losses.

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

Disclosures eliminated:

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

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

Income taxes disclosures

ASC Topic 740: *Income taxes*

Objective:

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

Exposure draft:

Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes was issued in July 2016 and comments were due September 30, 2016.

Status:

Exposure draft redeliberations.

This Q's developments

The FASB continued redeliberations, including consideration of disclosures changes required by the *Tax Cuts and Jobs Act*. The Board tentatively decided not to add new disclosures for the Act, but asked FASB Staff to research current practice. However, the FASB did make a number of changes to the proposals and will decide in a future meeting whether all of the tentative decisions made for the project or only the most recent changes should be exposed for comment.

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 set out in the table below.

Tentative proposals for disclosure changes

Disclosures added:

Balance sheet related disclosures

Public business entities only: Amount of deferred tax assets for federal, state, and foreign carryforwards (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: Valuation allowance associated with the tax-affected amounts of federal, state and foreign carryforwards.

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

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

Pre-tax income or loss from continuing operations before intracompany eliminations disaggregated between domestic and foreign.

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

Disclosures added (continued):

Cash flow related disclosures

Income taxes paid disaggregated by domestic and foreign.

Interim tax paid when interim financial statements are prepared.

Other disclosures

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

Disclosures modified:

Income statement related disclosures

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

Non-public business entities: Non-tax effected amounts of carryforwards should be separately disclosed for loss carryforwards and credit carryforwards.

Disclosures eliminated:

Balance sheet related disclosures

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

The cumulative amount of each type of temporary difference when a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes related to subsidiaries and corporate joint ventures.

Income statement related disclosures

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

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

Disclosures by business entities about government assistance

ASC Topic 832: Government assistance

Objective:

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

Exposure draft:

Disclosures by Business Entities about Government Assistance was issued on November 12, 2015 with comments due February 10, 2016.

Status:

Exposure draft redeliberations completed and final ASU being drafted.

This Q's developments

The FASB completed its redeliberations of the proposed ASU and asked FASB Staff to draft a final ASU and perform additional outreach for any sweep and other issues.

Key proposals

The disclosures would apply to grants of assets, tax assistance, low-interest-rate loans, loan guarantees, and forgiveness of liabilities.

The objectives of the disclosures 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 requirements are included to meet these objectives.

The disclosures would be effective for fiscal years ending after December 15, 2020 for public business entities and after December 15, 2021 for non-public business entities. Early adoption is permitted. The disclosures would be provided on a prospective basis for agreements existing at the effective date or entered into after the effective date.



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

There were no further discussions by the FASB on this project during the most recently completed quarter.

Key proposals

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

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

Measurement

Objective:

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

Status:

Initial deliberations.

This Q's developments

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

Key proposals

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

- There are three categories of initial measurement: (1) entry price; (2) exit price; and (3) estimated future cash flows.
- Exit price is appropriate as an initial carrying amount of an asset when the subsequent measurement of the asset will be at exit price. When the consideration for a transaction is other than cash, the exit price for the asset transferred may be used as the initial measure of an asset.
- Costs to be included in the initial carrying amount of an asset at entry price should capture the costs incurred to bring the asset to the condition necessary for it to be capable of operations. The types of costs that should be included are government-imposed charges, costs of services related to the acquisition of the asset and readying the asset for use, and costs to participate in the market for the asset. Gains and losses on cash flow hedges are neither part of the entry price of assets nor a cost to be included in the initial carrying amount of assets.

Presentation

Objective:

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

Exposure draft:

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

Status:

Exposure draft redeliberations.

This Q's developments

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

Key proposals

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

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

- The cause of, the activity associated with, and the frequency of the item to be recognized – A transaction, a change in circumstances or conditions, an accounting adjustment, or an accounting change;

- The time expected to pass before realization or settlement of an asset or liability;
- The expected form of realization or settlement of an asset, liability or equity instrument – cash, financial instruments or equity instruments;
- The response to changes in economic conditions and other factors affecting an existing asset or liability, or future revenues, expenses and gains or losses; and
- The measurement method used for the item.

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

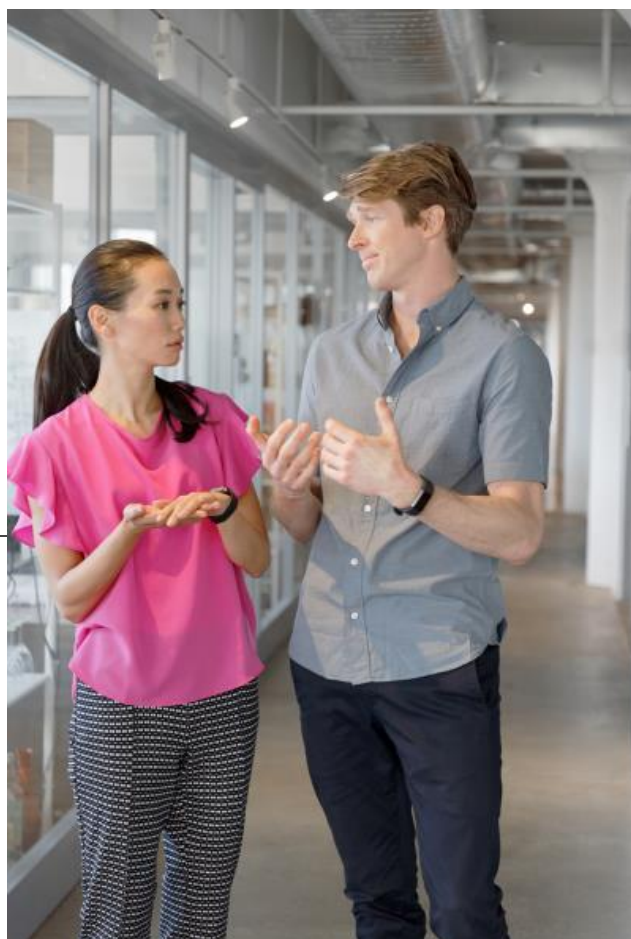
Research projects

Research projects consider current issues and provide the background to the FASB for a decision as to whether the project should be developed further as a standard

development project. The table below lists the research projects on the FASB research agenda.

