Crowe

Accounting and Financial Reporting Issues for Financial Institutions

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A Note From the Author

Perhaps the most notable issuance for the Financial Accounting Standards Board (FASB) in 2017 was the hedge accounting standard. Although it was described as merely "targeted improvements" to hedge accounting, in practice it is expected to overhaul the way entities, including financial institutions, manage and utilize hedging activities. The FASB was busy with other projects in 2017 as well, issuing 14 standards with one more – unrelated to financial institutions – expected before the end of the year.

With the major standards first becoming effective in the first quarter of 2018, it is critical to determine whether an entity is or is not a public business entity (PBE). The definition can be far-reaching and includes institutions beyond those that file with the Securities and Exchange Commission (SEC). The FASB typically uses this definition to determine effective dates and scale disclosure, including for its major standards. In October, the American Institute of Certified Public Accountants (AICPA) issued a comprehensive technical question and answer document (TQA) to help preparers and auditors navigate the definition. The TQA includes questions and answers specific to financial institutions and is covered later.

Implementation of the major accounting standards (that is, revenue recognition, recognition and measurement, leases, and credit losses) remains top of mind for individuals with financial reporting responsibilities or oversight roles. Recognition and measurement was proposed to be a major standard, but in the final standard the FASB chose to make targeted improvements. In particular for financial institutions that are PBEs, implementation of the revenue recognition and recognition and measurement standards should be well underway, as adoption is required in the first quarter of 2018 for both. For SEC-registered financial institutions, consideration must be given to keeping users informed of implementation efforts through disclosure,[1] for all of the major standards.

The first of the effective dates are upon us (see the "Effective Dates for Major Standards" table on the next page). It is helpful to keep in mind that the standards, from a practical perspective, likely cannot be implemented sequentially. The FASB purposely staggered the effective dates to provide sufficient time for implementation, which can include gathering information, evaluating alternatives, making systems changes, evaluating necessary changes to internal control over financial reporting, and making well-reasoned judgments when needed. Those activities take time – so rather than tackle revenue recognition and then leases and then credit losses, it might be useful to develop and begin to implement a comprehensive project plan for all three standards.

Those standards, along with additional FASB projects affecting financial institutions, are covered here. We hope you find this information valuable, and we welcome your feedback.

Last, I am grateful for the contributions of Staci Shannon, Chris Moore, and Brad Davidson to this publication.

Sydney K. Garmong

Partner, Crowe LLP

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[1] See SEC Staff Accounting Bulletin (SAB) No. 74 (Topic 11.M), "Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period," which requires disclosure of the potential effects of adoption of recently issued accounting standards in registration statements and reports filed with the SEC. This guidance was updated with an SEC staff announcement at an Emerging Issues Task Force (EITF) meeting on Sept. 22, 2016 (and later codified by the FASB with ASU 2017-03), addressing disclosure in situations where an SEC registrant does not know or cannot reasonably estimate the impact that adoption of the recent major accounting standards is expected to have on the financial statements.

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Effective Dates for Major Standards

Standard	PBE Effective Date	Non-PBE Effective Date
Recognition and Measurement ASU 2016-01	Fiscal years beginning after Dec. 15, 2017, and interim periods within. • First applies to March 31, 2018, interim financial statements for calendar year-ends. For the following one item, early adoption is permitted immediately in interim or annual financial statements that have not yet been issued: • The fair value change resulting from own credit risk for financial liabilities measured under the fair value option recognized through other comprehensive income (OCI)	Fiscal years beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019. • First applies to Dec. 31, 2019, annual financial statements for calendar year-ends. Early adoption using the PBE effective dates is permitted. For the following two items, early adoption is permitted immediately in interim or annual financial statements that have not yet been made available for issuance: • The fair value change resulting from own credit risk for financial liabilities measured under the fair value option recognized through OCI • The elimination of fair value disclosure requirements for financial instruments not recognized at fair value
Revenue Recognition ASU 2014-09 ASU 2015-14 (deferral of effective date)	Annual reporting periods beginning after Dec. 15, 2017, and interim periods within. • First applies to March 31, 2018, interim financial statements for calendar year-ends. Earlier adoption is permitted only as of annual reporting periods beginning after Dec. 15, 2016, and interim reporting periods within. *Certain PBEs are subject to an optional effective date deferral provided by the SEC.[2]	Annual reporting periods beginning after Dec. 15, 2018, and interim periods in annual periods beginning after Dec. 15, 2019. • First applies to Dec. 31, 2019, annual financial statements for calendar year-ends. Earlier application is permitted, but only as of either: • An annual reporting period beginning after Dec. 15, 2016, and interim periods in that reporting period • An annual reporting period beginning after Dec. 15, 2016, and interim periods in annual periods that begin one year after that annual adoption period

[2] Codified in ASU 2017-13, an SEC staff announcement at the July 20, 2017, EITF meeting specifically related to PBEs that qualify as a PBE solely due to the requirement to include or the inclusion of its financial statements or financial information in another entity's SEC filing ("certain PBEs") states that the SEC will allow certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition and lease accounting standards only. For certain PBEs with calendar year-ends, the revenue recognition guidance is effective for Dec. 31, 2019, annual financial statements, and the lease accounting standard is effective for Dec. 31, 2020, annual financial statements.

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Standard	PBE Effective Date	Non-PBE Effective Date
Leases ASU 2016-02	Annual periods beginning after Dec. 15, 2018, and interim periods within. • First applies to March 31, 2019, interim financial statements for calendar year-ends. Early adoption is permitted. *Certain PBEs are subject to an optional effective date deferral provided by the SEC.[3]	Fiscal years beginning after Dec. 15, 2019, and interim periods in fiscal years beginning after Dec. 15, 2020. • First applies to Dec. 31, 2020, annual financial statements for calendar year-ends. Early adoption is permitted.
Credit Losses ASU 2016-13	SEC filers – Fiscal years beginning after Dec. 15, 2019, and interim periods within. • First applies to March 31, 2020, interim financial statements for calendar year-end SEC filers. PBE non-SEC filers – Fiscal years beginning after Dec. 15, 2020, and interim periods within. • First applies to March 31, 2021, interim financial statements for calendar year-end SEC filers. Early adoption is allowed in fiscal years beginning after Dec. 15, 2018, and interim periods within.	Fiscal years beginning after Dec. 15, 2020, and interim periods in fiscal years beginning after Dec. 15, 2021. Early adoption is allowed in fiscal years beginning after Dec. 15, 2018, and interim periods within.

[3] See previous footnote.

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From the FASB: Major Final Standards

Revenue Recognition

In an effort to improve current GAAP and eliminate industry specific guidance, the FASB and the IASB took on a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and IFRS. On May 28, 2014, the two boards jointly issued their converged standard on the recognition of revenue from contracts with customers. The new revenue recognition standard, ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)," consists of three sections:

- "Section A – Summary and Amendments That Create Revenue From Contracts With Customers (Topic 606) and Other Assets and Deferred Costs – Contracts With Customers (Subtopic 340-40)"
- "Section B – Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables"
- "Section C – Background Information and Basis for Conclusions"

The new standard is intended to substantially enhance the quality and consistency of how revenue is reported while also improving the comparability of the financial statements of companies using GAAP and those using IFRS. The standard will replace previous GAAP guidance on revenue recognition in ASC 605 and eliminate industry-specific guidance.

The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this principle, the following five steps are applied:

- **Step one:** Identify the contract with a customer.
- **Step two:** Identify the performance obligations (promises) in the contract.
- **Step three:** Determine the transaction price.
- **Step four:** Allocate the transaction price to the performance obligations in the contract.
- **Step five:** Recognize revenue when (or as) the reporting organization satisfies a performance obligation.

The challenge is to take the core principle and accompanying steps and discern how the guidance applies. The AICPA has formed 16 industry task forces to help develop a new accounting guide on revenue recognition; the task forces are seeking to provide helpful hints and illustrative examples for how to apply the new standard. One of the task forces is dedicated to the depository institutions industry.

In addition, the FASB and the IASB have formed a joint Transition Resource Group (TRG) for Revenue Recognition, which includes preparers, auditors, regulators, users, and other stakeholders. Its objective is to promote effective implementation and transition. As a result of the TRG's work, the FASB has issued multiple clarifications to the revenue standard, which are discussed next.

Clarifications

1. Identifying performance obligations and licensing

   On April 14, 2016, the FASB issued the final standard, ASU 2016-10, "Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing," in order to add guidance for identifying performance obligations. The ASU clarifies that an entity does not have to identify performance obligations involving goods and services that are immaterial. It also provides guidance for evaluating the criterion of "separately identifiable." In addition, the ASU clarifies both the licensing implementation guidance and the scope for a sales-based or usage-based royalty

promised in exchange for an intellectual property license.

2. Principal versus agent (reporting gross versus net)

   On March 17, 2016, the FASB issued the final standard, ASU 2016-08, "Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)." Under the new revenue guidance in ASU 2014-09, when another party, along with the entity, is involved in providing a good or service to a customer, the entity must determine if the nature of its obligation is to provide a good or service to a customer (that is, to be a principal) or is to arrange for the good or service to be provided to the customer (that is, to act as an agent).

   The TRG discussed the analysis, and the FASB took on a project to improve the guidance. The amendments of this ASU are intended to clarify items such as:

   - "An entity determines whether it is a principal or an agent for each specified good or service promised to a customer.
   - "An entity determines the nature of each specified good or service (for example, whether it is a good, a service, or a right to a good or service).
   - "When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of (a) a good or another asset from the other party that it then transfers to the customer; (b) a right to a service that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf; or (c) a good or service from the other party that it combines with other goods or services to provide the specified good or service to the customer.
   - "The purpose of the indicators in paragraph 606-10-55-39 is to support or assist in the assessment of control. The amendments in paragraph 606-10-55-39A clarify that the indicators may be more or less relevant to the control assessment and that one or more indicators may be more or less persuasive to the control assessment, depending on the facts and circumstances."

   Further, the amendments modify specific illustrative examples from ASU 2014-09 and offer additional examples to help in the application of the guidance.

3. Narrow-scope improvements and practical expedients

   On May 9, 2016, the FASB issued the final standard, ASU 2016-12, "Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," to address implementation issues related to the collectability criterion in ASU 2014-09, an accounting policy election for the presentation of sales taxes, noncash consideration, contract modifications at transition, and completed contracts at transition.

   Related to transition, this update also provides a technical correction – an entity that retrospectively applies the new revenue recognition standard to each prior reporting period is required to disclose only the effect of the changes on any prior periods retrospectively adjusted and not the effect for the period of adoption. Without this change, transition costs would have been significantly increased as contracts would have to be accounted for under former GAAP and Topic 606 for one additional year.

4. Technical corrections and improvements

   ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue From Contracts With Customers," was released by the FASB on Dec. 21, 2016, to address narrow aspects of ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)." The ASU addresses 13 issues, including one clarification of interest to financial institutions:

   - Guarantee fees within the scope of Topic 460, "Guarantees", are not in the scope of Topic 606, so those fees should continue to be accounted for in accordance with Topic 460. For guarantees accounted for as a derivative, entities should follow the guidance in Topic 815, "Derivatives and Hedging."

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5. Rescission of SEC guidance

   ASU 2017-14, "Income Statement – Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue From Contracts With Customers (Topic 606)," was released by the FASB in Nov. 2017, to codify Staff Accounting Bulletin (SAB) 116 which was previously issued by the SEC on Aug. 18, 2017. SAB 116 eliminates previous revenue guidance issued by the SEC, to conform to the FASB's revenue guidance in ASC Topic 606. In particular, it eliminates SAB Topic 13, "Revenue Recognition," which includes interpretations and four specific criteria for the FASB's previous revenue model in ASC Topic 605. Once the guidance in ASC Topic 606 is adopted, reference to previous guidance in SAB Topic 13 will no longer be appropriate.

The effective dates for all of the clarification ASUs are consistent with the revenue recognition standard. See "Effective Dates," later in the section.

Scoping Issues for Financial Institutions

Given that most financial instruments (including debt securities, loans, and derivatives) are not in the scope of ASU 2014-09, wholesale changes are not expected for the financial institutions industry. However, noninterest income revenue streams will need to be evaluated.

The AICPA revenue recognition task force for depository institutions is continuing to evaluate the various areas to determine what is in scope and what is not, and the task force has submitted issues to the TRG for consideration. Draft implementation issues are posted to the task force's page on the AICPA's Financial Reporting Center, and when appropriate, working drafts of proposed language for the AICPA Audit and Accounting Guide for Revenue Recognition are released for comment.

On Aug. 1, 2017, the AICPA's Financial Reporting Executive Committee (FinREC) released working draft issue 5-1, "Scope Issues," which addresses the revenue recognition scoping issues for financial institutions that were discussed at the July 13, 2015, and April 18, 2016, TRG meetings (see "Recap of the TRG meetings" next). Comments received on the working drafts will be evaluated prior to including the language in the AICPA Audit and Accounting Guide for Revenue Recognition.

Recap of the TRG meetings

At the July 13, 2015, meeting, the TRG addressed credit card annual fees and determined those fees were outside the scope of the new revenue guidance. Refer to the following memos on the TRG's webpage for a summary of the issues and conclusions:

- Memo No. 36, "Credit Cards"
- Memo No. 44, "July 2015 Meeting—Summary of Issues Discussed and Next Steps"

At the April 18, 2016, meeting, the TRG specifically addressed scoping issues for financial institutions, and concluded:

- Mortgage servicing income – Income that is in the scope of ASC 860, "Transfers and Servicing," is not in the scope of the revenue recognition standard.
- Deposit-related fees – These fees are in the scope of the revenue recognition standard.
- Financial guarantee fees – Guarantees in the scope of ASC 460, "Guarantees," or ASC 815, "Derivatives and Hedging," are not in the scope of the revenue recognition standard.
- Refer to the following memos on the TRG's webpage for a summary of the issues and conclusions:
  - Memo No. 52, "Scoping Considerations for Financial Institutions"
  - Memo No. 55, "April 2016 Meeting – Summary of Issues Discussed and Next Steps"

The TRG meetings and memos can be found on the TRG's webpage.

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The following table lists which noninterest income revenue streams are in and out of scope for the revenue recognition standard.

Out of Scope	In Scope
Interest Income	Service Charges on Deposit Accounts
Trading Revenue	Asset Management Fees
Loan Servicing Fees	Gains or Losses on Other Real Estate Owned
Credit Card Fees	Interchange Fees
Guarantee Fees	

Effective Dates

For this standard, and the clarifying standards (see previous section, "Clarifications"), the FASB uses the term "public entity," which it defines as:

1. "A public business entity"
2. "A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market"
3. "An employee benefit plan that files or furnishes financial statements to the SEC" (Because items 2 and 3 do not apply to financial institutions, we will simply refer to "PBEs.")

On Aug. 12, 2015, the FASB issued ASU 2015-14, "Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date," to defer the effective date of ASU 2014-09 by one year. Following are the final effective dates:

- For PBEs, the standard is effective for annual reporting periods beginning after Dec. 15, 2017, including interim reporting periods in those annual reporting periods.
  - For PBEs, earlier application is permitted only as of annual reporting periods beginning after Dec. 15, 2016, including interim reporting periods in those annual reporting periods.
- For PBEs that qualify as a PBE solely due to the requirement to include or the inclusion of its financial statements or financial information in another entity's SEC filing ("certain PBEs"), the SEC will allow those certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition standard. See ASU 2017-13, which codifies the SEC staff announcement from the July 20, 2017, EITF meeting. That means certain PBEs may elect to apply the revenue guidance for annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2019, which if elected, first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities.
- For non-PBEs (and not-for-profit entities and employee benefit plans that do not meet the criteria in the standard for the earlier effective date), the standard is effective for annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods in annual reporting periods beginning after Dec. 15, 2019.
  - For non-PBEs, early application is permitted in either of these situations:
    - An annual reporting period beginning after Dec. 15, 2016, including interim reporting periods in that reporting period
    - An annual reporting period beginning after Dec. 15, 2016, and interim reporting periods in annual reporting periods beginning one year after the annual reporting period in which an entity first applies the guidance

Transition

Transition is allowed with the selection of one of two methods:

1. Full retrospective application to each prior reporting period presented, and an election of any of the following practical expedients:
   - Completed contracts that begin and end within the same annual reporting period do not need to be restated.
   - When variable consideration is included in completed contracts, the transaction price at the

contract completion date may be used to record revenue rather than estimating variable consideration amounts in the comparative reporting periods.
- In reporting periods prior to the date of initial application, disclosure may be omitted for both the amount of the transaction price allocated to remaining performance obligations and for an explanation of when the entity expects to recognize that remaining revenue.

2. Modified retrospective application with a cumulative effect adjustment to the opening retained earnings balance in the year of adoption. Under this method, an entity must disclose the following in the interim and annual reporting periods that include the initial application:

   - The quantitative impact in the current reporting period, by financial statement line item, of the application of the new revenue recognition standard as compared to prior GAAP
   - An explanation of the reasons for significant changes

Crowe Resources
On May 25, 2017, Crowe released "Just Around the Corner – Applying the "New" Revenue Recognition Standard to Financial Institutions," an article evaluating the scoping exercises that financial institutions should consider for noninterest income revenue streams.

Recognition and Measurement

The FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," on Jan. 5, 2016.

The final standard includes substantial changes for equity investments, including securities and certain partnership interests, deferred-tax assets (DTAs) on AFS securities, and certain disclosures.

