



July 2018

Keeping You Informed

Second Quarter Accounting and
Financial Reporting Developments

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Second Quarter Highlights

During the second quarter of the 2018 calendar year, the Financial Accounting Standards Board (FASB) proposed guidance on collaboration arrangements primarily affecting biotech companies and on the definition of collections for not-for-profit entities. Also, it issued final standards to remove obsolete guidance affecting primarily banks, to clarify guidance on contributions for not-for-profit entities, and to improve nonemployee share-based payment accounting.

The focus of the Securities and Exchange Commission (SEC) was on a variety of topics, including the financial reporting process, new accounting standards, non-GAAP measures, tax reform, and auditor independence.

The Public Company Accounting Oversight Board (PCAOB), with its entirely new board in place, is in the midst of evaluating its strategic plan for 2019 and hosted the new board's first Standing Advisory Group (SAG) meeting of 2018.

This publication covers these highlights from the quarter and more from the Center for Audit Quality (CAQ), the American Institute of CPAs (AICPA), and others.

From the FASB

Final Standards

Clarifying the Scope and Guidance for Contributions for Not-for-Profit Entities

On June 21, 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, “Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.” Accounting for contributions is an issue primarily for not-for-profit (NFP) entities; however, this update applies to all entities, including business entities that receive or make contributions of cash and other assets.

The update clarifies guidance about whether a transfer of assets (or reduction, settlement, or cancellation of liabilities) is an exchange transaction or a contribution. The update provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred. If the resource provider is receiving commensurate value, this would be an exchange transaction, and entities would apply Topic 606 (“Revenue From Contracts With Customers”) or other applicable guidance. A contribution would be a nonreciprocal transaction within the scope of Topic 958.

In addition, the update provides guidance on determining whether contributions are conditional or unconditional, which affects the timing of revenue recognition. This determination is made on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. The update contains indicators that guide the assessment of whether an agreement contains a barrier. Indicators include whether there is a measurable performance-related barrier or other measurable barrier, the extent to which a stipulation limits discretion by the recipient on the conduct of an activity, and whether there is a stipulation related to the purpose of the agreement. The presence of both a barrier and a right of return or a right of release indicates that a recipient is not entitled to the assets until it has overcome the barrier in the agreement, and the contribution is therefore conditional.

The update may result in more grants and contracts being accounted for as contributions than under current practice, particularly related to grants and contracts received by not-for-profits from governments.

Modified prospective transition is required, but there is an option to apply the retrospective method.

For public business entities (PBEs) or an NFP 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, and serves as a resource recipient, the amendments for contributions received are effective in annual periods beginning after June 15, 2018, including interim periods within. For all other entities, the amendments for contributions received are effective in annual periods beginning after Dec. 15, 2018, and interim periods within annual periods beginning after Dec. 15, 2019.

For PBEs or an NFP 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 and serves as a resource provider, the amendments for contributions made are effective in annual periods beginning after Dec. 15, 2018, including interim periods within. For all other entities, the amendments for contributions made are effective in annual periods beginning after Dec. 15, 2019, and interim periods within annual periods beginning after Dec. 15, 2020.

Early adoption is permitted.

Improvements to Nonemployee Share-Based Payments

On June 20, 2018, the FASB issued ASU 2018-07, [“Compensation – Stock Compensation \(Topic 718\): Improvements to Nonemployee Share-Based Payment Accounting,”](#) to simplify the accounting for nonemployee share-based payments for goods or services to be used in a grantor’s own operations, by aligning it with and including it within the scope of Topic 718 for employee share-based compensation.

The guidance clarifies that the following are *outside* the scope of Topic 718:

- Inputs to an option pricing model and the attribution of cost (that is, the vesting period and pattern of recognition) for nonemployee payments
- Share-based payments to provide financing to the issuer
- Share-based payments to grant awards in conjunction with selling goods or services to customers as part of a contract under Topic 606, “Revenue From Contracts With Customers”

Under the new guidance, the following changes will apply to nonemployee share-based payment awards:

- Instead of measuring at the fair value of the consideration received or the fair value of the equity instruments issued, the awards will be measured at grant date fair value.
- Instead of measuring at the earlier of when a commitment for performance by the counterparty is reached or the date at which the counterparty's performance is complete, the awards will be measured at the grant date.
- Instead of measuring awards with performance conditions at the lowest aggregate fair value, the grantor will consider the probability of satisfying performance conditions contained in the awards.
- The classification of equity-classified awards no longer will need to be reassessed upon vesting unless award modifications occur after they vest and the nonemployee is no longer providing goods or services.