ASC Topic	Project	Description
220	Financial performance reporting	Consider whether to require and how to define a measure of operations.
230	Targeted improvements to statement of cash flows	Reduce existing diversity in practice for presentation of cash receipt and cash payments in the statement of cash flows.
330	Inventory and cost of sales	Improve accounting for inventory and cost of sales including inventory-costing methods, impairment models and other areas need guidance.
350	Intangible assets’ disclosures	Review of current disclosure requirements to improve the financial information in notes to the financial statements.
718	Share-based payment’s disclosures	Review of current disclosure requirements to improve the financial information in notes to the financial statements.
740	Income taxes – Backwards tracing	Consider whether backwards tracing should be allowed or whether there are other alternatives to backwards tracing.

ASC Topic	Project	Description
740	Simplifications to accounting for income taxes	Make targeted improvements to the accounting for income taxes to reduce complexity.
805	Measurement of acquired revenue contracts in a business combination	Consider how to measure an assumed contract liability for a revenue contract with a customer acquired in a business combinations
810	Variable interest entity related party guidance	Determine frequency for which VIE related party guidance is applied to arrangements where related parties are under common control.
815	Hedge accounting – Phase 2	Consider further aspect of hedge accounting to align the accounting with risk management activities.
830	Foreign currency disclosures	Review of current disclosure requirements to improve the financial information in notes to the financial statements.
Multiple	Disclosures about: <ul style="list-style-type: none"> • Discounts on shares • Income taxes • Major customers • Products and services • Legal proceedings • REIT tax status • Consolidation • Assets subject to lien • Covenant violations and waivers • Debt issuance subsequent to balance sheet date • Details of financing arrangements • Preferred shares • Related parties • Repurchase and reverse purchase agreements • Interim financial statements • Oil and gas producing activities 	SEC has referred to FASB certain existing SEC disclosures that overlap with GAAP disclosures, but may require incremental information for the FASB to consider incorporating into the ASC.





Implementation notes

4



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, and resources available from the FASB, AICPA and PwC.

Time to effective date is based on time from most recently completed calendar quarter end to the effective date for public companies.

Revenue from contracts with customers

ASC Topic	606
Effective	NOW
Public companies	Years beginning on or after December 15, 2017
Private companies	December 15, 2018
ASUs	
Primary	2014-09
Supplemental	<p>2016-08: <i>Principal versus Agent Considerations (Reporting Revenue Gross versus Net)</i></p> <p>2016-10: <i>Identifying Performance Obligations and Licensing</i></p> <p>2016-12: <i>Narrow-scope Improvements and Practical Expedients</i></p> <p>2016-20: <i>Technical Corrections and Improvements</i></p> <p>2017-05: <i>Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets</i></p> <p>2017-13: <i>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</i></p>

SEC views on implementation

At the annual AICPA Conference on *Current SEC and PCAOB Developments*, the SEC expressed several views, offered tips, and other guidance on the implementation of the new revenue standard. We covered the Conference in our article *Collaboration and transparency in financial reporting* in Section 1 of this edition of **US GAAP Today**.

The SEC has also been issuing comment letters to companies that have already implemented the new revenue standard. These comments have been compiled in a PwC publication, **Stay informed: SEC comment letter observations on the new revenue standard** (issued November 2018) with a companion podcast. See *PwC resources to help you* below on how to access this publication and podcast.

FASB implementation resources

Inquiries

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

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

discussing any issues. All issues and supporting memos for issues discussed by the TRG, the FASB, and Private Company Council are posted to the FASB website at www.fasb.org under Standards / Implementing New Standards / Revenue Recognition / Implementation Issues Memos.

Educational resources

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

Videos

Introduction to the Revenue Recognition Standard

Three-part series

Webcasts

Aerospace and Defense Revenue Recognition (November 2017)

Software Revenue Recognition (June 2017)

Airline Revenue Recognition (October 2017)

Health Care Services Revenue Recognition (October 2017)

FASB/IASB Implementation Update (September 2016)

Guides

Taxonomy Implementation Guide (March 2017)

AICPA implementation guidance

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

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

Revenue Guide

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

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

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

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

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, podcasts, and webcasts.

PwC general resources

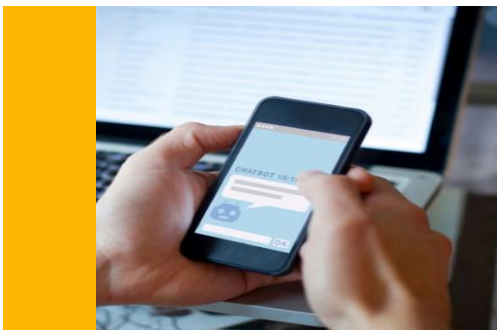
The following table lists general resources currently available, released on or after January 1, 2017. New resources issued during the quarter are highlighted by shading. You can access these materials from <http://www.pwc.com/us/en/cfodirect/issues/revenue-recognition.html>.