Equity investments
Equity investments are required to be measured at fair value with changes in fair value recognized in net income (FV/NI), except for certain investments that are accounted for under the equity method of accounting and those that qualify for the practicability exception to fair value measurement. The current AFS option for equity investments is eliminated.

- The standard provides a practicability exception for investments without a "readily determinable fair value."
- Measure at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical investment or a similar investment of the same issuer. In a significant change from existing guidance, upward adjustments to fair value will be recorded.
- Test for impairment under the one-step model, which includes an assessment of indicators identified in the standard, and when an impairment indicator is identified, the investment must be measured at fair value.
- This exception is not available for broker-dealers (ASC Topic 940), investment companies (ASC Topic 946), or investments in an equity security that qualifies for the practical expedient to estimate fair value in accordance with paragraph ASC 820-10-35-59 (net asset value practical expedient).

Fair value option
- Retains the unconditional fair value option in existing GAAP under ASC Topic 825, "Financial Instruments."
- For financial liabilities that are measured at fair value under the fair value option election, the portion of the total fair value change caused by a change in instrument-specific credit risk should be presented separately in OCI. Under current GAAP, this amount is presented on the income statement and can create counterintuitive changes in income when an institution's own credit risk changes.
- As noted under "Effective Dates and Transition" later, early adoption of this specific provision is

permitted for all entities immediately, as of the beginning of the fiscal year, for interim or annual financial statements of fiscal years or interim periods that have not yet been issued (by PBEs) or that have not yet been made available for issuance (by non-PBEs).

Valuation allowance on a DTA related to debt securities classified as AFS

- Requires a DTA valuation allowance related to an AFS debt security to be assessed in combination with other DTAs. Today, practice is mixed. Some evaluate the DTA on AFS debt securities separately on the basis that management can control its realizability.

Disclosure

- The board distinguished between PBEs and non-PBEs for certain disclosures. In addition, consistent with existing GAAP, trade receivables and payables with a maturity date of less than one year are outside the scope of the new standard for disclosures.
- **Financial assets and financial liabilities** – On the balance sheet or in the footnotes, disclose all financial assets and financial liabilities grouped by measurement category and form (for example, securities or loans and receivables) of financial assets.
- **Fair value for amortized cost financial instruments** – The tabular disclosure that includes the fair value of financial assets and financial liabilities that are measured at amortized cost, in accordance with ASC 825, "Financial Instruments" (formerly known as FASB Statement 107, "Disclosures About Fair Value of Financial Instruments"), is changing as follows:
    - For non-PBEs, the FASB is removing the disclosure requirement completely. As noted under "Effective Dates and Transition" later, early adoption of this provision is permitted immediately for financial statements that have not yet been made available for issuance. For calendar year-ends, early adoption of this provision was allowed for Dec. 31, 2015, annual financial statements that have not yet been made available for issuance.
    - For PBEs, the FASB is raising the bar with an important change in how the fair values would be determined in this tabular disclosure. Currently, an exception in GAAP permits loans to be measured using an entry price, which commonly is computed by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This differs from the general requirement in GAAP to determine fair value using an exit price. Because the new disclosure requirement refers to "fair value" as it is defined in the ASC glossary, and it is the same definition as that for current GAAP fair value, the exception for measuring certain assets at an entry price has been removed. As such, entities will need to measure all financial instruments in this tabular disclosure based on an exit price. This requirement could present challenges, particularly for loan portfolios, given that common practice for those portfolios is to rely on the current exception in GAAP (ASC 825-10-55-3) to measure financial instruments using an entry price.
    - Also, an entity will disclose the level of the fair value hierarchy within which the fair value measurement of financial instruments measured at amortized cost is categorized in its entirety (Level 1, 2, or 3). Certain public companies (under the definitions before ASU 2013-12) already have this requirement, which was established by ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs."
    - In some good news for PBEs, the board is removing the requirements to disclose the method or methods and significant assumptions used to estimate the fair value for disclosure purposes of financial instruments measured at amortized cost. With these changes, the board also is removing the requirement to disclose any changes in methods and significant assumptions.
- **Equity securities using the practical expedient** – Disclose the carrying amount of investments that are measured using the practicability exception, as well as the amount of adjustments made to the carrying amount due to observable changes and impairment charge during the period. An entity would not have to disclose the information it considered to reach the carrying amount or upward or downward adjustments resulting from observable price changes.

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Clarifications
On Sept. 27, 2017, the FASB issued an exposure draft that contains two proposals for corrections to two recent accounting standards, one of which is a proposal for recognition and measurement: "Two Proposed Accounting Standards Updates – Technical Corrections and Improvements to Recently Issued Standards: I. Accounting Standards Update No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and II. Accounting Standards Update No. 2016-02, Leases (Topic 842)."

The board is proposing the following six clarifications to ASU 2016-01:

- **Equity securities without a readily determinable fair value**
  - The measurement alternative applies until the investment has a readily determinable fair value or becomes eligible for the net asset value practical expedient. The proposal clarifies that an entity may also change from the measurement alternative to a fair value method consistent with Topic 820, "Fair Value Measurement," for all securities of the same type.
  - When an observable transaction occurs for a similar security, an adjustment is made to reflect the current fair value of the security. The proposal clarifies that those adjustments should be made as of the date that the observable transaction took place.
  - The proposal clarifies that remeasuring the entire value of forward contracts and purchased options is required when an observable transaction on the underlying equity investment occurs.
  - A prospective transition approach is required for all equity securities without a readily determinable fair value. The proposal clarifies that such an approach is required only when the measurement alternative is applied.
- **Fair value option (FVO) financial liabilities**
  - Presentation of financial liabilities for which the FVO has been elected is required, and the proposal further clarifies that the presentation guidance in ASC 825-10-45-5 should be applied whether the FVO was elected under ASC 825-10 or ASC 815-15 for embedded derivatives.
  - The fair value change attributable to instrument-specific credit risk for FVO financial liabilities is required (ASC 825-10-45-5) to be separately presented in other comprehensive income (OCI). For FVO financial liabilities denominated in a foreign currency, the proposal clarifies that the fair value change for instrument-specific credit risk should first be measured in the currency of denomination when separately presented in OCI. It also clarifies how the fair value change components would be remeasured into the functional currency of the reporting entity.

Comments were due Nov. 13, 2017.

Effective Dates and Transition
For PBEs, the standard will be effective in fiscal years beginning after Dec. 15, 2017, including interim periods in those fiscal years.

For non-PBEs, the standard will be effective for fiscal years beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019. Non-PBEs may early adopt the standard using the PBE effective dates.

For two items, early adoption is permitted immediately as of the beginning of the fiscal year for interim or annual financial statements that have not yet been issued (for PBEs) or that have not yet been made available for issuance (for non-PBEs) for the following:

- Fair value change resulting from own credit risk for financial liabilities measured under the fair value option recognized through OCI
- The elimination of fair value disclosure requirements for financial instruments not recognized at fair value by entities that are not PBEs

Upon adopting ASU 2016-01 an entity will be required to make a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective (that is, to take a modified retrospective approach). For example, to reclassify an AFS equity security to FV/NI, the entity will make an adjustment from accumulated other comprehensive income

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(loss) to retained earnings at the date of adoption. The practical expedient for equity securities without readily determinable fair values will be applied prospectively.

Crowe Resources
An article published by Crowe, "It's Just an Oil Change After All: FASB Issues Final Standard for Recognition and Measurement of Financial Instruments," provides an in-depth discussion of the final standard.

Leases

On Feb. 25, 2016, the FASB issued its standard on leases. ASU 2016-02, "Leases (Topic 842)," is the culmination of a joint project of the FASB and the IASB that both boards added to their agendas in July 2006. Earlier in 2016, the IASB issued International Financial Reporting Standard (IFRS) 16, "Leases," which is converged with the FASB standard with respect to recording most leases on the balance sheet.

ASU 2016-02 was issued in three sections: "Section A – Leases: Amendments to the FASB Accounting Standards Codification," "Section B – Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification," and "Section C – Background Information and Basis for Conclusions."

The lease standard applies to all lease contracts. A lease contract is defined as a contract, or part of a contract, that conveys the right to control the use of an asset for a time period in exchange for consideration. Under the standard, the right to control the use of an asset includes an assessment of the customer's rights to obtain substantially all of the economic benefits from the asset and to direct the use of the asset.

Consistent with current GAAP, lessees will be permitted to make an accounting policy election to not recognize lease assets and liabilities for short-term leases (that is, lease terms that are 12 months or less, subject to certain conditions that are included in the definition of "short-term lease" and "lease term") under the new standard. The "lease term" includes periods subject to an option to extend the lease if the lessee is reasonably certain to exercise that option. This means leases of 12 months or less with extension options that meet those criteria will come on balance sheet.

Lessees

Most leases today are considered operating leases, which are not accounted for on the lessees' balance sheets. The significant change under the new standard is that those operating leases will be recorded on the balance sheet. All leases, whether finance or operating, will be on balance sheet unless they are subject to the short-term lease accounting policy election. A right-of-use (ROU) asset will be recorded to represent the right to use the leased asset, and a liability will be recorded to represent the lease obligation.

Most capital leases under existing GAAP will be accounted for as finance leases under the new standard (that is, recognizing amortization expense on the asset separately from interest expense on the liability). Most operating leases under existing GAAP will remain operating (that is, recognizing lease expense that consists of amortization expense on the asset and interest on the liability).

Under the new standard, after determining that a contract contains a lease, a lessee will need to evaluate whether the lease is finance or operating at the commencement of a new lease and upon change in the lease term or change in the lessee's option to purchase the asset.

Generally consistent with existing GAAP, a lessee will assess whether it has met any of the five criteria in the new standard that are based on whether the lessee obtains control of the leased asset rather than merely control over the use of the leased asset, and if so, the lease will be classified as a finance lease (see paragraph BC56 of the ASU).

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The differences in lease classification are outlined in the following table.

Lessee Lease Classification

Lease Type	Finance Lease	Operating Lease
Has control of the leased asset passed to the lessee?	• Yes	• No
Lease type	• Financing approach	• Operating approach
Balance sheet	• Right-of-use asset • Lease liability	• Right-of-use asset • Lease liability
Income statement (characterization)	• Interest expense • Amortization expense	• Lease expense
Pattern of expense	• Front-loaded	• Straight-line
Cash flow statement	• Operating – cash paid for interest • Financing – cash paid for principal	• Operating – cash paid for lease payments

Lessors

Lessor accounting for direct-finance, sales-type, and operating leases is similar under existing GAAP and the new standard with a few differences. One change is to align the lessor income recognition model with the new revenue recognition standard, and another is to align the lessor classification model with that of the lessee.

A lessor will determine whether a lease should be classified as sales-type based on applying the same five criteria as lessees, and if any are met (that is, the lessee effectively obtains control of the leased asset), the lease will be classified as a sales-type lease. If the lease does not meet any of those initial five criteria, a lessor will determine if the lease meets the two criteria that trigger direct-finance lease classification. Those two criteria are: 1) the present value of the sum of the lease payments and any additional guaranteed residual value equals or exceeds substantially all of the fair value of the leased asset, and 2) it is probable that the lessor will collect the lease payments and any guaranteed residual value.

Leases that do not meet any of the initial five criteria to be sales-type leases and that do not meet both criteria to be classified as direct-finance leases will be classified as operating leases.

Lessor Lease Classification

Lease Type	Direct-Finance or Sales-Type Lease	Operating Lease
Balance sheet	• Net investment in the lease (unless for sales-type lease, collectibility is not probable, and the leased asset is not derecognized)	• Continue to recognize underlying asset
Income statement	• Direct-finance: interest and profit over lease term, loss at commencement • Sales-type: interest over lease term, profit/loss at commencement if collectibility is probable	• Lease income, typically straight-line
Cash flow statement	• Operating – cash received for lease payments	• Operating – cash received for lease payments

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Sale and Leaseback Transactions

Parties to a sale and leaseback transaction will be required to assess whether the sale of the property in question meets the criteria for a sale in the new revenue recognition standard, which focuses on elements of control. Because usually an operating lease conveys a right to control the use of an asset for the lease period and does not transfer control of the asset itself to the lessee, the existence of the leaseback will not prevent the buyer-lessor from obtaining control of the asset.

The new standard establishes that if the buyer-lessor in a sale and leaseback transaction determines that the leaseback should be classified as a sales-type or direct-finance lease, then no sale has occurred because control has not transferred to the buyer-lessor (see ASC 842-40-25-2). In that case, the buyer-lessor would not account for a purchase of the asset, and the seller-lessee would not account for a sale. In addition, repurchase options contained in a leaseback would preclude sale treatment – unless the repurchase option is exercisable only at the then-prevailing fair value and the lease asset is not specialized (see ASC 842-40-25-3).

Given the changes to sale and leaseback transactions under the new leases standard, the FASB has provided implementation guidance that addresses whether a sale has occurred in the context of a sale and leaseback transaction (see ASC 842-40-55).

In general, accounting by both parties – the buyer-lessor and the seller-lessee – will be consistent with the accounting for the purchase and sale of any other similar nonfinancial asset, and the leaseback will be consistent with that of any other lease. However, the standard does address sale and leaseback transactions entered into at off-market terms for which there is a difference between either 1) the sale price and the fair value of the underlying asset or 2) the present value of the contractual lease payments and the present value of market value lease payments, whichever is more readily determinable. For such off-market transactions, any deficiency will be accounted for in the same manner as a prepayment of rent, while any excess will be accounted for as additional financing provided by the buyer-lessor to the seller-lessee (see ASC 842-40-30-1 and 30-2).

Sale and Leaseback Transition Guidance

Previously Qualified as a Sale Under Existing GAAP
Sale and leaseback transactions that occurred prior to the effective date and qualified as a sale under existing GAAP (ASC 840) should not be reassessed to determine whether they would have been a sale under the new guidance in ASC 842. There should be no change in the determination of previous transactions that qualified as sales prior to the effective date of ASC 842. The related leaseback transactions for those previous sales should be accounted for in transition in the same manner as required upon transition for other operating or capital leases by a lessee, or operating, direct financing, or sales-type leases by a lessor. In addition, any deferred gain or loss on previous sales should be accounted for as summarized here:

Previously a sale and capital leaseback: For sale and capital leaseback transactions under existing GAAP (ASC 840), the deferred gain or loss recorded by seller-lessees, at the later of the beginning of the earliest period presented or the date of sale, should continue to be amortized. If the underlying asset is land only, the deferred gain or loss should be amortized on a straight-line basis over the remaining lease term. If the underlying asset is not land only and the leaseback is a finance lease, the deferred gain or loss should be amortized in proportion to the ROU asset amortization. If the underlying asset is not land only and the leaseback is an operating lease, the deferred gain or loss should be amortized in proportion to the total lease cost recognized in the income statement.

Previously a sale and operating leaseback: For sale and operating leasebacks under existing GAAP, the deferred gain or loss recorded by seller-lessees should be recognized as an adjustment to the financial statements based upon whether the gain or loss resulted from off-market terms. Deferred gains or losses resulting from market terms should be recognized as a cumulative-effect adjustment at the later of the date of initial application (to equity) or the date of sale (to earnings of the comparative period presented).

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Deferred losses resulting from off-market terms (that is, the consideration for the sale of the asset is not at fair value or the lease payments are not at market rates) should be reclassified by adjusting the leaseback ROU asset at the date of initial application. Deferred gains resulting from off-market terms should be reclassified to a financial liability at the date of initial application.

Failed Sales Under Existing GAAP
Sale and leaseback transactions that occurred prior to the effective date and do not qualify as a sale under existing GAAP (that is, they were accounted for as failed sales under ASC 840) should be reassessed to determine whether the transactions would qualify as sales under the new guidance in ASC 842 during the transition period (that is, on or after the beginning of the earliest comparative period presented upon adoption of the new guidance).

No longer a failed sale: If the transaction now qualifies as a sale under the new guidance in ASC 842, it should be accounted for on a modified retrospective basis on the date of sale, and on that date, the related leaseback would be recognized in the same manner as required upon transition for other leases by a lessee or lessor.

Remains a failed sale: If the transaction continues to be a failed sale under the new guidance in ASC 842, there is no accounting upon transition, as no gain or loss is recorded and no leaseback is recognized.

Clarifications

Proposed Technical Corrections and Improvements
On Sept. 27, 2017, the FASB issued an exposure draft that contains two proposals for corrections to two recent accounting standards, one of which is a proposal for leases: "Two Proposed Accounting Standards Updates – Technical Corrections and Improvements to Recently Issued Standards: I. Accounting Standards Update No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and II. Accounting Standards Update No. 2016-02, Leases (Topic 842)."

The board is proposing sixteen clarifications to ASU 2016-02 on the following topics:

- Residual value guarantees
- Rate implicit in the lease
- Lessee reassessment of lease classification
- Lessor reassessment of lease term and purchase option
- Variable lease payments that depend on an index or a rate
- Investment tax credits
- Lease term and purchase option
- Transition guidance for:
  - Amounts previously recognized in business combinations
  - Certain transition adjustments
  - Leases previously classified as capital leases under Topic 840
  - Modifications to leases previously classified as direct financing or sales-type under Topic 840
  - Sale and leasebacks
- Impairment of net investment in the lease
- Unguaranteed residual asset
- Effect of initial direct costs on the rate implicit in the lease
- Failed sale and leaseback transactions

Comments were due Nov. 13, 2017.