Two practical expedients are available for nonpublic entities:

- Intrinsic value. A nonpublic entity can make a one-time election to switch from measuring liability-classified nonemployee awards at fair value to measuring at intrinsic value. Regardless of the election, liability-classified awards would be subject to remeasurement until exercise.
- Calculated value (volatility). A nonpublic entity may account for nonemployee awards on the basis of a calculated value using historical volatility of an appropriate industry sector index instead of the expected volatility of its own share price when it is not practicable to estimate.

For PBEs, the ASU is effective for fiscal years beginning after Dec. 15, 2018, including interim periods within, which first applies to March 31, 2019, interim financial statements for calendar year-end PBEs. For all other entities, it is effective for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020. Early adoption is permitted, including in an interim period, but no earlier than the adoption of Topic 606, "Revenue From Contracts With Customers."

Rescission of Obsolete Deferred Tax Guidance for Financial Institutions

On May 7, 2018, the FASB issued ASU 2018-06, “Codification Improvements to Topic 942, Financial Services – Depository and Lending.” It supersedes guidance that originated from the Office of the Comptroller of the Currency (OCC) Banking Circular 202, “Accounting for Net Deferred Tax Charges,” which limits the net deferred tax debits that could be carried on a financial institution’s balance sheet for regulatory purposes to the amount that would be coverable by the net operating losses carrybacks. Because the OCC previously rescinded this guidance, it is no longer relevant.

No significant change in current practice is expected, and the final ASU is effective immediately.

Proposals

Definition of Collections for Not-for-Profit Entities

On June 26, 2018, the FASB issued a proposed ASU, “Not-for-Profit Entities (Topic 958): Updating the Definition of Collections,” to address diversity in practice between the application of the definition of the term “collections” in the FASB Accounting Standards Codification (ASC) Master Glossary and the definition that many entities use for operability and accreditation purposes.

The proposed ASU would modify the definition of the term “collections.” GAAP states that an entity is not required to recognize contributions of works of art, historical treasures, and similar assets if the donated items are added to collections and meet all three criteria in the Master Glossary definition. One of the criteria in the current definition states that the items must be subject to an organizational policy that requires the proceeds from items that are sold to be used to acquire other items for collections. The proposed amendment would modify that criteria to allow the proceeds to be used to support the direct care of existing collections in addition to acquiring other items for collections. The care and preservation of collections is the basis for permitting entities to not recognize contributed collections and the proposed amendment aligns the Master Glossary definition with this basis.

Accounting for collections is primarily an issue for certain NFP entities that hold collections; however, the proposed amendments would apply to all entities, including business entities that maintain collections.

The proposed updates would be effective upon issuance of a final update for all entities and would be applied on a prospective basis, with an option to apply the proposed amendments retrospectively.

Collaboration Arrangements

On April 26, 2018, the FASB issued a proposed ASU, “Collaborative Arrangements (Topic 808): Targeted Improvements,” that would affect companies that enter into collaborative arrangements, which are common in the biotech industry, and clarify the interaction between Topic 808 on collaborative arrangements and Topic 606 on revenue from contracts with customers. A collaborative arrangement is defined in the ASC Master Glossary in this way:

“A contractual arrangement that involves a joint operating activity. These arrangements involve two (or more) parties that meet both of the following requirements:

1. They are active participants in the activity.
2. They are exposed to significant risks and rewards dependent on the commercial success of the activity.”

The proposal would revise the accounting for collaborative arrangements as follows:

- An entity would determine whether a collaborative arrangement or a component of the arrangement is in the scope of Topic 606.
- Topic 606 would be applied in its entirety when the other participant to the arrangement is a customer.
- Revenue presentation would not be allowed for transactions that are not directly related to third-party sales, and when the collaborative participant is not a customer.

Comments were due June 11, 2018.

Other FASB Topics

EITF Final Consensus on Cloud Computing Arrangements (CCAs)

At its meeting on June 7, 2018, the Emerging Issues Task Force (EITF) voted to issue a final consensus on Issue 17-A, “Customer’s Accounting for Implementation, Setup, and Other Upfront Costs (Implementation Costs) Incurred in a Cloud Computing Arrangement That Is Considered a Service Contract.” Consistent with the proposal, the accounting for implementation costs for CCAs that are service contracts will align with the requirements in ASC Subtopic 350-40 for internal-use software by capitalizing implementation costs during the development stage and amortizing those costs over the term of the hosting arrangement. Amortization of the capitalized implementation costs will be presented in the same income statement line item as hosting arrangement fees. Capitalized implementation costs will be presented in the same line items on the balance sheet and the cash flow statement as hosting arrangement fees.