Title	Description	Format
Revenue from contracts with customers – Global accounting and financial reporting guide (4 th edition – September 2018)	Comprehensive guide describing the accounting for revenue under US GAAP ASC Topic 606 and IFRS 15. The <i>Guide</i> summarizes the 5-step revenue recognition model, discusses key aspects of the model and provides examples to illustrate the application of the standard.	
Revenue – SEC comment letter observations (December 2018)	Observations from SEC comment letters for companies who have adopted the new revenue standard.	
Stay informed: SEC comment letter observations on the new revenue standard (November 2018)	Summary of the SEC Staff's perspectives on disclosures	
Revenue recognition updates (September 2018)	Catalogue of video guidance from PwC for optimizing and automating revenue processes.	
Beyond 606 compliance: Optimize revenue recognition (June 2018)	Ideas on automating revenue recognition, improving operations, reducing risk, and realizing greater value.	
New revenue guidance: First quarter recap (June 2018)	PwC benchmarking of disclosures in Q1 public filings.	
The new revenue standard – SEC Staff comments to early adopters (Episode 37 – June 2018)	Podcast identifies trends and provides insights into implementing the new standard based on SEC comment letters on 2017 filings of early adopters.	
Revenue recognition “next-stage” implementation insights (February 2018)	Lessons learned and suggestions from a panel of preparers and a PwC partner.	
Significant financing components under the new revenue standard (ASC 606) (January 2018)	Covers key considerations for assessing revenue contracts for a significant financing component.	
Variable consideration under the new revenue standard (November 2017)	Discussion about estimating variable consideration, including considering any constraints on the consideration.	

Title	Description	Format
Capitalizing costs under the new revenue standard (November 2017)	Discussion of when to capitalize costs to obtain and fulfill a contract, including whether the practical expedient can be applied.	
Disclosures under the new revenue standard (October 2017)	Review of the five important revenue disclosure requirements.	
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.	
Bill and hold transactions under the new revenue standard (ASC 606) (September 2017)	Description of bill and hold transactions and what criteria must be met under the new standard.	
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.	
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.	
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.	
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.	
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.	
CFODirect Podcast Series: Revenue disclosures (Episode 25 – May 2017)	How the revenue standard will affect disclosures.	
Revenue: Implementation in the technology sector (April 2017)	Reflect implementation developments and highlights certain challenges specific to the technology industry.	
In depth: Revenue Transition Resource Group issues impacting the banking industry (March 2017)	Recap of TRG issues specific to the banking industry.	
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.	
Recently issues accounting standards – Governance considerations (February 2017)	Some pointers on what those in oversight roles should be asking managements about the implementation of the new standard.	

PwC Industry Guides

Various PwC industry groups have produced supplemental guidance to provide insights into industry issues and circumstances. Supplemental guidance, released on or after January 1, 2017, is listed in this table and can be accessed from <http://www.pwc.com/us/en/cfodirect/issues/revenue-recognition.html>.



Industry	Publication date
Aerospace & defense	September 2017
Broker-dealers	October 2017
Consumer markets	September 2017
Communications	July 2017
Engineering & construction	September 2017
Entertainment & media	August 2017
Industrial products & manufacturing	August 2017
Oil & gas	September 2017
Pharmaceutical & life sciences	September 2017
Software	July 2017
Technology	April 2017
Transportation & logistics	August 2017

Leases

ASC Topic	842
Effective	NOW
Public companies	Years beginning on or after December 15, 2018
Other entities	December 15, 2019
ASUs	
Primary	2016-02
Supplemental	<p>2017-13: <i>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</i></p> <p>2018-01: <i>Land Easement Practical Expedient for Transition to Topic 842</i></p> <p>2018-10: <i>Codification Improvements to Topic 842, Leases</i></p> <p>2018-11: <i>Targeted Improvements</i></p> <p>2018-20: <i>Lessor Narrow Scope Amendments</i></p>

SEC views on implementation

At the annual AICPA Conference on *Current SEC and PCAOB Developments*, the SEC expressed several views and offered tips and other guidance on the implementation of the new leases standards. We covered the Conference in our article *Collaboration and transparency in financial reporting* in Section 1 of this edition of **US GAAP Today**.

FASB implementation resources

Inquiries

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

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

Proposals for amendments

The FASB has a project in progress to make codification improvements for lessors, which deals with two issues:

- Determination of the fair value of an underlying asset by a lessor that is not a manufacturer or dealer.
- Presentation of cash flows by certain types of lessors.

The resolution to both these issues has been to incorporate existing guidance or practice into the new standard.

For further details on the exposures, see our article in Section 3: *FASB projects in progress*.

Educational resources

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

The FASB has issued the following videos and webcast on leases:

- **Why a New Leases Standard?**
- **Putting Leases on the Balance Sheet**
- **Leases: A Quick Example of the Display Approach**
- **FASB Investor Video: Leases**
- **Accounting for Leases Primer**

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

AICPA implementation guidance

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

The section provides information on the new leases standard including AICPA TV discussing the implications of the new standard, links to news and views from various AICPA magazines and publications, access to AICPA resources, and links to AICPA webcasts and courses. Some of these resources are free, while others are available for a fee.

Some resources available from the AICPA include:

- **New Leases Accounting Standard – Learning and Implementation Plan** – A practice aid providing a roadmap to understanding the new standard, its transition requirements, training resources, and educational 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.
- Various resources for CPA members of the Center for Plain English Accounting.