Practical Expedient for Land Easements
The FASB issued a proposal on Sept. 25, 2017, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842," to ease the costs of applying the new lease accounting guidance to land easements (that is, "a right to use, access, or cross another entity's land for a specified

purpose," often referred to as a "right of way"). There currently is diversity in practice in accounting for land easements. Some entities apply Topic 840, "Leases," while others use Topic 360, "Property, Plant, and Equipment." Under the proposal, all entities would apply the new lease accounting guidance in Topic 842 to land easements.

To provide transition relief, the proposal would permit entities that do not currently apply Topic 840 to continue to apply current accounting policies to all land easements that existed or expired before the effective date of Topic 842. Topic 842 would be applied prospectively to all new or modified land easements.

The effective dates and transition would be the same as those for ASU 2016-02, "Leases (Topic 842)." (See "Effective Dates" below.)

Comments were due Oct. 25, 2017.

Effective Dates

For PBEs and certain not-for-profit entities and employee benefit plans, the lease accounting standard is effective for interim and annual periods beginning after Dec. 15, 2018, which first applies to March 31, 2019, interim financial statements for calendar year-end PBEs.

For PBEs that qualify as a PBE solely due to the requirement to include or the inclusion of its financial statements or financial information in another entity's SEC filing ("certain PBEs"), the SEC will allow those certain PBEs to elect to apply the non-PBE effective dates for the lease accounting standard. See ASU 2017-13, which codifies the SEC staff announcement from the July 20, 2017, EITF meeting. That means certain PBEs may elect to apply the lease guidance for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020, which if elected, first applies to Dec. 31, 2020, annual financial statement for calendar year-end entities.

For non-PBEs (and not-for-profit entities and employee benefit plans that do not meet the criteria in the standard for the earlier effective date), the standard is effective for fiscal years beginning after Dec. 15, 2019, and interim periods within the fiscal years beginning after Dec. 15, 2020, which first applies to Dec. 31, 2020, annual financial statements for calendar year-end entities.

Early adoption is permitted upon issuance.

Transition

- Lessees will have a modified retrospective transition for finance and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented.
- Lessors will have a modified retrospective transition for sales-type, direct-finance, and operating leases existing at, or entered into after, the date of initial application.

Under the modified retrospective transition, the earliest historical periods presented will need to be revised. Practical expedients have been provided for transition, including the option to make an accounting policy election that provides relief from reassessing the existence and classification of leases in contracts that commence before the effective date, as discussed in the next section.

Practical Expedients for Transition

Practical expedient package: An entity may elect to apply three practical expedients as a package to all of its leases as follows:

1. Any expired or existing contract that commences before the effective date need not be reassessed to determine whether it is or contains a lease.
2. The classification of any expired or existing lease that commences before the effective date need not be reassessed. Thus, all operating leases will remain classified as operating, and all capital leases will be classified as finance.
3. Initial direct costs need not be reassessed for any existing lease.

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Use of hindsight: Separately, an entity may elect to use hindsight in determining the lease term for all leases (that is, when considering lessee options to extend or terminate the lease and to purchase the lease asset) and in assessing impairment of the ROU assets.

Crowe Resources
In addition to the article Crowe released on the same date that the new lease standard was issued by the FASB, "Bigger Balance Sheets on the Horizon: FASB Issues New Leases Accounting Standard," Crowe published the article "Something Borrowed, Something New – Get Ready for the New Lease Accounting Standard," which provides an in-depth discussion of the final standard.

Credit Losses

The final standard, issued on June 16, 2016, ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," will significantly change estimates for credit losses related to financial assets measured at amortized cost and certain other contracts. For estimating credit losses, the FASB is replacing the incurred loss model with an expected loss model, which is referred to as the CECL model. The largest impact will be on lenders and the allowance for loan and lease losses (ALLL). Financial reporting cannot prevent another financial crisis like the one that began in 2007, but the CECL model will require financial institutions to recognize expected losses in a timelier manner, which in turn will provide investors with information earlier than under the incurred loss model.

The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity (HTM) debt securities, trade receivables, reinsurance receivables, and receivables from repurchase and securities lending agreements. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. The scope excludes financial assets measured at fair value, available-for-sale (AFS) debt securities, loans made to participants by defined contribution employee benefit plans, policy loan receivables of an insurance company, pledge receivables of a not-for-profit entity, receivables between entities under common control, and derivatives and hedging instruments in the scope of Accounting Standards Codification (ASC) Topic 815.

Under the CECL model, financial statement preparers should address the following guidelines included in the standard:

- Consider available information relevant to assessing the collectability of contractual cash flows – including information about past events, current conditions, and reasonable and supportable forecasts – when developing an estimate of expected credit losses. Available information includes data that is available without undue cost and effort, and it may include data solely from internal sources, or it may include data from internal and external sources.
- Consider relevant qualitative and quantitative factors that relate to the environment in which the entity operates and are specific to the borrower.
- Consider all contractual cash flows over the contractual term of the related financial assets. Expected prepayments should be incorporated into the CECL model, but expected extensions, renewals, and modifications should not (unless a troubled debt restructuring (TDR) is expected).
- Evaluate financial assets on a collective (pool) basis when similar risk characteristics exist.
- In order to avoid double-counting, if a financial asset is evaluated on an individual basis (because similar risk characteristics do not exist with other financial assets at an institution), it should not be included in a collective evaluation.
- Reflect the risk of loss, even when remote. However, a loss is not required to be measured when the expectation of nonpayment is zero. For example, if the amount of collateral is such that no loss would be recognized in the event of default, a loss need not be recognized.
- Revert to an unadjusted historical loss experience for the future periods beyond which the entity is able to make or obtain reasonable and supportable forecasts. A straight-line method is one

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acceptable reversion method.

  - Of the guidelines in the standard, determining the reasonable and supportable forecast period is one of the most complex as it requires significant judgement. There are no bright lines contained in the standard when it comes to selecting the length of the period, which might introduce some diversity in practice. Banking regulators have indicated that back-testing of the period will not be required to support the length of the period, but consideration should be given to consistency with other forecasts made or used at the same institution.
- Various methods may be used, including a discounted cash flow approach, loss rate methods, probability-of-default methods, and aging schedules.

AFS debt securities

The final standard also refines the other-than-temporary impairment (OTTI) model for AFS debt securities. Debt securities classified as "available-for-sale" are excluded from the scope of the CECL model and will continue to be within the scope of ASC 320, with the following modifications:

- A valuation allowance instead of a direct write down of cost will be used for recognizing impairment losses, which will allow an entity to recognize reversals of credit losses.
- Removed the requirement to consider the length of time that the fair value of an AFS debt security has been less than its amortized cost basis when estimating whether a credit loss exists.
- When estimating whether a credit loss exists, an entity is not required to consider recoveries or additional declines in the fair value after the balance sheet date.

In addition, a fair value floor is incorporated into the credit loss model for AFS debt securities such that the credit losses are limited to the difference between the debt security's amortized cost basis and its fair value.

The guidance is retained that requires an entity to consider whether it intends to sell the security or it more likely than not will be required to sell the security before the recovery of its amortized cost basis. In addition, the requirement to consider the historical or implied volatility is removed and no longer a factor that must be considered when estimating whether a credit loss exists. However, an entity is not prohibited from considering the volatility.

Purchased credit deteriorated (PCD) assets

The purchased credit impaired (PCI) model will be replaced with a PCD model. At acquisition (that is, on day one), the par or principal amount, allowance, and noncredit discount are recorded for all acquired assets with evidence of credit deterioration.

The par amount of an asset is recorded and the noncredit discount accreted into income over the life of the asset. The noncredit-related discount or premium resulting from acquiring a pool of PCD financial assets will be allocated to each individual financial asset, removing the ability to "pool" for the unit of account. In a change to GAAP, increases in expected cash flows are recognized in the allowance immediately instead of prospectively. Consistent with existing GAAP, decreases in expected cash flows will continue to be recognized immediately in the allowance under the new model.

The existing PCI model also is changed to, at acquisition, record an allowance for credit losses by "grossing up" the acquisition price. A discounted cash flow approach is not required to measure expected credit losses on PCD assets at the acquisition date, but the expected credit losses must be measured using the previously described CECL model.

In addition, the scope is expanded from assets acquired with "significant" credit deterioration under the PCI methodology to those that are acquired with "more than insignificant" credit deterioration under the PCD methodology. The scope does not, however, include all acquired financial assets or all assets acquired in a business combination.

TDRs

Credit losses on TDRs should be measured using the CECL methodology – a change from existing GAAP, which limits the measurement techniques for credit losses on TDRs to a discounted cash flow

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technique, fair value of the collateral, or fair value of the loan. Cost-basis adjustments will not be required, and credit losses – including the concession given to the borrower from a TDR – will be recognized using an allowance account. This will provide opportunity for reversal upon increases in cash flows.

Beneficial interests

For certain beneficial interests, an allowance for expected credit losses for which there is a significant difference between contractual and expected cash flows will be measured and recognized. Changes in expected cash flows due to factors other than credit should be accreted into interest income over the life of the asset.

Disclosures

The standard retains many existing disclosures and introduces new disclosures, including:

- A description and discussion of the factors that influenced management's current estimate of expected credit losses, including reasonable and supportable forecasts about the future
- The method applied to revert to historical credit loss experience for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts
- The policies for writing off uncollectible receivables (which is current GAAP)
- The policies for accounting for nonaccrual financial assets, including policies for placing financial assets on nonaccrual status (which is current GAAP)
- Qualitative disclosures relating to collateralized financial assets (which applies only to collateral-dependent financial assets)
- A roll-forward of the allowance for expected credit losses, for both financial assets measured at amortized cost (for example, loans held for investment by portfolio segment) and fair value through OCI (for example, AFS debt securities by major security type)
- Vintage disclosure – a disaggregation of the credit-quality indicators for all classes of financing receivables (excluding revolving lines of credit such as credit cards) that are disclosed under current GAAP, by year of the asset's origination (that is, vintage year):
  - The disaggregation year would be limited to no more than five annual reporting periods, with the balance for financing receivables originated before the fifth annual reporting period shown in aggregate.
  - For an interim reporting period, the year-to-date originations of the current annual reporting period would be considered to be current-period originations.
  - For the purpose of determining the vintage year for disaggregated credit-quality disclosures, an entity would use the guidance for determining a new loan resulting from loan refinancing or restructurings in current GAAP.
  - Certain entities would be offered relief for the vintage disclosure:
    - For PBEs that are not SEC filers (as discussed under "Effective Dates"), a practical expedient in transition is available to disclose only three years of the required vintage information in the year of adoption and four years in the year after adoption. In years thereafter, these entities must comply with the full five-year disclosure requirement.
    - For entities that are not PBEs, the vintage disclosure is optional.

Transition

- For debt securities with OTTI, the guidance will be applied prospectively. That is, the amortized cost basis including previous write-downs prior to adoption is the same cost basis at adoption.
- Existing PCI assets will be grandfathered and classified as PCD assets at the date of adoption. The assets will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

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Effective Dates

Recognizing the pervasive impact that the final standard will have, particularly on the financial institutions industry, the board decided to depart slightly from its definitions of "public business entity" (PBE) and "all other entities" for purposes of the effective dates. For this standard, the board decided to create a subgroup of PBEs that includes only SEC filers as that term is defined in GAAP.

The effective dates are as follows:

- For PBEs that are SEC filers, the standard will be effective for fiscal years beginning after Dec. 15, 2019, including interim periods in those fiscal years. For calendar year-end SEC filers, it is effective for March 31, 2020, interim financial statements.
- For PBEs that are not SEC filers, the standard will be effective for fiscal years beginning after Dec. 15, 2020, including interim periods within those fiscal years. For calendar year-end PBEs that are not SEC filers, it is effective for March 31, 2021, interim financial statements.
- For all other entities, the standard will be effective for fiscal years beginning after Dec. 15, 2020, and interim periods within the fiscal years beginning after Dec. 15, 2021. For calendar year-end entities that are not PBEs, it is effective for Dec. 31, 2021, annual financial statements.

For all entities, the board decided to permit early adoption using the original effective date for PBEs. All entities may early adopt for fiscal years beginning after Dec. 15, 2018, including interim periods in those fiscal years, which means that calendar year-end entities may adopt as early as the March 31, 2019, interim financial statements.

Transition Resource Group for Credit Losses

The FASB formed a transition resource group (TRG) for Credit Losses to assist the staff with the remaining transition and implementation issues for the credit loss standard. The TRG for Credit Losses solicits, analyzes, and discusses issues related to implementation of the CECL standard. The TRG for Credit Losses is led by Hal Schroeder, a FASB member, and comprises industry experts including banks, credit unions, insurance companies, and auditors. Financial institution regulators, the SEC, the PCC, and the PCAOB serve as observers to the TRG's activities.

The first public meeting of the TRG for Credit Losses was held on April 1, 2016. The meeting's main objective was to seek feedback on whether the guidance in the draft of the forthcoming credit losses standard clearly communicates the board's decisions and expectations for implementation. In addition to the agenda for the April 1 meeting, the meeting materials that were publicly released included portions of the draft standard relating to expected credit losses.

The TRG for Credit Losses met on June 12, 2017 to discuss several implementation questions for the credit loss standard, and resolved three of the five issues considered:

- **Consideration of prepayments in the discount rate used in a discounted cash flow method:** The TRG supported the FASB staff's view in Memo No. 1 that an entity may make an accounting policy election to include prepayments in the effective interest rate used in a discounted cash flow model to measure credit losses and that the election should be made at the class level for financing receivables.
- **When beneficial interests may be within the scope of purchased credit deteriorated (PCD) assets accounting:** The TRG supported the FASB staff's view in Memo No. 2 that when an entity is performing an analysis on whether to apply the PCD model to a beneficial interest, the entity should compute contractual cash flows for the beneficial interest by assuming expected prepayments and no credit losses.
- **Transitioning pools of purchased credit impaired (PCI) assets to PCD assets accounting:** The TRG supported allowing two views outlined in Memo No. 3; these are 1) maintaining PCI pools only at the time of adopting the credit loss standard and applying the new standard to the pools on an ongoing basis for credit loss measurement, and 2) allowing an accounting policy election to maintain the PCI pools both at the time of adoption and on an ongoing basis for credit loss measurement.

The two unresolved issues related to forecasting reasonably expected TDRs and estimating the life of a credit card receivable. Both of those issues were resolved by the FASB during separate board meetings. (See the following two sections.)

Forecasting reasonably expected TDRs

At the FASB's Sept. 6, 2017, meeting the staff defined the unresolved issues for TDRs under the credit loss standard as relating to when an allowance estimate for TDRs should be recognized and the complexities of measuring certain TDR concessions (such as interest-rate and term concessions) using a method other than a discounted cash flow (DCF) method.

At the meeting (memorialized in Memo 6A on the TRG Meetings webpage), the board clarified that it did not intend to change the identification method for TDRs; as such, identification of a TDR is required when an individual asset is specifically identified as a reasonably expected TDR. In addition, the board concluded that once specifically identified, a TDR must be measured using a DCF method (or a method that reconciles to a DCF model) when an entity grants a concession that can be measured only using a DCF model (such as an interest-rate or term concession). The FASB said it did not intend to allow measurement of TDRs in a way that avoids capturing TDR concessions.

Furthermore, if an entity uses a DCF method for measurement of credit losses on a performing loan portfolio, adjustments for TDRs that are incremental to what is embedded in the historical loss information should not be incorporated as an input to the model until a TDR is individually identified.

Acceptable methods for estimating the life of a credit card receivable

At the FASB's Oct. 4, 2017, meeting, the board decided to allow entities to include all or only a portion of borrower payments expected to be collected when estimating the amount of expected future payments over the life of a credit card receivable under the CECL model.

The TRG's memos and meeting agendas are available on its Meetings page.

AICPA Depository Institutions Expert Panel (DIEP)

The DIEP is working with key stakeholders, including regulators and standard setters, to facilitate discussion and resolution of CECL implementation issues. The panel's objective is to document and communicate resolutions by the TRG, the DIEP, or other stakeholders with the ultimate goal of producing an AICPA CECL accounting and audit guide. The DIEP plans to release proposed resolutions on the AICPA's website for comment.

Crowe Resources

An article published by Crowe in August 2016, "Inside the New Credit Loss Model: Requirements and Implementation Considerations," offers a comprehensive look at the new standard.

In addition, Crowe published a series of articles on adapting to the CECL model:

- June 2016, "Adapting to CECL – Part I: Identifying Portfolio Risks"
- July 2016, "Adapting to CECL – Part II: Taking Stock of the Data Requirements"
- September 2016, "Adapting to CECL – Part III: Establishing Effective Governance and Oversight"
- October 2016, "Adapting to CECL – Part IV: Developing Needed Resources and Technology"

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From the FASB: Other Final Standards

Definition of "Public Business Entity" (PBE): It's Not Just for SEC Registrants

As a result of the many definitions of "public" and "nonpublic" (or private) existing in GAAP, on Dec. 23, 2013, the FASB issued ASU 2013-12, "Definition of a Public Business Entity – An Addition to the Master Glossary," to provide a single definition of a "public business entity" to be used in future financial accounting and reporting guidance. The new definition did not affect existing requirements at the time, but it applies to all standards issued after ASU 2013-12.