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











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

PwC resources to help you

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

PwC general resources

The following table lists general resources released on or after January 1, 2017 that are currently available. You can access these materials through <http://www.pwc.com/us/en/cfodirect/issues/lease-accounting.html>.

Title	Description	Format
Leases – 2016 edition (2016 – Updated to December 2018)	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.	iBook PDF
Leasing – Reminders as you prepare for adoption (November 2018)	Discussion of overall readiness, transition elections and practical expedients, and implementation challenges and best practices.	
In brief: More changes to ease lessor adoption of the new leases standard (November 2018)	Outline of narrow-scope amendments for lessors.	PDF
Leasing – Lessor practical expedient (September 2018)	Covers the practical expedient that allows lessors to avoid separating lease and non-lease components in a contract.	
Leasing – How lessees should account for finance leases (August 2018)	Covers the basic mechanics of how a lessee should account for a finance lease, including journal entries and related calculations.	
Leasing – How lessees should account for operating leases (August 2018)	Covers how to calculate the initial lease liability and right-of-use asset and the subsequent accounting for an operating lease.	
Lease accounting transition: Index or rate for measuring operating lease liability (August 2018)	Outlines SEC views on use of the current index or rate for operating leases on transition.	PDF
Lease accounting implementation insights (August 2018)	Covers lessons learned to date from companies that have made substantial progress with their implementation.	PDF
Adopting the new leases standard just got easier (July 2018)	Covers the additional transition method provided by the FASB and the new lessor expedient for components.	PDF
Leases: What you need to know as you prepare to adopt the new guidance (June 2018)	PwC lease specialists highlight important decisions lessees and lessors need to make before the effective date and discuss how those decisions may affect the transition plan and financial statements.	
Leasing – Accounting for variable lease payments (June 2018)	Covers which variable payments are included when measuring and classifying a lease and how to account for changes in variable payments.	
Leasing – Discount rate for the lease liability (June 2018)	Covers key factors when determining the discount rate, including the definition of incremental borrowing rate (IBR), what can be used as collateral in determining the IBR, and the term used for the IBR.	
Leasing – Identifying embedded leases under the new standard (May 2018)	Covers how to identify an embedded lease and what to do when you do.	
Leasing – Determining the lease term (May 2018)	Covers factors in identifying the lease term.	
Leasing – Practical expedients (April 2018)	Covers transitional options available and how companies might benefit from the practical expedient.	

Title	Description	Format
Assessing land easements under the new leases standard (April 2018)	Explanation of how lease accounting may affect the accounting for land easements.	
Lease accounting implementation insights from Bridgestone and Verizon (April 2018)	Hear lessons learned and suggestions for the way forward from finance executives who have advanced their implementation and insights from PwC specialists.	
Next up: The new leasing standard (April 2018)	Summary of the recent and proposed amendments to the leasing standard.	
Leasing – Transition (April 2018)	Discussion of the modified retrospective transition approach and the practical expedients designed to make it easier.	
CFODirect podcast series: Leasing – Recent proposals, impairment and subleases (Episode 33 – February 2018)	Covers the new FASB proposals related to transition as well as accounting for impairments and subleases.	
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.	
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.	
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.	
FASB proposes to simplify the new leases guidance (November 2017)	Brief outline of the proposed amendments to the new leases standard to address transition.	
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.	
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.	
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.	
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.	
Lessor accounting: The interaction of leasing and revenue (May 2017)	Discussion of the interaction between adopting both the lease accounting and the revenue standards.	
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.	

Title	Description	Format
<i>In depth: The leasing standard – A comprehensive look at the new model and its impact</i> (March 2017)	Comprehensive review of the key provisions accounting for leases under US GAAP, including observations about key differences with existing US GAAP.	PDF

PwC industry resources

Supplementing the general resources, 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. The supplements released on or after January 1, 2017 are available from <http://www.pwc.com/us/en/cfodirect/issues/lease-accounting.html>.

Industry	Publication date
Banking and capital markets	November 2017
Chemicals	November 2017
Higher education	January 2017
Industrial products	September 2017
Telecommunications	March 2017



Derivatives and hedging

ASC Topic	815
Effective	NOW
Public companies	Years beginning on or after December 15, 2018
Other entities	December 15, 2019
ASUs	
Primary	2017-12
Supplemental	None to date

FASB implementation resources

Inquiries

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

The FASB did not strike a Transition Resource Group for the hedge accounting amendments.



Proposed amendments

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

The FASB has decided to issue three proposed ASUs to address eleven issues where additional clarifications or guidance is needed. See our articles in the Section 3:

FASB projects in progress under the titles of:

- *Codification improvements – hedge accounting;*
- *Clarifications about use of “prepayable” and cash flow hedges; and*
- *Hedging issues—Last-of-layer method.*

Educational resources

The FASB has provided some educational resources on the hedging amendments beyond the ASUs and their **FASB in Focus** publication as listed below. These resources are available through the FASB website at

www.fasb.org under Standards / Implementing New Standards / Hedge Accounting / Educational Resources.










The FASB has issued the following videos on hedging:

- **Hedging: A New Standard**, and
- **FASB Investor Podcast: Hedging**.

PwC resources to help you

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

These PwC resources can be accessed through <https://www.pwc.com/us/en/cfodirect/issues/derivatives-hedge-accounting.html>.