Despite the fact that it was issued four years ago and is only one paragraph in length, it remains a focus of many in the financial reporting community, including regulators and financial institutions. Because of this revised definition, many more financial institutions are considered public business entities than, perhaps, were considered public under previous guidance.

The codification continues to include multiple definitions of the terms "nonpublic entity" and "public entity." In PCC Issue 14-01, "Definition of a Public Business Entity – Phase II," the PCC decided not to change the existing definitions of a nonpublic entity and noted that the existing definitions will remain in the codification until potentially amended by the FASB.

Following is the definition of "public business entity" in ASU 2013-12:

> "A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.
>
> > "a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
> >
> > "b. It is required by the *Securities Exchange Act of 1934* (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
> >
> > "c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
> >
> > "d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
> >
> > "e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.
>
> "An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC."

Because of complexities and questions arising from the implementation of the definition of a public business entity, the AICPA issued a TQA document, in October 2017, to provide implementation guidance. In particular, the TQA addresses industry-specific questions that have arisen during implementation for banks, mutual and credit unions, and broker-dealers. See a discussion of the TQA in the section "AICPA Technical Question & Answer," later.

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Implications for Those Deemed "Public" for Financial Reporting Purposes

The implications of being public for financial reporting purposes stand to be significant. Following are the main differences between being a public business entity and a non-PBE:

- **Recognition and measurement.** An entity deemed a PBE would be unable to elect any guidance issued by the PCC or other accounting alternatives provided by the FASB for non-PBEs.
- **Effective dates.** For many standards issued by the FASB, the effective dates generally are earlier for PBEs. In those cases, an entity deemed a PBE would follow the earlier effective dates.
- **Disclosures.** For some standards, more disclosures are required for PBEs. In those cases, an entity deemed a PBE would be subject to more disclosures.

Because the determination of whether an entity is a PBE or a non-PBE drives the timing for adopting new standards, which disclosures are presented, and perhaps which recognition and measurement guidance to apply – when accounting alternatives exist – each financial institution should evaluate carefully whether it meets the definition of a PBE for financial reporting purposes.

Resources

AICPA Technical Question & Answer

On Oct. 24, 2017, the AICPA issued a TQA document, Q&A Section 7100, "Definition of a Public Business Entity," to help preparers and auditors navigate the PBE definition. Section 7100 includes 16 new questions and answers that provide guidance on terms and other questions related to PBEs. The questions and answers of interest to financial institutions include:

- 7100.03 – "Over-the-counter markets" (OTC markets) in criterion (d) of the PBE definition include the OTCQX, OTCQB, OTC Pink, and OTCBB.

  Other markets, including both debt and equity security markets, may be considered OTC markets if they 1) are accessible by the public to execute trades (that is, are not limited access for certain investors such as qualified institutional or accredited investors) and 2) make quotes and trade information publicly available.

  Under this guidance, certain markets, such as the Private Offering, Resale and Trading through Automated Linkages (PORTAL) market, are not OTC markets.

- 7100.06 – A "contractual restriction on transfer" in criteria (c) and (e) of the definition includes explicit and implicit restrictions.

  A management preapproval for transfer, commonly found in S corporations, would be an example of an explicit restriction if formally included in the shareholder agreements. Other contractual restrictions that limit transfers to existing shareholders also represent explicit restrictions because management has controlled "to whom they [investors] sell their securities."

  Implicit restrictions can include those that do not require preapproval to transfer in situations where the parent holds all securities of and controls the entity under evaluation. Other types of legal restrictions that are not contractual restrictions, under this guidance, include a right of first refusal, limitations on the holding period, and limitations on accredited investors or qualified institutional buyers.

- 7100.08 – In a tiered organizational structure, the PBE evaluation should be performed on an entity-by-entity basis (that is, on a stand-alone basis – for example, at the parent company level and separately at each subsidiary level).

- 7100.11 – Financial institutions that are subject to FDICIA should apply an entity-by-entity approach to evaluate the institution's capital structure. Accordingly, FDICIA banks with a holding company are

not always PBEs.

- 7100.12 – In a PBE evaluation, a mutual entity (such as a credit union or mutual thrift) should evaluate its subordinated debt or secondary capital under criterion (d) of the PBE definition, and a mutual thrift subject to FDICIA should assess any outstanding securities for contractual restrictions.

- 7100.13 – Consideration should be given to whether brokered CDs issued through Depository Trust Company (DTC) with master certificates are traded with publicly quoted prices under criterion (d) of the PBE definition. Other types of brokered deposits often will not be relevant to the definition of a PBE.

Business Combinations

Definition of a Business

On Jan. 5, 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," which clarifies the definition of a business and is intended to help evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. That distinction determines whether goodwill is recorded or not. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. If substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, then the set of transferred assets and activities is not a business.

The amendments require a business to include at least one substantive process and remove the evaluation of whether a market participant could replace the missing elements. The revised definition will result in more transactions being recorded as asset acquisitions or dispositions as opposed to business acquisitions or dispositions.

Effective Dates

For PBEs, the standard is effective for annual reporting periods beginning after Dec. 15, 2017, including interim periods in those periods, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs.

For all other entities, it is effective for annual reporting periods beginning after Dec. 15, 2018, and interim periods in annual periods beginning after Dec. 15, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities.

Early adoption is allowed as follows:

- For acquisitions before the adoption date, only when the acquisition has not already been reported in financial statements that have been issued or made available for issuance.
- For deconsolidation or derecognition transactions in which a subsidiary is deconsolidated or a group of assets is derecognized that occur before the adoption date of the amendments, only when such transaction has not been reported in financial statements that have been issued or made available for issuance.

Transition

Prospective application is required.

Measurement-Period Adjustments in a Business Combination

As a result of feedback the FASB received about accounting for measurement-period adjustments in business combinations as part of its simplification initiative, the FASB added a project to its agenda and ultimately, on Sept. 25, 2015, issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments."

In a business combination, the measurement period ends once the acquirer is able to determine that it has obtained all necessary information that existed as of the acquisition date or once the acquirer has determined that such information is unavailable, but in no event should it exceed one year. Under

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existing GAAP, when an acquirer obtains new information about facts and circumstances that existed on the acquisition date and the acquirer determines that, if known, that information would have affected the measurement of the amounts initially recognized or resulted in the recognition of an asset or liability, the acquirer retrospectively adjusts the amounts recognized at the acquisition date to reflect those facts and circumstances. A change to the amount is offset with a corresponding adjustment to goodwill. The acquirer then revises comparative information for prior periods presented in financial statements as needed. This includes making any changes to depreciation, amortization, or other income effects that were recognized under the initial accounting to reflect the effect of the new information.

Under the amendments, an acquirer recognizes adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustment amount is determined. In the same period's financial statements, the acquirer records the effect on earnings of changes in depreciation, amortization, or other income, if any, that was the result of the change to the provisional amounts calculated as if the accounting had been completed at the acquisition date.

The amendments eliminate the requirement to retrospectively revise prior-period financial statements as a result of measurement-period adjustments; however, disclosure of measurement-period adjustments recorded in the current period related to provisional amounts recorded in prior periods is required. Specifically, disclosure either on the face of the income statement or in the notes to the financial statements, by line item, is required for adjustments to provisional amounts that were reported in the current period but would have been reported in prior periods if the adjustments had been recognized as of the acquisition date.

Effective Dates
For PBEs, the amendments are effective for annual periods beginning after Dec. 15, 2015, including interim periods in those fiscal years, which first applied to March 31, 2016, interim financial statements for calendar year-end PBEs. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2016, and interim periods in fiscal years beginning after Dec. 15, 2017, which first applies to Dec. 31, 2017, annual financial statements for calendar year-end non-PBEs.

Transition
An entity should apply the amendments prospectively to adjustments to provisional amounts that occur after the effective date. Earlier application is permitted for financial statements that have not been issued by a PBE or made available for issuance by other entities.

Intangibles

Goodwill Impairment

On Jan. 26, 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." What started as a recommendation by the PCC to permit private entities to amortize goodwill (see "Goodwill" in the section titled "For Private Entities: The Private Company Council and Financial Institutions") has resulted in a standard to simplify goodwill impairment testing for all entities that have goodwill reported in their financial statements, by eliminating the second step in the current goodwill impairment test. The topic of amortizing goodwill remains on the FASB's research agenda.

Under the new guidance, the FASB removed the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value (that is, the board removed step two of the impairment test in current GAAP). Under current GAAP, step two includes determining the implied fair value of goodwill and comparing it to the carrying amount of goodwill. Under the new guidance, entities will compare the fair value of a reporting unit to its carrying amount and record impairment for the amount by which the carrying amount exceeds the fair value.

The FASB also removed the requirements that reporting units with zero or negative carrying amounts perform a qualitative assessment, and if they fail that qualitative test, to perform step two. As such, the same impairment test will apply to all reporting units, regardless of carrying amount. Entities will be required, however, to disclose the amount of goodwill attributable to those reporting units that have a

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zero or negative carrying amount.

Entities still have the option to apply a qualitative assessment of a reporting unit to determine if a quantitative impairment test is required.

Effective Dates
For PBEs that are SEC filers, the standard is effective for annual or any interim goodwill impairment tests in fiscal years beginning after Dec. 15, 2019. For calendar year-end SEC filers, it first applies to tests performed on or after Jan. 1, 2020.

For PBEs that are not SEC filers, it is effective for annual or any interim goodwill impairment tests in fiscal years beginning after Dec. 15, 2020. For calendar year-end PBEs that are not SEC filers, it first applies to tests performed on or after Jan. 1, 2021.

For other entities, it is effective for annual or any interim goodwill impairment tests in fiscal years beginning after Dec. 15, 2021. For calendar year-end non-PBEs, it first applies to tests performed on or after Jan. 1, 2022.

Early adoption is permitted for all entities' interim or annual goodwill impairment tests performed on testing dates after Jan. 1, 2017.

Transition
Prospective application is required.

Derivatives

Hedge Accounting

In what the FASB is calling "targeted improvements," the board issued guidance to simplify hedge accounting that significantly expands the ability of entities to qualify for hedge accounting. On Aug. 28, 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," to simplify certain aspects of hedge documentation, effectiveness assessments, and accounting and disclosures. This update, several years in the making, offers simplification, opens the doors to new strategies, and may entice nonhedgers to become hedgers.

These are the most significant changes applicable to financial institutions:

Fair value hedges

- Allows cash flows based on benchmark interest rates to be used in assessment of effectiveness, substantially reducing ineffectiveness in hedges of interest rates
- Permits partial-term hedging (for example, hedging of first two years of 10-year instrument) without causing ineffectiveness
- Introduces a new hedge method ("last-of-layer"), which allows for simplified hedging of pools of fixed-rate financial instruments (for example, mortgage loans)
- Provides for a reclassification of certain debt securities from held-to-maturity to available-for-sale only if the debt security is eligible to be hedged using the last-of-layer method (Any unrealized gain or loss existing at the time of transfer is recorded in accumulated other comprehensive income. As a permitted activity, the reclassification of securities will not taint future held-to-maturity classification so long as the securities transferred are eligible to be hedged under the last-of-layer method.)

Cash flow hedges

- Replaces benchmark rate concept with contractually specified rate (for example, permits direct hedging of prime interest rate)

Both fair value and cash flow hedges

- Permits certain hedges to use qualitative quarterly effectiveness assessments instead of quantitative assessments (for example, regression analysis), even if not 100 percent effective

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- Allows migration to long-haul method if shortcut method is determined to be inappropriate
- No longer measures or records ineffectiveness; if effective (80 to 125 percent), records hedges as if fully effective

Effective Dates
For PBEs, the update is effective for fiscal years beginning after Dec. 15, 2018, and interim periods within. For non-PBEs, it is effective for fiscal years beginning after Dec. 15, 2019, and interim periods beginning after Dec. 15, 2020.

Transition
Certain items must be applied using the modified retrospective method with an adjustment to opening retained earnings, while others may be applied only prospectively. Caution should be used when adopting as certain elections are permitted only during adoption.

Crowe Resources
For more in-depth analysis, please read "FASB Just Moved a Mountain, Changed Landscape on Hedging," published by Crowe on Sept. 13, 2017.

Distinguishing Liabilities From Equity – Financial Instruments With Down Round Features

The FASB issued, on July 13, 2017, ASU 2017-11, "Earnings Per Share (Topic 260); Distinguishing Liabilities From Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments With Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests With a Scope Exception," to address two separate issues.

Part 1 of the guidance addresses concerns with the complexity of accounting for certain financial instruments with down round features (for example, features that reduce the strike price of a financial instrument based on future equity offerings at a price less than the stated strike price). This ASU eliminates the requirement that an entity consider down round features when determining whether a financial instrument is indexed to its own stock under the liability or equity classification analysis, so that under the new guidance, an instrument with down round features will not be liability classified solely because of the down round features. Instead, for warrants and other freestanding equity-classified financial instruments with down round features, companies that present earnings per share (EPS) will recognize the effect of a down round feature when it is triggered as a dividend and a reduction of income available to common shareholders in basic EPS.

Also, companies now will apply existing guidance for contingent beneficial conversion features (BCFs) to their convertible instruments with down round features (for example, debt or preferred stock convertible to common stock). Similar to warrants, down round features for convertible instruments (or BCFs) will be recorded only when the triggering event occurs, but unlike warrants, triggered BCFs will be recognized regardless of whether EPS is presented. BCFs are recorded as a discount to the convertible instrument with an offsetting credit to additional paid-in capital (APIC), and debt discounts are accreted to interest expense, while discounts to preferred stock are accreted to retained earnings and reported as a deemed dividend.

The ASU also requires disclosure of the conversion and exercise price change features (such as down round features) for equity-classified instruments. In the period that the down round feature is triggered, companies are required to disclose that fact and the value of the effect of the feature that has been triggered.

Part II of the ASU addresses the 2003 effective date deferral of FASB Statement 150, "Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity," for mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests, which is memorialized in Accounting Standards Codification 480-10-65-1. Some find that content in the codification difficult to read and navigate, so the board replaced the indefinite deferral with a scope exception. As such, there is no accounting impact.

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Effective Dates

Part I provisions related to down round features are effective for PBEs for fiscal years beginning after Dec. 15, 2018, and interim periods within. For all other entities, Part I provisions are effective for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020. Early adoption is permitted for all entities, including in an interim period.

Contingent Puts and Calls on Debt Instruments

The FASB issued, on March 14, 2016, ASU 2016-06, "Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments." This standard began when the EITF took up the issue to address diversity in practice related to applying the four-step decision sequence for evaluating the clearly and closely related criterion of contingent call and put options on debt instruments. The four-step decision sequence includes consideration of whether the following criteria apply to those contingent options: 1) the payoff is adjusted based on changes in an index, 2) the payoff is indexed to an underlying (a characteristic identified in the contract) other than interest rates or credit risk, 3) the debt involves a substantial premium or discount, and 4) the call (put) option is contingently exercisable.

The diversity in practice arose because some practitioners were performing the assessment of the clearly and closely related criterion of contingent options based only on an analysis of the four-step decision sequence, and others were using the four-step decision sequence and assessing whether the contingency event is indexed only to interest rates or credit risk. The diversity in practice could result in different conclusions about which options should be bifurcated and separately accounted for as derivatives.

To eliminate the diversity, the new standard applies to all entities that issue or invest in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. The amendments clarify the four-step decision sequence that is required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to their debt hosts' economic characteristics and risks. Accordingly, when a call (put) option is contingently exercisable, there is no requirement that an entity must assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks.

Entities that previously assessed whether the contingency event was indexed to interest rates or credit risks must revise their analysis to no longer include that consideration. Even if an entity does not change its conclusion to bifurcate a contingent option under this new standard, work must be performed to ensure that the entity's analysis and documentation is consistent with the new guidance.

Effective Dates

The amendments are effective for PBEs for fiscal years beginning after Dec. 15, 2016, and interim periods in those fiscal years, which first applies to March 31, 2017, interim financial statements for calendar year-end entities. All other entities must apply the new requirements for fiscal years beginning after Dec. 15, 2017, and interim periods in fiscal years beginning after Dec. 15, 2018, which applies to Dec. 31, 2018, annual financial statements for calendar year-end entities. All entities have the option of adopting the new requirements early.

Transition

The standard should be applied on a modified retrospective basis to existing debt instruments as of the beginning of the year of adoption. If an entity is no longer required to bifurcate an embedded derivative as a result of the amendments, the combined carrying amount of the debt host contract and the fair value of the previously bifurcated derivative would become the carrying amount of the debt instrument. Upon adoption, such entities would have a one-time option to elect to measure that entire debt instrument at fair value with the cumulative-effect adjustment recognized in retained earnings as of the beginning of the period, and subsequent changes in fair value recognized in earnings.

Derivative Novations

The FASB issued ASU 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships," on March 10, 2016. This ASU applies to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been

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designated as a hedging instrument.

The term "novation," as it relates to derivative instruments, refers to replacing one of the parties to a derivative instrument with a new party. For example, Company A enters into an interest-rate swap with Counterparty B. At some point during the life of the interest-rate swap, a novation occurs to move the swap from Counterparty B to Counterparty C, and all of the rights and obligations of the interest-rate swap contract are transferred from Counterparty B to Counterparty C. In other words, Counterparty C effectively "steps into the shoes" of Counterparty B, becoming Company A's new counterparty to the swap. Derivative contract novations occur for a variety of reasons, including business combinations.