Title	Description	Format
Derivatives and hedging guide (Updated July 2018)	PwC Guide focuses on accounting and financial reporting considerations for derivative instruments and hedging activities based on the most recent amendments made by the FASB.	iBook 
Hedging – Benchmark rate component (October 2018)	Covers concepts of the election to include only the benchmark rate component of the contractual coupon cash flows of the hedged item when calculating the change in the hedged item's fair value.	
Hedging – Accounting for excluded components (September 2018)	Covers what components are eligible for exclusion from the assessment of effectiveness and how to recognize those components in the financial statements.	
What you need to know about the new hedging standard (May 2018)	Highlights some of the bigger changes from the amendments.	
FASB revisits certain provisions in recently-issued hedging guidance (April 2018)	Covers proposed codification improvements to the recently issued amendments.	PDF 
Hedging – Are you early adopting the FASB's new guidance (February 2018)	Discusses certain considerations for early adopters.	
In brief: FASB clarifies certain provisions within recently issued hedging guidance (February 2018)	Summarizes the FASB review of implementation issues.	PDF 
FASB hedging guidance simpler and better aligned with risk management (October 2017)	Summarizes the key changes by type of hedge, address transitional requirements and elections, addresses SEC reporting considerations, and highlights internal control considerations.	PDF 
Hedge accounting: What you need to know about the FASB's new guidance (September 2017)	Discusses the new guidance and other considerations.	

Current expected credit losses

ASC Topic	326
Effective	In ONE year
SEC public companies	Years beginning on or after December 15, 2019
Other public entities	December 15, 2020
Other entities	December 15, 2020
ASUs	
Primary	2016-13
Supplemental	2016-19: <i>Codification improvements</i>

FASB implementation resources

Inquiries

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

Transition Resource Group

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

The TRG met in November 2018 and made several recommendations to the FASB for clarifications. No additional meetings are currently scheduled.

Memos covering matters considered by the TRG are available on the FASB website at www.fasb.org under Standards / Implementing New Standards / Credit losses / Implementation Issues Memos.

Proposed amendments

Based on implementation activities, the FASB has decided to add two projects to its agenda to address issues where additional clarifications or guidance is needed. See our articles in the Section 3: *FASB projects in progress* under the titles of:

- *Codification improvements –credit losses*, and
- *Targeted transition relief for credit losses*.

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 video and webcast on credit losses:

- ***Why a New Credit Losses Standard?***
- ***FASB Investor Podcast: Credit losses***

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

AICPA implementation guidance

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

The AICPA has formed the Depository Institutions and Insurance Experts Panel to discuss implementation issues and provide guidance, which many be incorporated into the AICPA *Audit and Accounting Guide for Depository and Lending Institutions*. The Panel has identified 35 issues and has three issues for which guidance is out for comment. The topics under consideration and the exposure drafts can be accessed through the AICPA link above.

Resources provided by the AICPA include:




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

The AICPA section on credit losses also provides links to articles from AICPA magazines and journals. Online self-study programs about the new FASB requirements and the IFRS requirements are also available through the same link.

PwC resources to help you

PwC has prepared several resources to assist you with your implementation of the new credit losses standard.

The resources including printed publications and webcasts released on or after January 1, 2017 are available from www.pwc.com/us/en/cfodirect/issues/financial-instruments.html.

Title	Description	Format
Loans and investment guide (Updated May 2017)	PwC Guide discusses the accounting for debt and equity investments. Chapter 4, <i>Accounting for loans</i> , covers credit losses.	iBook PDF
In depth: Update from the TRG for Credit Losses (November 2018)	Discusses developments at the November 2018 TRG meeting.	PDF
CECL – Accounting impacts to guarantees (August 2018)	Discusses requirements for guarantees under the new standard and how it will require an additional credit loss estimate for guarantees.	
In brief: Recent developments related to the new credit loss standard (August 2018)	Outlines FASB proposal to give private companies more time to adopt the CECL standard and provide FASB and SEC insights on the interaction of subsequent events and CECL.	PDF
In depth: Transition Resource Group for credit losses (June 2018)	Covers the topics discussed at the June 2018 meeting.	PDF
How the credit impairment standard impacts non-financial services companies (June 2018)	Summarizes how the new impairment standard affects trade receivables, loans, debt securities, lease receivables and financial guarantees held by non-financial services companies.	PDF
In depth: Recent developments in financial instruments (October 2017)	Highlights developments in the accounting for financial instruments.	PDF
In depth: Contrasting the new US GAAP and IFRS credit impairment models (September 2017)	Covers the differences in the two models.	PDF
Current expected credit losses: Is your data ready (September 2017)	Provides insights into assessing your data sources and technology to gather data to support the new standard.	PDF
In depth: Transition Resource Group for Credit losses discusses implementation issues (June 2017)	Covers the discussions at the first TRG meeting.	PDF
Financial asset impairment: The latest implementation issues (June 2017)	Provides an update on questions arising on implementation.	
In the loop: Preparing for the new credit loss model (May 2017)	Considers the evidence, documentation, corporate governance, and internal control required to make credit loss estimates.	PDF
Available for sale debt securities and the new credit loss model (February 2017)	Shares perspectives on the application of the standard to available for sale debt securities.	

Long-duration insurance contracts

ASC Topic	944
Effective	In TWO years
Public companies	Years beginning on or after December 15, 2020
Other entities	December 15, 2021
ASUs	
Primary	2018-12
Supplemental	None to date
Resources	
PwC	www.pwc.com/us/en/cfodirect/ issues/insurance-contracts.html
FASB	www.fasb.org under Standards / Implementing New Standards / Insurance: Long-Duration Contracts
More information	Consult PwC insurance team





SEC developments

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SEC developments provides news and analysis of financial reporting requirements of the SEC, including final rules, findings of SEC reviews, and SEC comments on financial issues. Financial reporting covers accounting, internal control over financial reporting, and financial and other corporate reporting disclosures in SEC filings.