This standard is a result of a project added to the EITF's agenda, as EITF 15-D, to address whether a change in one of the parties to a derivative contract that is part of an existing hedge accounting relationship, in and of itself, requires the de-designation of that hedge accounting relationship. According to the new standard, a change in the counterparty to a derivative instrument designated as the hedging instrument *does not*, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met.

Effective Dates
For PBEs, the standard is effective for financial statements issued for fiscal years beginning after Dec. 15, 2016, and interim periods in those years, which first applies to March 31, 2017, interim financial statements for calendar year-end entities. The standard is effective for non-PBEs in financial statements issued for fiscal years beginning after Dec. 15, 2017, and interim periods in fiscal years beginning after Dec. 15, 2018, which first applies to Dec. 31, 2018, annual financial statements for calendar year-end entities. Early adoption is permitted.

Transition
The guidance may be applied prospectively to hedge accounting relationships where a change in counterparty occurs after the effective date; alternatively, it may be applied on a modified retrospective basis to derivatives in hedging relationships that meet conditions described in the transition guidance, including that de-designation was due solely to a novation of the derivative instrument.

Compensation and Benefits

Share-Based Payment Modification Accounting

The FASB issued Accounting Standards Update (ASU) 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting," on May 10, 2017, to provide guidance for which share-based payment award changes require modification accounting and address diversity in practice. Modification accounting involves treating a share-based payment award change as an exchange of the original award for a new award. The accounting essentially requires the entity to recognize the issuance of a new award to replace the original award and incur additional compensation cost for the difference in value.

Today, some entities evaluate whether changes are substantive, some apply modification accounting for any change unless it's purely administrative, and others apply modification accounting when the change results in a change to the fair value, vesting, or classification. In addition, questions had been posed on whether changes for the adoption of ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," namely changes to statutory tax withholding requirements, would require modification accounting.

Under the ASU, modification accounting will apply unless all of the following are the same immediately before and after the modification:

- The award's fair value – or calculated value or intrinsic value, if an alternative method is used (Note: If the modification does not affect any inputs to the valuation of the award, estimating the value immediately before and after the modification is not required.)
- The award's vesting provisions

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- The award's classification as an equity instrument or a liability instrument

Current disclosure requirements in Topic 718 apply whether or not an entity is required to use modification accounting.

Effective Date
The amendments are effective for fiscal years beginning after Dec. 15, 2017, and interim periods within, for all entities, which first applies to March 31, 2018, interim financial statements for calendar year-end entities. Early adoption is permitted, including in an interim period, for 1) PBEs in reporting periods for which financial statements have not yet been issued and 2) all other entities in reporting periods for which financial statements have not yet been made available for issuance.

Transition
The amendments should be applied prospectively to awards modified on or after the effective date.

Employee Share-Based Payment Accounting

The FASB issued ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," on March 31, 2016, in order to simplify the accounting treatment for share-based payment awards issued to employees. The standard includes the following changes to GAAP:

- Income taxes for vesting or settlement of awards:
  - All excess tax benefits and tax deficiencies will be consistently recognized in the income statement as income tax expense or benefit. Under existing GAAP, excess tax benefits are recognized in additional paid-in capital (APIC), and tax deficiencies are recognized either as an offset to accumulated excess tax benefits or in the income statement.
  - The tax benefit no longer has to be realized in the current period in order to recognize the excess tax benefit.
  - The tax effects of exercised or vested awards should be treated as discrete items in the period that they occur.
- Forfeitures: An accounting policy election can be made to either estimate forfeitures or account for forfeitures when they occur. If the latter is elected, the entity must disclose information about unvested awards rather than awards expected to vest. This is a change from existing GAAP, which currently requires an estimate of expected forfeitures to accrue compensation based on awards that are expected to vest.
- Minimum statutory withholding requirements: The existing requirement for equity classification, that an entity cannot partially settle the award in cash in excess of the employer's minimum statutory withholding requirements for an equity-classified award, is revised. The threshold for equity classification is raised by permitting withholding up to the maximum individual statutory rate in the applicable jurisdiction.
- Cash flow statement presentation:
  - Excess tax benefits will be presented in operating activities, which is a change from existing GAAP that requires classification in financing activities.
  - Employee taxes paid will be presented in financing activities when an employer withholds shares to meet minimum statutory tax withholding requirements. This may be a change for some entities given that existing GAAP contained no guidance.
- Private company practical expedients (applies to "nonpublic entities" as defined in ASC Topic 718, which are generally entities whose equity securities do not trade in a public market):
  - Expected term:
    - Permitted to estimate the expected term for awards, for which vesting depends on a service condition only, as the midpoint between the requisite service period and the contractual term of the award.
    - Permitted to estimate the expected term for awards, for which vesting depends on a performance condition only, by first determining whether the performance condition is probable of being achieved:
      - If it is probable of being achieved, then the entity shall estimate the expected term as

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the midpoint between the requisite service period and the contractual term.
    - If it is not probable of being achieved, the entity shall estimate the expected term as 1) the contractual term if the service period is implied or 2) the midpoint between the requisite service period and the contractual term if the service period is explicitly stated.
  - Intrinsic value:
    - Permitted to make a one-time election to switch from measuring liability-classified awards at fair value to measuring those awards at intrinsic value. Under existing GAAP, nonpublic entities were given an option to measure all liability-classified awards at intrinsic value upon initial adoption of ASC 718.
- Eliminates the guidance in ASC Topic 718, "Compensation – Stock Compensation," that currently is deferred indefinitely.

Effective Date

For PBEs, the ASU is effective in annual periods beginning after Dec. 15, 2016, and interim periods in those annual periods, which first applies to March 31, 2017, interim financial statements for calendar year-end PBEs.

For all other entities, the update will be effective for annual periods beginning after Dec. 15, 2017, and interim periods beginning after Dec. 15, 2018, which first applies to Dec. 31, 2018, annual financial statements for calendar year-end non-PBEs.

Early adoption is permitted in an interim or annual period.

Transition

The changes to the recognition and measurement of share-based payment transactions generally will transition through a modified retrospective approach with a cumulative-effect adjustment to equity as of the beginning of the annual period in which the guidance is adopted. The amendments for the recognition of excess tax benefits and tax deficiencies in the income statement, and the practical expedient for estimating the expected term, will be applied prospectively. (Amounts previously recognized in APIC for excess tax benefits do not need to be reclassified to retained earnings upon the adoption under the prospective method – see paragraph BC33 of ASU 2016-09.) The changes to the classification on the statement of cash flows will be applied retrospectively, with the option to adopt the presentation of excess tax benefits on the cash flow statement prospectively.

If an entity early adopts the ASU in an interim period, all modified retrospective adjustments should be reflected as of the beginning of the annual period that includes that interim period, and all prospective adjustments should be reflected from the beginning of the annual period that includes that interim period.

Net Periodic Pension and Postretirement Benefit Costs

On March 10, 2017, the board issued ASU 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," to improve the presentation of defined benefit cost by addressing stakeholder feedback provided to the FASB. Stakeholders indicated that under existing GAAP, the net presentation lacks transparency and usefulness.

Rather than reporting pension expense as a net amount, the service cost component of pension expense will be presented consistent with other compensation for similar employees. Also, the other components (including interest, expected return on plan assets, any gain or loss on settlements or curtailments, and termination costs) of pension expense will be presented separately in the income statement, outside of operating income (where applicable). The income statement line item(s) that includes the other components of pension expense should be appropriately described, or if a separate line item is not used, the line(s) where the other components are presented must be disclosed.

Only the service cost component of pension expense is eligible for capitalization as part of assets such as inventory or premises and equipment. This is a change in GAAP as all components of pension expense are eligible for capitalization under existing GAAP.

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Effective Dates
The standard is effective for PBEs for annual reporting periods beginning after Dec. 15, 2017, including interim periods in that reporting period. For calendar year-end PBEs, it first applies to March 31, 2018, interim financial statements.

For non-PBEs, it is effective for annual reporting periods beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019. For calendar year-end entities, it first applies to Dec. 31, 2019, annual financial statements.

Early adoption is permitted as of the beginning of an annual period, which would mean adoption in the first interim period if an entity issues interim financial statements.

Transition
The income statement presentation amendments should be applied retrospectively, and the amendments for the capitalization of the service cost component should be applied prospectively.

A practical expedient is provided for entities to use the amounts for the prior comparative periods disclosed in the pension note to the financial statements as the estimation basis for applying retrospective presentation requirements. If the practical expedient is applied, that fact must be disclosed.

Transfers and Consolidations

Consolidation of Legal Entities

In order to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (for example, CDOs, CLOs, and mortgage-backed security (MBS) transactions), the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," on Feb. 18, 2015.

The ASU focuses on the evaluation for determining whether certain legal entities should be consolidated. Current GAAP requires a qualitative evaluation of power over, and economics from, a variable-interest entity (VIE) to determine whether it should be consolidated. For some, the outcome has been consolidation of a VIE that resulted in less useful information about the financial position and operating results of the reporting entity.

A second objective of ASU 2015-02 is to simplify. Currently, two models exist for VIE consolidation, and two models exist for voting interests consolidation (presuming that the general partner in a limited partnership consolidates). By eliminating the specialized guidance for limited partnerships in the voting interest model and the VIE model applied by certain investment companies, the ASU reduces the number of models.

The FASB believes the new standard improves current GAAP in the following ways:

- It reduces the likelihood that an entity will consolidate a VIE based solely on its fee arrangement.
- It reduces the frequency of related-party guidance application when determining a controlling financial interest in a VIE.
- It reduces the number of consolidation models.
- It revises consolidation analysis (at times resulting in a different consolidation conclusion) in several industries that typically use VIEs or limited partnerships.

Effective Dates

- For PBEs, the amendments are effective for fiscal years beginning after Dec. 15, 2015, and interim periods in those fiscal years, which first applied to March 31, 2016, interim financial statements for calendar year-end PBEs.
- For non-PBEs, the amendments are effective for fiscal years beginning after Dec. 15, 2016, and for interim periods within fiscal years beginning after Dec. 15, 2017, which first applies to Dec. 31, 2017, annual financial statements for calendar year-end non-PBEs.

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

Transition
If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

The amendments may be adopted using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. Alternatively, the amendments may be applied retrospectively.

Other

Premiums on Callable Debt Securities

The FASB issued ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," on March 30, 2017, which will shorten the amortization period for premiums on callable debt securities by requiring that premiums be amortized to the first (or earliest) call date instead of as an adjustment to the yield over the contractual life. This change more closely aligns the accounting with the economics of a callable debt security and the amortization period with expectations that already are included in market pricing on callable debt securities.

This guidance is in response to a stakeholder request that the board address the accounting for the premium or discount (components of interest income) associated with the purchase of callable municipal securities. Under current GAAP, premiums and discounts are amortized and accreted over contractual life, not to call date. Some stakeholders observed that significant premiums on assets exist, particularly on instruments issued by municipalities that are likely to be repaid earlier than maturity. Under current GAAP, the result is overrecognition of interest income during the holding periods before the call and recognition of a loss during the period when the call occurs. The new standard eliminates the misalignment of accounting and economics in these transactions by requiring amortization to the earliest call date.

The guidance does not change the accounting for discounts on callable debt securities, as the discounts continue to be amortized to the maturity date.

The scope of the ASU includes only instruments that are held at a premium (that is, the amortized cost basis is in excess of the amount that is repayable by the issuer) and are callable based on an explicit decision by the issuer. The scope does not include instruments that contain prepayment features, nor does it include call options that are contingent upon future events or in which the timing or amount to be paid is not fixed.

Effective Dates
For PBEs, the effective date is in fiscal years and interim periods within, beginning after Dec. 15, 2018, which first applies to March 31, 2019, interim financial statements for calendar year-end PBEs. For non-PBEs, it is effective in fiscal years beginning after Dec. 15, 2019, and interim periods in fiscal years beginning after Dec. 15, 2020.

Early adoption is permitted, including in an interim period.

Transition
Transition is on a modified retrospective basis with an adjustment to retained earnings as of the beginning of the period of adoption.

Derecognition and Partial Sales of Nonfinancial Assets

The FASB issued, on Feb. 22, 2017, ASU No. 2017-05, "Other Income – Gains and Losses From the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." The ASU addresses questions on ASC 610-20 guidance that was added by ASU 2014-09 (the revenue recognition standard) for transfers of nonfinancial assets (for example, intangible assets, land, buildings, and equipment) to noncustomers.

The amendments in ASU 2017-05 exclude all businesses and nonprofit activities from the scope of ASC 610-20 and require derecognition of those nonfinancial assets to be accounted for in accordance with ASC 810.

The ASU accomplishes two primary objectives. First, the amendments clarify the scope of Subtopic 610-20 by defining an "in substance nonfinancial asset," which is a new concept to many entities outside the real estate industry. The ASU defines that term, in part, as "a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets." If the definition is met, an entity is not required to separately account for the financial assets, as they are in substance nonfinancial assets and will use the guidance in ASC 610-20. For each distinct in substance nonfinancial asset and each distinct nonfinancial asset promised to a counterparty, an entity should allocate consideration to each distinct asset by applying the guidance in Topic 610-20. An entity derecognizes each distinct asset when it transfers control of the asset, and records a gain or loss. In some cases, control might transfer at the same time such that there is no need to separate and allocate consideration to each asset.

Second, the ASU provides guidance on "partial sales," which is a term commonly used in the real estate industry when a seller retains an equity interest in the entity that owns the nonfinancial assets or has an equity interest in the buyer of the nonfinancial assets. Detailed guidance on partial sale transactions in Subtopic 360-20 was superseded in ASU 2014-09. Under this ASU, an entity derecognizes a distinct nonfinancial asset or distinct in substance nonfinancial asset in a partial sale when it 1) does not have, or ceases to have, a controlling financial interest in the legal entity that holds the asset in accordance with Topic 810 and 2) transfers control of the asset in accordance with Topic 606. Once an entity transfers control, any noncontrolling interest it receives, or retains, is measured at fair value (which can be a change from current GAAP as entities might use a carryover basis). If an entity transfers ownership interests in a consolidated subsidiary and continues to have a controlling financial interest in that subsidiary, the assets and liabilities of the subsidiary are not derecognized and the transaction is accounted for as an equity transaction, with no gain or loss recognized.

Effective Dates

The amendments are effective consistent with the effective dates for ASU 2014-09, which was deferred by ASU 2015-14. For public business entities, the amendments are effective for annual reporting periods beginning after Dec. 15, 2017, including interim periods within, which is first applicable to the March 31, 2018, interim financial statements for calendar year-ends. For all other entities, the amendments are effective for annual reporting periods beginning after Dec. 15, 2018, and interim periods in annual periods beginning after Dec. 15, 2019.

Transition

Irrespective of the transition approach elected for ASU 2014-09, an entity may apply these amendments on either a retrospective basis (that is, to each period presented in the financial statements pursuant to ASC 250-10-45-5 through 45-10) or a modified retrospective basis (that is, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption).

An entity must apply the definition of a business included in ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," to contracts with counterparties that are not customers. When applying the amended definition of a business, if an entity concludes that a previously recorded disposal of a business is no longer a business, the entity should not reinstate amounts previously allocated to goodwill that relate to that disposal.

Technical Corrections and Improvements

A final ASU 2016-19 ("Technical Corrections and Improvements") was released by the FASB on Dec. 14, 2016, and seeks to clarify, correct errors to, and make minor improvements to the FASB ASC.

The changes include simplifications and minor improvements to topics on insurance; troubled debt restructuring; financial instruments; real estate sales; fair value measurement; and transfers and servicing of financial assets. In some cases, the modifications remove certain definitions from the

master glossary or revise definitions to be more consistent among topics; in other cases, the amendments provide clarification of considerations in the analysis of applicable transactions.

The board noted some changes that may result in a change in practice. Those of interest to financial institutions include:

- An amendment to ASU 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," adds a reference to guidance to use when accounting for internal-use software licensed from third parties that is in the scope of Subtopic 350-40.
- A correction to the EITF's decision that loans insured by the Federal Housing Administration (FHA) or the Veterans Benefits Administration (VA) do not have to be fully insured by those government-insured programs to recognize profit using the full accrual method.
- A revision to the fair value measurement guidance to clarify the difference between an approach (that is, market, cost, income) and a technique (for example, present value, option pricing models) when applying ASC Topic 820. Disclosure is required when there has been a change in either a valuation approach or a valuation technique.
- A change to ASC Subtopic 860-20, "Transfers and Servicing – Sales of Financial Assets," to align implementation guidance on regaining control through a removal-of-accounts provision in ASC 860-20-55-41 with the recognition guidance in ASC 860-20-25-11. It clarifies what should be considered in determining whether a transferor once again has effective control over transferred financial assets.
- A revision to ASC Subtopic 860-50 to include guidance that was mistakenly omitted from the ASC and previously existed in Statement of Position 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others," on accounting for the sale of servicing rights when the transferor retains loans.

Effective Dates

Many of the changes in this ASU do not require transition and are effective upon issuance.

For PBEs, the change to ASC Subtopic 860-20 links to the transition guidance for the already effective ASU 2014-11, which was effective for March 31, 2015, interim financial statements for calendar year-end PBEs. The remaining changes listed above are effective for PBEs in annual periods, including interim periods in those annual periods, beginning after Dec. 15, 2016, which first applies to March 31, 2017, interim financial statements for calendar year-end PBEs.

For all other entities, the change to ASC Subtopic 860-20 (related to ASU 2014-11) was effective for Dec. 31, 2015, annual financial statements for calendar year-end entities. The change related to ASU 2015-05 is effective for Dec. 31, 2018, annual financial statements for calendar year-end non-PBEs. The remaining changes listed above are effective for all other entities in annual periods beginning after Dec. 15, 2016, and interim periods in those annual periods, which first applies to March 31, 2017, interim financial statements for calendar year-end non-PBEs.

Transition

For the listed changes, and with two exceptions for the amendments related to ASUs 2015-05 and 2014-11, prospective transition is required.

Income Taxes: Intra-entity Asset Transfers

As part of the FASB's simplification initiative aimed at reducing the complexity of accounting standards, the board issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," on Oct. 24, 2016.

The standard eliminates the requirement to defer current and deferred-income tax consequences for intra-entity asset transfers until the asset or assets have been sold to an outside party. Intra-entity asset transfers in this context could include transfers of assets (such as loans or securities) between two members of a banking group (for example, between a bank and its investment subsidiary). An entity that transfers assets (other than inventory) to another legal entity, even if that entity is a related party and

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not an outside party, will be required to recognize the current and deferred tax consequences of the assets transferred when the transfers occur.

Effective Dates
For PBEs, the ASU is effective for annual reporting periods beginning after Dec. 15, 2017, including interim reporting periods in those annual periods, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs.

For other entities, it is effective for annual reporting periods beginning after Dec. 15, 2018, and interim periods in annual periods beginning after Dec. 15, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities.

Early adoption is permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance.

Transition
Application is required on a modified retrospective basis with a cumulative-effect adjustment to retained earnings in the beginning of the adoption period.

Equity Method Accounting Simplification – Retroactive Accounting

The FASB issued ASU 2016-07, "Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting," on March 15, 2016, to simplify equity method accounting by removing the existing requirement to retroactively adopt the equity method upon an increase in 1) the level of ownership interest or 2) the degree of influence.

Under the new guidance, upon an increase in either the level of ownership interest or degree of influence, an entity will add the cost basis of acquiring the additional interest in the investee (if any) to the current basis and adopt the equity method. For such increases in interests that are held as available-for-sale equity securities, until the adoption of ASU 2016-01, entities will recognize the unrecognized holding gains or losses in earnings when the investment becomes qualified for the equity method.

Effective Dates
The ASU is effective for all entities in interim periods and fiscal years beginning after Dec. 15, 2016. For calendar year-end entities, it first applies to March 31, 2017, interim financial statements. Early adoption is permitted.

Transition
Prospective application is required for equity method investments that result from increases in either 1) the level of ownership interest or 2) the degree of influence under the new guidance.

Breakage for Certain Prepaid Cards

On March 10, 2016, the FASB issued ASU 2016-04, "Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products."

The amendments of this ASU narrowly address breakage (that is, the monetary amount of the card that ultimately is not redeemed by the cardholder) for prepaid stored-value products that are redeemable for monetary values of goods or services but also may be redeemable for cash.

The scope of this guidance does *not* include the following:

- Prepaid stored-value products that are redeemable only for cash
- Prepaid stored-value products for which breakage is subject to escheatment in accordance with unclaimed property laws
- Prepaid stored-value products that are attached to a segregated bank account
- Customer loyalty programs or transactions in the scope of other topics (for example, ASC 606 on revenue from contracts with customers or ASC 924-405 on gaming chips for casinos)

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Examples of prepaid stored-value products that are in scope include prepaid gift cards issued by specific payment networks and redeemable at network-accepting merchant locations, prepaid telecommunication cards, and traveler's checks.

The ASU (which initially was added to the EITF's agenda as Issue 15-B) addresses diversity in practice for the recognition in breakage (income) from prepaid stored-value product liabilities by concluding that they are financial liabilities. However, the ASU provides a scope exception from the derecognition guidance in ASC 405, which enables breakage recognition in a manner consistent with the model in ASC 606 as follows:

- If an entity expects to be entitled to breakage, derecognize amounts in proportion to the pattern of rights expected to be exercised by the product holder to the extent significant reversals will not subsequently occur.
- If an entity does not expect to be entitled to breakage, derecognize amounts when the likelihood of the product holder exercising its remaining rights becomes remote.

Effective Dates
The ASU is effective for PBEs, certain not-for-profit entities, and certain employee benefit plans for fiscal years beginning after Dec. 15, 2017, and interim periods in those fiscal years, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs.

For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities.

Early application is permitted.

Transition
A modified retrospective transition may be applied with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Alternatively, a full retrospective transition may be applied to each period presented when the guidance is adopted.

Presentation and Disclosure

SEC Observer Comments: Major Accounting Standards and Qualified Affordable Housing Projects

In January 2017, with the issuance of ASU 2017-03, "Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings," the FASB codified two SEC observer comments made at those Emerging Issues Task Force (EITF) meetings.

Staff Announcement on the Major Accounting Standards
The first SEC observer comment, found in ASC 250-10-S99-6, relates to the recent major accounting standards (for credit losses, leases, and revenue) that have not yet been adopted and existing guidance, Staff Accounting Bulletin (SAB) Topic 11.M (also known as SAB 74), that addresses the disclosure of the impact that recently issued accounting standards is expected to have on a registrant's financial statements when adopted in the future.

The guidance states that if a registrant does not know or cannot reasonably estimate the impact that adoption of the recent major accounting standards is expected to have on the financial statements, then in addition to making a statement to that effect, the registrant should consider additional qualitative financial statement disclosures. Those disclosures should assist the reader in assessing the significance of the impact that the standards will have on the financial statements of the registrant when adopted, including:

- A description of the effect of the accounting policies that the registrant expects to apply, if

determined;
- A comparison to the registrant's current accounting policies;
- A description of the status of its process to implement the new standards; and
- The significant implementation matters yet to be addressed.

Staff Announcement on Qualified Affordable Housing Projects
The second comment addresses the update to SEC guidance to conform to an already effective standard, ASU 2014-01, "Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects." The updated guidance references the proportional amortization method of accounting for investments in qualified affordable housing projects, consistent with ASU 2014-01, rather than the previously accepted effective yield method.

Cash Flow Statement Classification Issues

The FASB, on Aug. 26, 2016, issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which is designed to address the diversity in how eight specific cash receipts and cash payments are presented and classified in the statement of cash flows.

The ASU provides guidance on how to classify cash flows:

- **Debt prepayment or debt extinguishment costs.** Cash payments for debt prepayment or extinguishment costs should be classified as cash outflows for financing activities.
- **Settlement of zero-coupon bonds or debt with coupon interest rates that are insignificant in relation to the effective interest rate.** At settlement, the portion of the cash payment attributable to the accreted interest should be classified as a cash outflow for operating activities, and the portion of the cash payment attributable to the principal (original proceeds) should be classified as a cash outflow for financing activities. The scope of debt instruments for this sub-issue was further clarified to include instruments with coupon interest rates that are insignificant relative to the effective interest rate, including those without a stated coupon rate (for example, commercial paper). See BC9 of ASU 2016-15.
- **Contingent consideration payments made after a business combination.** Cash payments not made soon after a business combination, by an acquirer, for the settlement of a contingent consideration liability should be separated and classified as cash outflows for financing activities (for payments up to fair value, which is the amount of the contingent consideration liability and measurement-period adjustments) and operating activities (for any excess over fair value). Payments made soon after the acquisition date to settle contingent consideration should be classified in investing activities. "Soon after" is intended to be a relatively short period of time and is not specified in the standard; however, in the Basis for Conclusions, it is noted that some task force members believed that an example of a relatively short period of time would be three months or less. See BC16 of ASU 2016-15.
- **Proceeds from the settlement of insurance claims.** Classification of the proceeds received from insurance claims settlements excluding bank-owned and corporate-owned life insurance (BOLI and COLI) should be based on the nature of the insured loss, including those proceeds that are received in a lump-sum settlement for which reasonable judgment is required to determine the classification based on the nature of each insured loss in the settlement.
- **Proceeds from the settlement of BOLI and COLI policies:**
  - **Classification of proceeds received from the settlement of BOLI policies.** Cash proceeds received from the settlement of BOLI policies should be classified as cash inflows from investing activities.
  - **Aligning the classification of premiums and proceeds for BOLI policies.** Premiums paid and proceeds received related to BOLI policies will be permitted but not required to be classified in the same cash flow category. Specifically, the classification of premiums paid may be classified in operating, investing, or a combination of those two classes.

- **Distributions received from equity method investees.** This issue may affect parent company-only financial statements for bank holding companies filed with the SEC pursuant to Rule 9-06 of Regulation S-X if companies are not already consistently using one of the two approaches allowed under the standard for all subsidiaries to the holding company.

  It does not apply to equity method investments measured using the fair value option.

  The proposal would have required the cumulative earnings approach alone, but subsequent to the proposal, the EITF decided, and the board agreed, that another approach, the distribution approach, also would be acceptable. Companies must elect and disclose their accounting policy to apply either approach to equity method investments consistently.

  - **Cumulative earnings approach.** In general, distributions received from an equity method investee should be classified as cash flows from operating activities (therefore, reflected as returns on investment). If cumulative distributions less prior-period distributions do not exceed cumulative equity in earnings, the distributions are considered to be returns on investment (a dividend) and classified as an operating cash flow. If cumulative distributions less prior-period distributions exceed cumulative equity in earnings, the current period distribution should be classified as a return of investment, an investing cash flow.
  - **Distribution approach (or look-through approach).** Under this approach, companies will determine whether distributions are returns on investment classified as operating activities or returns of investment classified as investing activities based on individual facts and circumstances. If the company elects the distribution approach as its policy but lacks sufficient information to classify a specific distribution, it must 1) report a change in accounting principle on a retrospective basis and 2) apply the cumulative earnings method to that specific investee in all subsequent periods. The cash flows for the remainder of the company's investees will continue to be classified using the distribution approach.
- **Beneficial interests in securitization transactions:**
  - **Presentation of beneficial interests at inception of securitization.** The transferor's beneficial interest obtained in a securitization of financial assets as a noncash activity should be disclosed.
  - **Classification of cash receipts from beneficial interests in trade receivables.** Cash receipts from payments on a transferor's beneficial interests in securitized trade receivables should be classified as cash inflows from investing activities.
- **Predominant cash receipts and cash payments.** When cash receipts and payments have aspects of more than one class of cash flows, current GAAP provides an example of using the activity that is likely to be the predominant source of cash flow for determining the cash flow classification. This generally is referred to as the predominance principle and is applied inconsistently in current practice. The new guidance clarifies when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows, and when an entity should classify the aggregate of those cash receipts and payments into a single class of cash flows based on predominance.

  Under the new guidance, if there is no specific literature contained in ASC 230 or in other GAAP, an entity should:
  - First, determine each separately identifiable source (for cash inflows) or use (for cash outflows) on the basis of the underlying cash flows' nature.
  - Then, classify, in financing, investing, or operating activities, each separately identifiable source or use on the basis of the cash flows' nature.
  - In situations in which cash flows have aspects of more than one class and those aspects cannot be separately identified by source or use, the classification should depend on the activity that is likely to be the predominant source or use of cash flows for the item.

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Effective Dates
For PBEs, the amendments are effective for fiscal years beginning after Dec. 15, 2017, and interim periods in those fiscal years, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs.

For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods in fiscal years beginning after Dec. 15, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities.

Early adoption is permitted, and if elected, all amendments must be adopted in the same period.

Transition
The ASU should be adopted on a retrospective basis to each period presented. If a retrospective transition is impracticable for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable.

Cash Flow Statement Classification of Restricted Cash

On Nov. 17, 2016, the board issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a Consensus of the FASB Emerging Issues Task Force)." Originally part of the "Cash Flow Statement Classification Issues" project discussed earlier, this issue related to restricted cash was separately addressed by the EITF and by the FASB.

In current practice, transfers between cash and restricted cash are reflected as operating, investing, or financing activities, or a combination, on the cash flow statement. Also, some entities present direct cash receipts from and payments to a restricted cash bank account on the cash flow statement, and others disclose those cash flows as noncash activities.

The new guidance requires that the statement of cash flows include restricted cash and cash equivalents in total cash and cash equivalents, and therefore, the transfers solely between cash and restricted cash would not be reflected in the cash flow activities.

In addition, the balance sheet line items that include restricted cash and cash equivalents and the related amounts must be disclosed either in the cash flow statement or in the notes to the financial statements, and they should reconcile to total cash and cash equivalents on the cash flow statement, which will include restricted cash and cash equivalents. The FASB decided not to define "restricted" in the final standard. However, an entity will be required to disclose the nature of restrictions on the restricted cash and cash equivalent amounts.

Effective Dates
For PBEs, the amendments are effective for fiscal years beginning after Dec. 15, 2017, and interim periods in those fiscal years, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs.

For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods in fiscal years beginning after Dec. 15, 2019, which first applies to Dec 31, 2019, annual financial statements for calendar year-end entities.

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

Transition
Retrospective application to all periods presented in the cash flow statement upon adoption is required.

Disclosures for Certain Investments That Calculate Net Asset Value (NAV) per Share

On May 1, 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which applies to entities that elect to measure the fair value of an investment using the NAV per share (or its equivalent) practical expedient. This practical expedient in ASC 820 is for investments in certain entities that do not have readily determinable fair values and are real estate funds or investment companies, such as hedge funds and private equity funds.

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It is common for entities with holdings in investment companies to measure those investments at the NAV. It is also common for those investments to have periodic redemption dates. The frequency of redemption dates generally depends on the nature of the underlying investments held by the investment companies. Holdings in investment companies that own very liquid investments, such as money market funds, publicly traded equity funds, and short-term fixed-income securities, often are redeemable at all times or at frequent intervals, such as monthly. Holdings in investment companies that hold less liquid assets, such as longer-term fixed-income securities, often are redeemable at less frequent intervals, such as quarterly or yearly. Funds that hold illiquid securities, such as private equity funds, often have no periodic redemption feature at all.

Under current GAAP, investments redeemable on the measurement date at the NAV are categorized in Level 2, and investments that will never be redeemable at the NAV are always categorized in Level 3. Under prior guidance, for investments that are not redeemable at NAV on the measurement date but become redeemable on a future date, judgment was used to determine whether the fair value measurement would be Level 2 or Level 3 – guidance that, based on stakeholder feedback, provided no decision-useful information.

As such, this ASU:

- Removes the requirement to categorize within the fair value hierarchy all investments that use the NAV practical expedient to measure fair value.
- Removes the requirement to provide specific disclosures for all investments that are eligible to be measured at fair value using the NAV practical expedient. Rather, those disclosures now are limited to investments for which the entity has chosen to measure the fair value using the NAV practical expedient, and disclosure is required for the fair values of those investments to permit reconciliation of the fair values of investments included in the fair value hierarchy disclosure to the applicable line item(s) presented in the statement of financial position.

Effective Dates

For PBEs, the amendments are effective for fiscal years beginning after Dec. 15, 2015, and interim periods in those fiscal years, which first applied to March 31, 2016, interim financial statements for calendar year-end PBEs. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2016, and interim periods in those fiscal years, which first applies to March 31, 2017, interim financial statements for entities that issue interim financial statements. Earlier application is permitted.

Transition

A reporting entity should apply the amendments retrospectively.

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From the Federal Financial Institution Regulators

Credit Losses

FAQs on the FASB's CECL Model

On Sept. 6, 2017, the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (Fed), the Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA) (collectively, the federal financial institution agencies or the agencies) updated their "Frequently Asked Questions on the New Accounting Standard on Financial Instruments – Credit Losses" (FAQs). Originally issued on Dec. 19, 2016, the FAQs provide guidance for financial institutions as they prepare to implement the FASB's new standard on credit losses, ASU 2016-13, on the application and supervisory expectations for the CECL model.

The original FAQs covered (Questions 1-23):

- Changes to existing U.S. generally accepted accounting principles
- Effective dates
- Application upon initial adoption
- Acceptable allowance estimation methods under the CECL model
- Portfolio segmentation for credit loss estimation on a pool basis

New topics addressed in the FAQs updated on Sept. 6 include (Questions 24-37):

- Continued relevance of qualitative factors
- Data collection and maintenance needs
- Accounting for changes in expected credit losses for purchased credit deteriorated (PCD) assets
- Evaluating whether an institution meets the definition of a PBE or Securities and Exchange Commission (SEC) filer definition, and the effect of PBE and SEC filer status on adoption date
- How and when a financial institution should adopt CECL in its regulatory reports (including call reports) for:
  - An entity that is not a PBE
  - A PBE that is not an SEC filer and has a non-calendar fiscal year
  - Continued requirement to use the fair value of collateral to determine the allowance for a collateral-dependent loan

The agencies continue to emphasize preparation for the implementation of CECL and scalability to institutions of all sizes.

Joint Statement on Credit Losses

On June 17, 2016, the federal financial institution agencies issued a joint statement after the FASB released ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," on June 16. As discussed earlier, this standard introduces the CECL model and replaces the incurred loss model. The most significant impact for financial institutions will be to the allowance for loan and lease losses.

The joint statement provides initial supervisory views on implementation. The standard allows for various expected credit loss estimation methods and is scalable. Financial institutions are encouraged to begin planning implementation. The agencies suggest appropriate institution staff should work closely with senior executives and boards of directors during this transition. Because of the potential impact on capital, institutions are encouraged to plan implementation in advance of the effective date.