SEC spotlight and views

Cyber threats result in losses

Eleven SEC registrants that were duped through fake emails lost about US\$100 million from these scams. These losses resulted in a SEC investigation, which did not result in charges to the issuers, but pointed to the need to strengthen internal controls for cyber-related risks.

In October 2018, the SEC issued a report on its investigation of certain public companies that were the victims of cyber-related frauds. This report was identified as a “must-read” by several participants at the recent AICPA Conference on *Current SEC and PCAOB Developments* held in December 2018.

The purpose of the investigations was to assess whether these companies had violated federal securities laws by failing to maintain a sufficient system of internal accounting control.

Nature of frauds

The issuers were victims of two different schemes, emails from fake executives and emails from fake vendors.

Emails from fake executives – in which perpetrators emailed finance personnel of a company, using spoofed email domains and addresses of an executive, typically the CEO, so that it appeared to be a legitimate email. In one case, a company made 14 wire payments aggregating more than US\$45 million over the course of several weeks before the fraud was discovered after receiving an alert from a foreign bank.

Background on issuers

Number of issuers investigated	11
Total losses sustained by issuers	About US\$100 million
Range of losses for issuers	9 lost at least US\$1 million 2 lost more than US\$30 million
Industries involved	Technology Equipment manufacturers Real estate Energy Financial services Consumer goods
Size of issuers	All were listed on a national securities exchange and had substantial revenues

The emails directed finance personnel to work with a purported outside attorney named in the email, which instructed the finance personnel to wire large sums of money to a foreign bank account held by the perpetrators. The perpetrators used real law firm and attorney names, but altered the email addresses.

The spoofed emails described time-sensitive transactions or “deals” which indicated secrecy was required from other employees; required funds for foreign transactions by wire transfers to foreign banks and beneficiaries that were unusual transactions for most of the companies; and were sent to midlevel personnel, who generally would not be responsible for such transactions. These were not sophisticated frauds in design or the use of technology and the emails often had spelling and grammatical errors.

Emails from fake vendors – in which a foreign vendor's email account was hacked and used by the perpetrators to make illegitimate requests for payments using the normal electronic communication methods between the vendor and the issuer. In one case, a company paid eight invoices totaling US\$1.5 million over several months until the vendor complained about past due invoices.

The perpetrators also corresponded with the issuer personnel to obtain information about actual purchase orders and invoices and instructed the issuer's personnel to change the vendor's banking information. When the issuer paid legitimate outstanding invoices, the payments were sent to foreign bank accounts controlled by the perpetrators rather than the vendors. These scams were more technologically sophisticated and had less red flags than the emails from fake executives.

Importance of controls

The SEC noted that these frauds "relied on technology to search for both weaknesses in policies and procedures and human vulnerabilities that rendered the control environment ineffective". The SEC indicated these examples emphasized the importance of internal accounting controls that are attuned to cyber-related risks. While these companies had authorization and approval controls for payments and verification procedures for changes to vendor data, company personnel interpreted these controls as allowing electronic communications, without other verifications, to process the wire transfers or change the vendor's standing data. Needless to say, these issuers enhanced

their procedures in these areas, as well as improving account reconciliation procedures and payment notification processes to detect payments resulting from fraud.

The SEC Staff also noted that these frauds succeeded in part because responsible personnel did not sufficiently understand or follow the company's existing controls or did not recognize flags that the spoofed communications lacked reliability. These issuers have enhanced their training about relevant threats, as well as their existing policies and procedures.

Outcome of SEC investigation

The SEC decided not to pursue any enforcement actions against the public companies. However, the SEC decided to publish its report to make issuers and other market participants aware of these type of cyber-related threats. The SEC's message to issuers is that internal accounting controls may need to be reassessed to mitigate against emerging risks, including cyber-related fraud risks.

More information

The ***Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934 Regarding Certain Cyber-Related Frauds Perpetuated Against Public Companies and Related Internal Accounting Controls Requirements*** can be found on the SEC website at www.sec.gov under Release No. 84429.

SEC regulations and rules

Modernizing mining property disclosures

In October 2018, the SEC adopted amendments to modernize the property disclosure requirements for mining registrants. The amendments align the SEC requirements and guidance with current industry and global regulatory practices and standards. The amendments also eliminate Industry Guide 7 and consolidates all the mining properties' disclosure requirements in a new sub-part in Regulation S-K.

Registrants with material mining operations will now be required to disclose specified information about its mineral resources that have been determined on its properties. These disclosures are consistent with the global standards set out in the Committee for Mineral Reserves International Reporting Standards (CRIRSCO). With the update, companies will report mineral reserves,

which were previously only allowed to be reported in limited circumstances.

Exploration results, mineral resources, or mineral reserves will be disclosed in SEC filings based on information and supporting documentation prepared by a mining expert. This is also consistent with CRIRSCO standards.

A technical report summary, dated and signed by a mining expert, must be filed as an exhibit to any SEC filing, which discloses mineral reserves or mineral resources for the first time, or when there is a material change in mineral reserves or mineral resources from the last technical report summary filed for the property. The technical summary report would identify and summarize the information reviews and conclusions reached by the mining expert about the registrant's mineral resources or mineral reserves determined on each material property.