More information about this standard on credit losses appears under "From the FASB: Major Final Standards," earlier in this document.

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Leases

Basel Committee FAQ on Capital Treatment of Right-of-Use (ROU) Asset

The Basel Committee on Banking Supervision issued a press release on April 6, 2017, to respond to three frequently asked questions on how to treat an ROU asset under the new lease accounting standards issued in 2016 separately by the FASB and the International Accounting Standards Board (IASB). The committee's responses indicate that an ROU asset should be treated as a tangible asset for capital reporting purposes, as long as the underlying asset being leased is a tangible asset.

Specifically, when the underlying leased asset is a tangible asset, the ROU asset should:

- Not be deducted from regulatory capital
- Be included in the risk-based capital and leverage ratio denominators
- Be risk-weighted at 100 percent

In the June 2017 supplemental call report instructions, the U.S. federal banking agencies clarified their position, which is consistent with the treatment taken by the Basel Committee.

OCC's Bank Accounting Advisory Series (BAAS)

The OCC released, on Aug. 15, 2017, an update to the "Bank Accounting Advisory Series," a publication that includes the OCC's interpretations of generally accepted accounting principles (GAAP) and regulatory guidance for national banks and federal savings associations. The update includes revisions to topics related to new accounting standards issued by the FASB on recognition and measurement of financial instruments, leases, and revenue recognition as well as other updates.

The "Message From the Chief Accountant" includes a list of the specific interpretations that have been updated. In addition, the message describes the OCC's revised approach to include standards not yet effective that either must be adopted by public business entities (PBEs) in 2018 or can be early adopted.

Call Report Changes

The U.S. federal banking agencies issued a request for comment, "Joint notice and request for comment," on additional burden-reducing revisions and certain other reporting changes to all three versions of the call report. These revisions are proposed to take effect March 31, 2018.

In addition to burden reduction, the agencies' proposal also includes two other revisions to the call report. The first proposal would revise the instructions by aligning the method for determining the past-due status of certain loans and other assets for call report purposes with an accepted industry standard – the Mortgage Bankers Association (MBA) method. Under the MBA method, certain loans and forms of credit with scheduled monthly payments are reported as past due if a payment is not received by the end of the day immediately preceding the loan's next payment due date. For example, if a monthly loan payment is due April 1 and no payment is received by the end of the day on April 30, which is the day immediately preceding the loan's next payment due date, the loan would be considered 30 days past due for reporting purposes as of April 30. The change could result in reporting more loans past due than under the existing call report instructions.

The second proposal would revise portions of several call report schedules to reflect changes in the accounting for investments in equity securities under the FASB's ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities."

Comments were due Aug. 28, 2017, and as of Nov. 9, 2017, the agencies continue to consider comments received.

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In the Pipeline: FASB Projects of Interest to Financial Institutions

Implementation Costs in a Cloud Computing Arrangement

Previously, in ASU 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," the FASB addressed whether fees paid in a cloud computing arrangement (or CCA) should be capitalized or expensed. Examples of CCAs include software as a service (SaaS), platform as a service, infrastructure as a service, and other similar hosting arrangements. A SaaS arrangement uses internet-based application software hosted by a service provider or third party and is the most common cloud computing arrangement.

The ASU requires an evaluation of CCAs to determine whether an arrangement provides the entity control of a license to internal-use software. The guidance defines control as the entity's right to take possession of software without significant cost and the ability to run software on its own hardware (or contract this elsewhere). If the entity does not control a license, the arrangement is a service contract and costs are expensed.

As a follow-up, stakeholders requested additional guidance on accounting for implementation costs associated with CCAs considered service contracts, citing diversity in practice. Implementation costs include setup and other upfront fees to get the arrangement ready for use. Other implementation costs can include training, creating or installing an interface, reconfiguring existing systems, and reformatting data. In May 2017, the FASB added a project, "Customer's Accounting for Implementation, Setup, and Other Upfront Costs (Implementation Costs) Incurred in a Cloud Computing Arrangement That Is Considered a Service Contract," to the EITF's agenda as Issue 17-A.

At the EITF meetings held on July 20, 2017, and Oct. 12, 2017, members discussed implementation costs for CCAs. During the Oct. 12, meeting, the EITF agreed with the FASB staff's view that all hosting arrangements (including CCAs) include a software element and preliminarily concluded to align the accounting for implementation costs with ASC Subtopic 350-40 for internal-use software. As such, implementation costs incurred in a CCA would be accounted for as follows:

- Costs in the preliminary project and post-implementation-operation stages are expensed.
- Setup fees are accounted for as prepaid assets in Topic 340, or other relevant guidance.
- Integration costs for on-premise software, coding, and configuration or customization are capitalized as intangible assets.
- Data conversion and training costs are expensed.
- Business process re-engineering costs are expensed.

The EITF will discuss this issue again on Jan. 18, 2018.

Codification Improvements

The FASB proposed, on Oct. 3, 2017, "Codification Improvements," to clarify the guidance contained in the ASC and correct unintended application of guidance.

Proposed clarifications of highest relevance to financial institutions include:

- Income taxes for stock compensation (ASC 718-740) – to clarify that excess tax benefits (or tax deficiencies) should be recognized in the period when the tax deduction for compensation expense is taken on the entity's tax return
- Income taxes for business combinations (ASC 805-740) – to remove three methods for allocating the consolidated tax provision to an acquired entity after acquisition, and instead require that the tax benefit from the tax basis step-up be credited to the acquired entity's additional paid-in capital

consistent with Topic 740
- Derivatives and hedging (Topic 815-10) – to clarify that the intent to set off may not be required in order to offset derivative assets and liabilities when the related instruments are executed with the same counterparty under a master netting agreement
- Fair value measurement (Topic 820-10) – to clarify that an entity should consider transfer restrictions that are characteristics of the asset (and not restrictions that are characteristics of the entity) when measuring the fair value of a liability or instrument classified in owner's equity when the fair value is based on the quoted price of the corresponding asset
- Financial services – depository and lending (Topic 942) – to clarify that disclosure requirements for regulatory capital include all applicable required and actual ratios and amounts

Comments were due Dec. 4, 2017.

Rearrangement of Consolidation Guidance

On Sept. 20, 2017, the FASB issued a proposal, "Consolidation (Topic 812): Reorganization," to reorganize its consolidation guidance contained in ASC Topic 810 in a manner that is consistent with the order in which the guidance should be applied. The proposal would move the guidance from Topic 810 to a new section, Topic 812, and add two subtopics – one for variable interest entities (VIEs) and one for voting interest entities.

The board does not expect the proposed reorganization to change current practice.

Comments were due Dec. 4, 2017.

Technical Corrections and Improvements for Depository and Lending Entities

On June 27, 2017, the FASB issued a proposal, "Technical Corrections and Improvements to Topic 942, Financial Services – Depository and Lending – Elimination of Certain Guidance for Bad Debt Reserves of Savings and Loans," to eliminate obsolete accounting guidance on deferred taxes for bad debt reserves of savings and loans that arose after Dec. 31, 1987, and guidance related to the Comptroller of the Currency's Banking Circular 202, "Accounting for Net Deferred Tax Charges." The board believes that these particular post-1987 bad debt reserves should have been recaptured by the relevant entities in full by 2008, and the related guidance is no longer relevant.

No significant change in current practice is expected.

Comments were due Aug. 28, 2017.

Targeted Improvements to Variable Interest Entity (VIE) Model – Related Party Guidance

On June 22, 2017, the FASB issued a proposal, "Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities," that aims to improve VIE guidance for related party matters that have arisen related to the consolidation guidance in ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis."

The proposal would expand the private company accounting alternative for common control leasing arrangements provided by ASU 2014-07, "Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements," beyond just leasing arrangements so that private entities could elect not to apply VIE consolidation guidance to any legal entities that are under common control if neither the parent nor the legal entity is a PBE.

The proposal would revise the analysis for determining whether a decision-making fee paid by a VIE is a variable interest such that indirect interests in a VIE held through related parties in common control

arrangements would be considered on a proportional basis. This revision would be consistent with the analysis for determining whether a reporting entity in a related party group is the primary beneficiary of a VIE by including indirect interests on a proportional basis (pursuant to amendments in ASU 2016-17).

The proposal would eliminate mandatory consolidation for circumstances in which power is shared among related parties or when commonly controlled related parties, as a group, have the characteristics of a controlling financial interest but no reporting entity individually has a controlling financial interest. Instead, a reporting entity in the related party group under common control or in a related party shared-power situation would apply a set of four factors to assess its own decision-making power and whether it has a controlling financial interest in the VIE. In addition, when related parties under common control, as a group, have a controlling financial interest, the parent entity would consolidate the VIE unless a scope exception applies.

Comments were due Sept. 5, 2017.

Nonemployee Stock Compensation

On March 7, 2017, the FASB issued a proposed Accounting Standards Update (ASU), "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," to simplify the accounting for share-based payments to nonemployees for goods and services. Such payments are relatively uncommon for most financial institutions. The guidance would not be applied to transactions that effectively are capital raises.

It would eliminate the existing accounting for nonemployee stock compensation payments (ASC Subtopic 505-50) and instead would apply the accounting model for share-based compensation to employees to nonemployee payments with two exceptions:

- Inputs to an option pricing model would be for the contractual term rather than the expected term, the latter of which is required for employee awards.
- Cost attribution, which is the pattern of compensation cost recognized over the vesting period, would continue to be judgmentally determined for payments to nonemployees. Although no guidance on cost attribution is proposed for nonemployee payments, the board has indicated that if similar employee and nonemployee payments are granted, the cost recognition for the employee payment would inform the entity's judgment on the cost recognition method for the nonemployee payment (see paragraph BC8 of the proposal).

Many of the improvements to ASC Topic 718 that were finalized in ASU 2016-09 (see "Employee Share-Based Payment Accounting" in the "From the FASB: Other Final Standards" section of this document) would be applied to nonemployee awards. Notably, the board has proposed to extend the accommodation to nonpublic entities to make a one-time election to switch from measuring liability-classified share-based payment awards at fair value to measuring at intrinsic value.

Effective dates were not proposed, and comments were due June 5, 2017.

Disclosure Framework Project

The FASB held a roundtable on March 17, 2017, to discuss various topics within the Disclosure Framework project, and the board discussed this project with its Investor Advisory Committee on June 6, 2017. The topics include income taxes, fair value measurement, and defined benefit plans; all three are discussed in the following sections. Redeliberations of the proposals for each topic are expected in the future, following additional outreach by the FASB staff regarding comments received on the proposals.

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Fair Value Measurement Disclosures

On Dec. 3, 2015, the FASB issued a proposed ASU, "Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement," to suggest changes to the fair value measurement disclosures. If approved, the standard would apply to all entities that are required to make recurring or nonrecurring fair value measurement disclosures. Some disclosures would not be required for private companies. The proposal also promotes the use of discretion by reinforcing that an entity can assess disclosures on the basis of whether they are material.

Interestingly, the FASB proposed to use legacy definitions of "public" rather than conform to its newer "PBE" definition. The old terminology of "nonpublic entity" and "private company" does differ from non-PBEs. The following are the applicable terms from the ASC glossary.

> "Private Company – An entity other than a public business entity, a not-for-profit entity, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.
>
> "Nonpublic Entity – Any entity that does not meet any of the following conditions: "a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.
>
> "b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
>
> "c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.
>
> "d. It is required to file or furnish financial statements with the Securities and Exchange Commission."

The following are the significant changes laid out in the FASB's proposal:

Disclosure	Public	Private
The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy	Removed	Removed
The policy for timing of transfers between levels	Removed	Removed
The valuation policies and procedures for Level 3 fair value measurements	Removed	Removed
The change in unrealized gains and losses for the period included in earnings (or changes in net assets) on recurring Level 3 fair value measurements held at the end of the reporting period	Unchanged	Removed
Reconciliation of the opening balances to the closing balances of recurring Level 3 fair value measurements	Unchanged	Removed
For investments in certain entities that calculate NAV, the timing of liquidation of an investee's assets and the date when restrictions from redemption will lapse only if the investee has communicated the timing to the entity or announced the timing publicly	Clarified	Clarified

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Disclosure	Public	Private
For the measurement uncertainty disclosure, information about the uncertainty in measurement as of the reporting date rather than information about sensitivity to changes in the future	Clarified	Clarified
The changes in unrealized gains and losses for the period included in OCI and earnings (or changes in net assets) for recurring Level 1, Level 2, and Level 3 fair value measurements held at the end of the reporting period, disaggregated by level of the fair value hierarchy	Added	Not added
For Level 3 fair value measurements, the range, weighted average, and time period used to develop significant unobservable inputs	Added	Not added

Effective Date

The effective date would be determined after stakeholder feedback has been considered. Comments were due Feb. 29, 2016.

The board discussed feedback received on the proposal at its June 1, 2016, meeting and asked the staff to conduct outreach to investors and other financial statement users on the proposal.

Income Taxes

The FASB issued for comment a proposed ASU on July 26, 2016. "Income Taxes (Topic 740): Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes," would require additional income tax disclosures and stems from the board's disclosure framework project.

All entities would be required to disclose a description of any enacted change in tax law that is probable to have an effect on the financial statements in a future period. The proposal also would reduce diversity in practice by explicitly requiring disclosure about tax carry-forwards. Entities with foreign operations would be required to make additional disclosures about foreign earnings, foreign income tax expense and payments, and cash and marketable securities held by foreign subsidiaries. In addition, if an entity changes its assertion about permanently reinvesting undistributed foreign earnings, it would be required to disclose circumstances that caused the change and the corresponding amount of those earnings.

Public business entities would be required to disclose separately any reconciling item that is more than 5 percent of the amount computed by multiplying pretax income by the statutory income tax rate, and to explain the changes in those reconciling items from year to year. The bright line of 5 percent for reconciling items in the proposal is aligned with Rule 4-08(h) of Regulation S-X, which is applicable to SEC reporting companies.

Comments were due Sept. 30, 2016.

Defined Benefit Plan – Disclosures by Plan Sponsors

As part of a trial run in applying the disclosure framework project concepts to existing defined benefit pension and other postretirement plan disclosure requirements, the FASB issued an exposure draft, "Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans," on Jan. 26, 2016.

The proposal would remove the following disclosures:

- The amount of the pension accumulated benefit obligation

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- The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets
- The amount and timing of plan assets expected to be returned to the entity
- The disclosures related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law
- Related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts, and significant transactions between the employer or related parties and the plan
- The amounts in AOCI expected to be recognized as components of net periodic benefit cost over the next fiscal year
- For nonpublic entities, the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy (but would include a requirement that nonpublic entities disclose the amounts of transfers into and out of Level 3 of the fair value hierarchy and purchases of Level 3 plan assets)

The proposal would add the following disclosures:

- A description of the nature of the benefits provided, the employee groups covered, and the type of benefit plan formula
- The weighted-average interest crediting rate for cash balance plans and other plans with a promised interest crediting rate
- Quantitative and qualitative disclosures from Topic 820, “Fair Value Measurement,” about assets measured at NAV using a practical expedient
- A narrative description of the reasons for significant gains and losses affecting the benefit obligation or plan assets
- For nonpublic entities, the effects of a one-percentage-point change in assumed healthcare cost trend rates (a disclosure currently required only for public entities)

The proposal also would require disaggregation of domestic and foreign plans. Retrospective application would be required, with one exception that the qualitative disclosures about plan assets measured at NAV would be required in the most recent period presented upon adoption.

Comments were due on April 25, 2016.

The board discussed comments received on the proposal at its July 13, 2016, meeting and asked the staff to perform additional research on particular matters.

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Key Abbreviations and Acronyms

AFS	available for sale
AICPA	American Institute of Certified Public Accountants
ALLL	allowance for loan and lease losses
AOCI	accumulated other comprehensive income
APIC	additional paid-in capital
ASC	Accounting Standards Codification (issued by the FASB)
ASU	Accounting Standards Update
BAAS	Bank Accounting Advisory Series (issued by the OCC)
BC	Basis for Conclusions
BOLI	bank-owned life insurance
CDO	collateralized debt obligation
CECL	current expected credit loss
CFE	collateralized financing entity
CFPB	Consumer Financial Protection Bureau
CLO	collateralized loan obligation
COLI	corporate-owned life insurance
CRI	customer-related intangible asset
DTA	deferred-tax asset
EITF	Emerging Issues Task Force (a standing FASB task force)
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corp.
FDICIA	*Federal Deposit Insurance Corporation Improvement Act of 1991*
Fed	Board of Governors of the Federal Reserve System
FFIEC	Federal Financial Institutions Examination Council (includes the CFPB, FDIC, Fed, NCUA, and OCC)
FHA	Federal Housing Administration
FV/NI	fair value recognized in net income
GAAP	generally accepted accounting principles
HFI	held for investment
HFS	held for sale
HTM	held to maturity
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard (issued by the IASB)
MBS	mortgage-backed security

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NAV	net asset value
NCA	noncompetition agreement
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OCI	other comprehensive income
OREO	other real estate owned
OTC	over-the-counter (as in OTC market)
OTTI	other-than-temporary impairment
PBE	public business entity
PCAOB	Public Company Accounting Oversight Board
PCC	Private Company Council (which recommends alternatives for private companies to the FASB)
PCD	purchased credit deteriorated
PCI	purchased credit impaired
ROU	right of use
SAB	Staff Accounting Bulletin (issued by the SEC)
SEC	U.S. Securities and Exchange Commission
SIFMA	Securities Industry and Financial Markets Association
SPPI	solely payments of principal and interest
TDR	troubled debt restructuring
TRG	Transition Resource Group (A joint TRG has been formed for revenue recognition by the FASB and IASB, and a TRG has been formed for credit losses by the FASB.)
VA	Veterans Benefits Administration
VIE	variable-interest entity

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Appendix A: ASUs for Financial Institutions[4] – Effective Dates for Public Business Entities (PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Derivative Novations (ASU 2016-05) Applies when there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument.	March 31, 2017	Permitted, including in an interim period
Contingent Puts and Calls on Debt Instruments (ASU 2016-06) Applies to debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded put or call options. When those options are contingently exercisable, there is no requirement that an entity must assess whether the event that triggers the ability to exercise the options is related to interest rates or credit risks.	March 31, 2017	Permitted, including in an interim period
Equity Method (ASU 2016-07) Removes the requirement to retroactively adopt the equity method upon an increase in 1) the level of ownership interest or 2) the degree of influence of an investment.	March 31, 2017	Permitted
Share-Based Payments (ASU 2016-09) Applies to share-based payment awards issued to employees and offers simplification in several areas including income taxes, forfeitures and minimum statutory tax withholding requirements, cash flow presentation, and practical expedients for nonpublic entities to use intrinsic value measurement for liability-classified awards and to estimate expected term for certain awards.	March 31, 2017	Permitted, including in an interim period

[4] These standards have the highest likelihood of being applicable for financial institutions. There could be other standards that might be applicable for financial institutions engaging in nontraditional activities.