Canadian reporting issuers using Form 10-K or 20-F for SEC filings will be required to follow the new rules and requirements when they become effective. Only Canadian issuers eligible to file using the Form 40-F will be able to use the disclosures mandated by the Canadian Securities Administrators.

The new rules will be effective for fiscal years beginning on or after January 1, 2021. Once the SEC has

completed its EDGAR programming changes for the new rules, registrants may voluntarily use the new rules.

The new rules are contained in SEC Release Nos. 33-10570 and 34-84509.





Auditing developments

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Auditing developments provides news and analysis about auditing requirements directly affecting SEC registrants, including final PCAOB rules, PCAOB inspection, PCAOB tools and aids for audit committees, and other guidance from organizations such as the AICPA, COSO, and FEI.

CAQ news and views

Dry runs on critical audit matters

In 2019, PCAOB-registered auditors will begin communicating critical audit matters (CAMs) in their auditor's reports. Some auditors have begun performing "dry runs" of the CAM requirements. During these "dry runs", auditors identified and drafted CAMs and discussed them with management and audit committees. In December 2018, the Center for Audit Quality (CAQ) published some early observations from these exercises in their publication, ***Lessons Learned, Questions to Consider, and an Illustrative Example***.

Some of the lessons learned from the "dry runs" include:

- Determining CAMs involves applying a principles-based approach and significant auditor judgment;
- Early and often communications by the auditor with management and the audit committee is important;
- Management and the audit committee should allot sufficient time to discuss drafted CAMs with the auditor; and
- Drafting CAMs can be challenging.

Based on the experiences from the "dry runs", the CAQ issued some frequently asked questions to assist audit committees in understanding the reported CAMs covering:

- The relationship between CAMs and
 - Disclosures made by management in the SEC annual report,
 - Critical accounting estimates disclosed by management,

- Significant risks identified by the auditor as part of the audit, and
- Significant deficiencies in internal control over financial reporting;
- The more common CAMs likely to be reported;
- Comparability of CAMs across companies in the same industry;
- Similarity between CAMs and key audit matters under International Auditing Standards;
- The expectation of at least one CAM in an auditor's report;
- The auditor's process for drafting CAMs and communicating draft CAMs with management and the audit committee; and
- Preparing for questions from investors.

The CAQ publication provides some valuable insights and observations about this new auditor requirement. The tips in the publication will be beneficial for management and audit committee to understand the reporting of CAMs. The publication is available from the Center for Audit Quality at www.thecaq.org under Resources / Publications.

Emerging technologies

Emerging technologies are quickly automating functions in the finance departments of corporations. These technologies increase the efficiency and the quality of financial reporting, but they also introduce new risks to the corporation. The CAQ has developed a tool for audit committees to provide a framework for conducting effective oversight of a company's emerging technologies in the finance department. The tool is presented in the CAQ publication – **Emerging Technologies: An Oversight Tool for Audit Committees**.

The framework includes five key components, which are consistent with the components in the Internal Control Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The application of the components to emerging technologies is illustrated by reference to the use of artificial intelligence and robotic process automation technologies and supported by questions the audit committee members might ask management and the auditor to help inform the audit committee's oversight of financial reporting.

The Framework considers:

- The control environment and the company's specific emerging technology strategy and specific technologies contemplated. The audit committees may consider monitoring whether: (a) the company has the right expertise for the project; (b) the technological performance and accurate reporting is being evaluated systematically; and (c) there is an appropriate tone at all levels within the company when implementing new technologies.
- Risk assessment and management's risk identification and assessment process. The audit committee may consider (a) whether management has assessed the risks that might arise from the technology changes; (b) whether internal controls have been revised for the new risks arising from the implementation of the technologies; and (c) how management is updating its assessments and controls as the technologies evolve.
- Control activities that respond to the identified risks. The audit committee may consider (a) how systems relying on emerging technologies will respond to financial reporting needs before deployment; (b) whether the technology is operating as intended and its output is reliable; (c) how the new technologies will be tested and integrated with other systems; (d) how information technology controls will be affected; and (e) how important assets will be safeguarded.

- Information communication and controls in place to ensure all information needed for financial reporting is captured, used, and retained in a timely and accurate manner. The audit committee may consider how new systems are being developed and integrated with existing systems.
- Monitoring activities to assess whether controls are operating effectively after implementation of the new technologies. The audit committee may consider use of internal audit to examine whether the emerging technology programs are operating effectively and how the external auditor's approach will take into account the risks associated with emerging technologies.

The automation of financial reporting functions through use of emerging technologies can have a significant impact on financial reporting. This tool prepared by CAQ provides audit committees with some insights into the opportunities and risks from these emerging technologies.

The tool is available from the CAQ on their website at www.thecaq.org under the tab Resources / Publications.

Communicating audit committee oversight

Since 2014, the CAQ along with Audit Analytics has been analyzing proxy disclosures about auditor oversight activities for companies in the S&P Composite 1500. In November 2018, the CAQ published the results in the *Audit Committee Transparency Barometer*. While Canadian companies usually prepare proxy disclosures using the requirements of the Canadian Securities Administrators and corporate law, the publication provides insights into evolving audit committee disclosures.

The key findings reported for 2018 (with comparatives for 2017) were as follows:

Disclosure of	% of companies
Considerations in appointing the audit firm	40% (37%)
Length of audit firm engagement	70% (63%)
Explanation of change in fees paid to audit firm	28% (31%)
Criteria considered when evaluating the audit firm	46% (38%)
Involvement of audit committee in selection of audit partner	52% (49%)

The results indicate that audit committees are voluntarily providing robust disclosures to inform investors about their activities in overseeing the external audit. The

publication provides examples of disclosures by certain companies to illustrate effective disclosures.