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Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Technical Corrections and Improvements (ASU 2016-19) Various corrections to existing GAAP guidance, including five that may result in a change in practice: • Accounting for internal-use software licensed from third parties in the scope of Subtopic 350-40 (relates to ASU 2015-05) • Technical correction for Federal Housing Administration (FHA) or Veterans Benefits Administration (VA) insured loans that do not have to be fully insured by those programs to recognize profit using the full accrual method • Disclosure is required when a (fair value) valuation approach (that is, market, cost, or income) or valuation technique (such as present value or option pricing models) changes • Subtopic 860-20 (sales of financial assets) is revised to align implementation and recognition guidance and to clarify considerations in determining whether a transferor once again has effective control over transferred financial assets (relates to ASU 2014-11) • Technical correction for Subtopic 860-50 (servicing assets and liabilities) to add existing guidance (from AICPA Statement of Position 01-6) on accounting for the sale of servicing rights when the transferor retains loans	March 31, 2017[5]	Permitted for amendments that require transition guidance

[5] Most of the amendments were effective immediately. With the exception of the change related to the already effective ASU 2014-11, items requiring transition are effective for interim and annual reporting periods beginning after Dec. 15, 2016.

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Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Revenue Recognition (ASU 2014-09) For all entities, the transaction- and industry-specific recognition methods are eliminated and revenue is recognized by applying a defined principles-based approach. Clarifying standards: ASU 2015-14 – Deferral of Effective Date ASU 2016-08 – Principal Versus Agent Considerations (Gross Versus Net Reporting) ASU 2016-10 – Identifying Performance Obligations and Licensing ASU 2016-11 – Rescission of SEC Guidance (Staff Announcements at March 3, 2016, EITF Meeting) ASU 2016-12 – Narrow-Scope Improvements and Practical Expedients ASU 2016-20 – Technical Corrections and Improvements ASU 2017-14 – (Rescission of the SEC's SAB Topic 13)	March 31, 2018[6]	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within
Derecognition and Partial Sales of Nonfinancial Assets (ASU 2017-05) Primarily applies to the real estate industry but can impact other entities. Clarifies the scope of Subtopic 610-20 by defining an "in substance nonfinancial asset," and provides guidance on partial sales, such as when an entity retains an equity interest in the entity that owns the transferred nonfinancial assets.	March 31, 2018, consistent with ASU 2014-09	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within
Recognition and Measurement (ASU 2016-01) Applies to the classification and measurement of financial instruments. Removes available-for-sale category for equities. For PBEs, requires use of exit pricing in fair value disclosure for instruments carried at amortized cost.	March 31, 2018	Not permitted, except for two provisions

[6] As codified in ASU 2017-13, in an SEC staff announcement at the July 20, 2017, EITF meeting, specifically related to PBEs that qualify as a PBE solely due to the requirement to include or the inclusion of its financial statements or financial information in another entity's SEC filing ("certain PBEs"), the SEC stated that it will allow certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition and lease accounting standards only. For certain PBEs, the revenue recognition guidance is effective for Dec. 31, 2019, annual financial statements for calendar year-end entities.

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Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Breakage for Prepaid Cards (ASU 2016-04) Applies to prepaid stored-value products that are redeemable for monetary values of goods or services but also may be redeemable for cash, such as certain prepaid gift cards, prepaid telecommunication cards, and traveler's checks.	March 31, 2018	Permitted, including in an interim period
Statement of Cash Flows: Certain Clarifications (ASU 2016-15) Provides guidance on how eight specific cash flows should be classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments, insurance settlement proceeds, company-owned or bank-owned life insurance (COLI or BOLI) policy settlements and premiums, equity method investee distributions, beneficial interests in securitization transactions, and predominance principle for receipts and payments.	March 31, 2018	Permitted, including in an interim period
Income Taxes for Intra-entity Asset Transfers (ASU 2016-16) Applies to asset transfers between legal entities, including related parties (e.g., bank and investment subsidiaries); transferor recognizes the current and deferred tax effects when the transfers occur.	March 31, 2018	Permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance
Statement of Cash Flows: Restricted Cash (ASU 2016-18) Requires that restricted cash and cash equivalents be presented in total cash and cash equivalents in the statement of cash flows, and the nature of restrictions on restricted cash and cash equivalents be disclosed.	March 31, 2018	Permitted, including in an interim period
Definition of a Business (ASU 2017-01) Applies to the analysis of whether an asset or business is acquired (which determines whether goodwill is recognized), as well as asset derecognition and business deconsolidation transactions.	March 31, 2018	Permitted for certain transactions

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Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Presentation of Net Periodic Pension and Postretirement Benefit Costs (ASU 2017-07) Rather than reporting pension expense as a net amount, the service cost component will be presented consistent with similar compensation for the same employees, and the other components will be separately presented in the income statement.	March 31, 2018	Permitted as of the beginning of an annual period, in the first interim period
Share-Based Payment Modification Accounting (ASU 2017-09) Requires modification accounting when an award's fair value, vesting provisions, or classification changes subsequent to a modification of the award.	March 31, 2018	Permitted, including in an interim period
Leases (ASU 2016-02) Revises recognition and measurement for lease contracts by lessors and lessees; operating leases are recorded on balance sheet for lessees.	March 31, 2019[7]	Permitted
Premium Amortization on Purchased Callable Debt (ASU 2017-08) Shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, instead of to the maturity date.	March 31, 2019	Permitted, including in an interim period

[7] As codified in ASU 2017-13, in an SEC staff announcement at the July 20, 2017, EITF meeting, specifically related to PBEs that qualify as a PBE solely due to the requirement to include or the inclusion of its financial statements or financial information in another entity's SEC filing ("certain PBEs"), the SEC stated that it will allow certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition and lease accounting standards only. For certain PBEs, the lease accounting standard is effective for Dec. 31, 2020, annual financial statements for calendar year-end entities.

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Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Financial Instruments With Down Round Features (Part I) and Scope Exception for Certain Mandatorily Redeemable Financial Instruments (Part II) (ASU 2017-11) Part I – Simplifies the accounting for certain financial instruments with down round features by eliminating the requirement to consider the down round feature in the liability or equity classification determination. For entities that present EPS, requires the effect of the down round feature in a warrant or other freestanding equity-classified instrument to be presented as a dividend and an adjustment to EPS when it is triggered. Regardless of whether the entity presents EPS, requires the effect of the down round feature in a convertible instrument such as debt or preferred stock to follow existing guidance for contingent beneficial conversion features and be presented as a discount to the convertible instrument with an offsetting credit to paid-in-capital when it is triggered. Part II – Changes the indefinite deferral available to private companies with mandatorily redeemable financial instruments and certain noncontrolling interests to a scope exception, which does not have an accounting effect.	March 31, 2019	Permitted, including in an interim period
Hedging Activities (ASU 2017-12) Expands the nonfinancial and financial risk components that can qualify for hedge accounting and simplifies financial reporting for hedging activities.	March 31, 2019	Permitted, including in an interim period
Goodwill Impairment Testing (ASU 2017-04) Removes step two of the goodwill impairment test – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value.	For SEC filers, tests performed on or after Jan. 1, 2020 For PBEs that are not SEC filers, tests performed on or after Jan. 1, 2021	Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Credit Losses (ASU 2016-13) Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables.	For SEC filers, March 31, 2020 For PBEs that are not SEC filers, March 31, 2021	Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within

Appendix B: ASUs for Financial Institutions[8] – Effective Dates for Non-Public Business Entities (Non-PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Fair Value Disclosures for Investments in Entities That Calculate Net Asset Value (NAV) per Share (ASU 2015-07) Entities that elect to measure the fair value of certain investments using the NAV per share practical expedient will no longer categorize those investments in the fair value hierarchy.	March 31, 2017	Permitted
Equity Method (ASU 2016-07) Removes the requirement to retroactively adopt the equity method upon an increase in 1) the level of ownership interest or 2) the degree of influence of an investment.	March 31, 2017	Permitted
Technical Corrections and Improvements (ASU 2016-19) Various corrections to existing accounting guidance, including five that may result in a change in practice for the following: • Accounting for internal-use software licensed from third parties in the scope of Subtopic 350-40 (relates to ASU 2015-05) • Technical correction for Federal Housing Administration (FHA) or Veterans Benefits Administration (VA) insured loans that do not have to be fully insured by those programs to recognize profit using the full accrual method • Disclosure is required when a fair value valuation approach (that is, market, cost, or income) or valuation technique (such as present value or option pricing models) changes	March 31, 2017[9]	Permitted for amendments that require transition guidance

[8] These standards have the highest likelihood of being applicable for financial institutions. There could be other standards that might be applicable for financial institutions engaging in nontraditional activities.

[9] Most of the amendments were effective immediately. The change related to ASU 2014-11 was previously effective, and the change related to ASU 2015-05 is effective for Dec. 31, 2018, annual financial statements for calendar year-end entities. Other items requiring transition are effective for interim and annual reporting periods beginning after Dec. 15, 2016.

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Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Technical Corrections and Improvements (ASU 2016-19), continued • Subtopic 860-20 (sales of financial assets) is revised to align implementation and recognition guidance and to clarify considerations in determining whether a transferor once again has effective control over transferred financial assets (relates to ASU 2014-11) • Technical correction for Subtopic 860-50 (servicing assets and liabilities) to add existing guidance (from AICPA Statement of Position 01-6) on accounting for the sale of servicing rights when the transferor retains loans		
Amendments to the Consolidation Analysis (ASU 2015-02) Applies to the consolidation of legal entities such as limited partnerships, limited liability corporations, and securitization structures.	Dec. 31, 2017	Permitted, including in an interim period
Business Combinations – Simplifying Measurement-Period Adjustments (ASU 2015-16) Eliminates retroactive revisions to financial statements as a result of measurement-period adjustments, but requires disclosure of measurement-period adjustments recorded in the current period.	Dec. 31, 2017	Permitted for financial statements not issued or made available for issuance
Share-Based Payment Modification Accounting (ASU 2017-09) Requires modification accounting when an award's fair value, vesting provisions, or classification changes subsequent to a modification of the award.	March 31, 2018	Permitted, including in an interim period
Derivative Novations (ASU 2016-05) Applies when there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument.	Dec. 31, 2018	Permitted, including in an interim period

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Puts and Calls on Debt Instruments (ASU 2016-06) Applies to debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded put or call options. When those options are contingently exercisable, there is no requirement that an entity must assess whether the event that triggers the ability to exercise the options is related to interest rates or credit risks.	Dec. 31, 2018	Permitted, including in an interim period
Share-Based Payments (ASU 2016-09) Applies to share-based payment awards issued to employees and offers simplification in several areas including income taxes, forfeitures, minimum statutory tax withholding requirements, cash flow presentation, and practical expedients for nonpublic entities to use intrinsic value measurement for liability-classified awards and to estimate expected term for certain awards.	Dec. 31, 2018	Permitted, including in an interim period
Revenue Recognition (ASU 2014-09) For all entities, the transaction- and industry-specific recognition methods are eliminated and revenue is recognized by applying a defined principles-based approach. Clarifying standards: ASU 2015-14 – Deferral of Effective Date ASU 2016-08 – Principal Versus Agent Considerations (Gross Versus Net Reporting) ASU 2016-10 – Identifying Performance Obligations and Licensing ASU 2016-11 – Rescission of SEC Guidance (Staff Announcements at March 3, 2016, EITF Meeting) ASU 2016-12 – Narrow-Scope Improvements and Practical Expedients ASU 2016-20 – Technical Corrections and Improvements ASU 2017-14 – (Rescission of the SEC's SAB Topic 13)	Dec. 31, 2019	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within

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Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Derecognition and Partial Sales of Nonfinancial Assets (ASU 2017-05) Primarily applies to the real estate industry but can affect other entities. Clarifies the scope of Subtopic 610-20 by defining an “in substance nonfinancial asset,” and provides guidance on partial sales, such as when an entity retains an equity interest in the entity that owns the transferred nonfinancial assets.	Dec. 31, 2019, consistent with ASU 2014-09	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within
Recognition and Measurement (ASU 2016-01) Applies to the classification and measurement of financial instruments. Removes available-for-sale category for equities.	Dec. 31, 2019	Not permitted, except for two provisions
Breakage for Prepaid Cards (ASU 2016-04) Applies to prepaid stored-value products that are redeemable for monetary values of goods or services but also may be redeemable for cash, such as certain prepaid gift cards, prepaid telecommunication cards, and traveler’s checks.	Dec. 31, 2019	Permitted, including in an interim period
Statement of Cash Flows: Certain Clarifications (ASU 2016-15) Provides guidance on how eight specific cash flows should be classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments, insurance settlement proceeds, bank-owned or company-owned life insurance (BOLI or COLI) policy settlements and premiums, equity method investee distributions, beneficial interests in securitization transactions, and predominance principle for receipts and payments.	Dec. 31, 2019	Permitted, including in an interim period
Income Taxes for Intra-entity Asset Transfers (ASU 2016-16) Applies to asset transfers between legal entities, including related parties (e.g., bank and investment subsidiaries); transferor recognizes the current and deferred tax effects when the transfers occur.	Dec. 31, 2019	Permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance

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Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Statement of Cash Flows: Restricted Cash (ASU 2016-18) Requires that restricted cash and cash equivalents be presented in total cash and cash equivalents in the statement of cash flows, and the nature of restrictions on restricted cash and cash equivalents be disclosed.	Dec. 31, 2019	Permitted, including in an interim period
Definition of a Business (ASU 2017-01) Applies to the determination of whether an asset or business is acquired (which determines whether goodwill is recognized), as well as asset derecognition and business deconsolidation transactions.	Dec. 31, 2019	Permitted for certain transactions
Presentation of Net Periodic Pension and Postretirement Benefit Costs (ASU 2017-07) Rather than reporting pension expense as a net amount, the service cost component will be presented consistent with similar compensation for the same employees, and the other components will be separately presented in the income statement.	Dec. 31, 2019	Permitted as of the beginning of an annual period, in the first interim period if interim financial statements are issued
Leases (ASU 2016-02) Revises recognition and measurement for lease contracts by lessors and lessees; operating leases are recorded on the balance sheet for lessees.	Dec. 31, 2020	Permitted
Premium Amortization on Purchased Callable Debt (ASU 2017-08) Shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, instead of to the maturity date.	Dec. 31, 2020	Permitted, including in an interim period

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Financial Instruments With Down Round Features (Part I) and Scope Exception for Certain Mandatorily Redeemable Financial Instruments (Part II) **(ASU 2017-11)** Part I – Simplifies the accounting for certain financial instruments with down round features by eliminating the requirement to consider the down round feature in the liability or equity classification determination. For entities that present EPS, requires the effect of the down round feature in a warrant or other freestanding equity-classified instrument to be presented as a dividend and an adjustment to EPS when it is triggered. Regardless of whether the entity presents EPS, requires the effect of the down round feature in a convertible instrument such as debt or preferred stock to follow existing guidance for contingent beneficial conversion features and be presented as a discount to the convertible instrument with an offsetting credit to paid-in-capital when it is triggered. Part II – Changes the indefinite deferral available to private companies with mandatorily redeemable financial instruments and certain noncontrolling interests to a scope exception, which does not have an accounting effect.	Dec. 31, 2020	Permitted, including in an interim period
Hedging Activities **(ASU 2017-12)** Expands the nonfinancial and financial risk components that can qualify for hedge accounting and simplifies financial reporting for hedging activities.	Dec. 31, 2020	Permitted, including in an interim period
Credit Losses **(ASU 2016-13)** Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables.	Dec. 31, 2021	Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within
Goodwill Impairment Testing **(ASU 2017-04)** Removes step two of the goodwill impairment test – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value.	Tests performed on or after Jan. 1, 2022	Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017

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