The CAQ concluded the findings show continued positive trends in providing voluntary enhanced disclosures about the audit committee's role in overseeing the external auditor; however, there were opportunities for increased

transparency and clarification of the audit committee's involvement.

The publication is available on the CAQ website at www.thecaq.org under the tab Resources / Publications.

COSO news and view

Controls for environmental, social and governance risks

In October 2018, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the World Business Council for Sustainable Development (WBCSD) released the final version of **Guidance for Applying Enterprise Risk Management (ERM) to Environmental, Social and Governance (ESG)-related Risks** (the Guide). The Guide is designed to help entities better understand the full spectrum of environmental, social, and governance-related risks (ESG-related risks) and to manage and disclose these risks more effectively.

ESG-related risks refer to sustainability, non-financial and extra-financial risks. While the definitions of these risks are fluid, the Guide has grouped these risks under the three pillars of:

- Environmental covering climate change, natural resources (use of water, land, and natural resources), pollution and waste, and environmental opportunities (clean technology, green building, and renewable energy);
- Social consisting of human capital (labour management, health and safety, labour standards, and human capital development), product liability (safety and quality, privacy and data security, health and demographic risk, and responsible investment), stakeholder opposition (controversial sourcing), and social opportunities (access to communications, finance, nutrition, and health care); and
- Governance encompassing corporate governance and corporate behavior (business ethics, anti-competitive practices, tax transparency, corruption, and instability).

In 2018, four of the five top risks identified by the World Economic Forum were environmental or societal including extreme weather events, water crises, natural disasters, and failure of climate change mitigation and adaption. Some of these issues have also resulted in involuntary migration.

The failure to manage ESG issues have had adverse impacts on corporations including their reputations, customer loyalty, and financial performance. Investors are increasingly interested in how corporations are managing ESG-related risks. To meet these needs, securities regulators and others have been requesting disclosures about ESG-related risks.

COSO and WBCSD believe the Enterprise Risk Management structures and processes provide a path for identifying, assessing, and responding to ESG-risks. The Guide has been designed to help decision makers, risk management practitioners, and sustainability practitioners to apply ERM principles and practices to ESG-related risks based on COSO's ERM Framework: *Enterprise Risk Management – Integrating with Strategy and Performance*.

The Guide covers the five components of the COSO ERM Framework:

1. Governance and culture for ESG-related risks covering the internal oversight of ESG-related risks and support for a culture of collaboration among those responsible for risk management of ESG issues.
2. Strategy and objective setting for ESG-related risks examining the value creation process by understanding the impacts and dependencies of ESG-related risks in the short, medium and long terms.
3. Performance for ESG-related risks looking at:
 - The identification of risks using various tools to determine ESG-related risks that threaten an entity's strategy and business objectives.
 - The assessment and prioritization of risks by assessing risk severity, including emerging or longer-term ESG-related risks and prioritizing them for responses.
 - Implementing risk responses by adopting a range of innovative and collaborative approaches that

consider the source of the risk as well as the cost and benefits of each approach.

4. Review and revision of approaches to ESG-related risks to evaluate the effectiveness and modification as needed.
5. Information, communication and reporting for ESG-related risks to identify the most appropriate

information to communicate and report internally and externally to support risk-informed decision-making.

The Guide can be purchased from COSO through its website at www.coso.org (under tab Guidance / Guidance on Enterprise Risk Management). A free executive summary of the Guide is also available on the same page.

FEI views and guidance

FEI on implementing ICFR for new accounting standards

In November 2018, the Financial Executive International's (FEI) Committee on Corporate Reporting released two **ICFR: Insights, Issues, and Practices** guides.

- *A Guide to Implementing Internal Control over Financial Reporting (ICFR) for the Current Expected Credit Loss (CECL) Standard*, which outlines specific issues for companies to consider when changes are needed to document and evidence their governance processes and internal controls to adopt the provisions of the FASB's Measurement of Credit Losses on Financial Instruments (CECL) standard.
- *A Lessee's Guide to Implementing Internal Control over Financial Reporting (ICFR) for Contracts*

Accounted for Under Accounting Standards Codification (ASC) 842, Leases, which is intended to help companies streamline and focus their internal control efforts when adopting the new leases standard.




These publications are valuable resources and may be a starting point for control considerations; however, it is important to assess the company's internal controls in light of the specific risks that result from the implementation of new standards on the company's systems and processes.

The FEI's publications can be accessed through the FEI website at www.financialexecutives.org under the tab Influence / List of Committees / Corporate Reporting / ICFR: Insights, issues, and practices.



Common abbreviations & icons

Abbreviations	
AICPA	American Institute of Certified Public Accountants
ASC	Accounting Standards Codification
ASU	Accountings Standards Update
CAMs	Critical auditing matters
CAQ	Center for Audit Quality of AICPA
CECL	Current expected credit losses
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
CSA	Canadian Securities Administrators
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
GAAP	Generally accepted accounting principles
IASB	The International Accounting Standards Board
ICFR	Internal control over financial reporting
IFRS	International Financial Reporting Standards
MD&A	Management's discussion and analysis
NGM	Non-GAAP financial measure
Q	Quarter
PCAOB	Public Company Accounting Oversight Board
PCC	Private Company Council
SEC	Securities and Exchange Commission
TRG	Transition Resource Group
VIE	Variable interest entity

Icons			
Podcast	Publication	Tools	Webcast / Video
			

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