Once issued, the final standard, which could be early adopted, will be effective for public business entities in fiscal years beginning after Dec. 15, 2019, and interim periods within those years. For all other entities it will be effective for years beginning after Dec. 15, 2020, and interim periods within fiscal years beginning after Dec. 15, 2021.

TRG for Credit Losses Meeting

The Transition Resource Group (TRG) for Credit Losses met on June 11, 2018, to discuss the following additional implementation issues for the credit losses standard:

- Capitalized interest – how capitalized interest should be considered when estimating current expected credit losses (CECL) using a method other than a discounted cash flow (DCF) method. On page 11 in [Memo No. 8](#), the FASB staff provided its recommendation that it would be inappropriate to consider unearned accrued interest when calculating CECL if following a method other than a DCF approach.
- Accrued interest – 1) whether to include accrued interest in the amended definition of amortized cost, and 2) whether the reversal of accrued interest on nonperforming financial assets should be recorded in interest income or allowance. For the first matter, the FASB staff supported the current definition of amortized cost basis that includes accrued interest, but it recommended that the board provide practical expedients to perform an assessment of collectibility and determine expected cash flows for accrued interest separately from the loan balance and other components of amortized cost. For the second matter, the FASB staff said if an entity follows a sufficient nonaccrual policy, it would reverse accrued interest on loans in nonaccrual status by reversing interest income and reducing the amortized cost basis of the loans. The FASB staff determined that further deliberation was necessary to understand the impact of the recommended approach on credit card receivables. The FASB staff provided its recommendations on pages 9-10 and 13-14 in [Memo No. 9](#).
- Transfers between classifications – how to apply CECL when transferring loans from held for sale (HFS) to held for investment (HFI) or credit impaired debt securities from available for sale (AFS) to held to maturity (HTM). The FASB staff provided its recommendations on pages 7-11 in [Memo No. 10](#).
- Recoveries – whether future expected cash receipts from a financial asset that has been written off or may be written off in the future (expected recoveries) should be included in the calculation of CECL. The FASB staff provided its recommendations on pages 12 and 13 in [Memo No. 11](#).
- Refinancing and loan prepayment – whether entities are required to use the loan refinancing or restructuring guidance in Subtopic 310-20, “Receivables – Nonrefundable Fees and Other Costs,” to determine what constitutes a prepayment for the purposes of calculating CECL. The FASB staff provided its recommendation on pages 7-8 in [Memo No. 12](#) that entities should not be required to use the loan modification guidance. The staff also shared its recommendation that prepayments should not be specifically defined for purposes of calculating the allowance.

The TRG largely agreed with the FASB staff recommendations. The conclusions will be memorialized in a TRG memo.

Accounting Standards That Work – Russell Golden, FASB Chairman

On May 3, 2018, in his opening remarks before the 2018 Baruch College Financial Reporting Conference, FASB Chairman Russell Golden spoke about one of the FASB's key priorities – to set “[accounting] standards that work.” He explained that accounting standards that work promote truth telling, help investors make better decisions, and reflect economic reality versus trying to drive that reality. In contrast, standards that don't work are complex, are too costly, and create anxiety and frustration.

Golden explained that the FASB engages in significant outreach throughout the life cycle of the standard-setting process in order to foster the setting of standards that work. This outreach includes identifying the right accounting issues to address, generating possible and workable solutions to those issues, and ultimately assisting both users and preparers in their application of the FASB's accounting standards. Golden highlighted the board's significant efforts to support implementation related to the new revenue recognition, leasing, and credit loss accounting standards. He also discussed how constituent outreach meaningfully affects the items that are part of the FASB's research and technical agendas.

Golden also covered the FASB's efforts to ensure that decisions reached by FASB board members are consistent across time – particularly, as board members change. He specifically mentioned the FASB's recent and ongoing efforts to revise and enhance its Conceptual Framework, including issuing new guidance on making decisions about disclosures and materiality.

To conclude, Golden emphasized that accounting standards that work are always a work in progress. While not all issues can be addressed successfully by standard-setting, the FASB works to make decisions that are consistent and clear. Golden encouraged the audience to continue its dialogue with the FASB to help identify and resolve accounting issues.

FAF Annual Report for 2017

On May 23, 2018, the Financial Accounting Foundation (FAF) (that is, the independent organization responsible for oversight of the FASB and the GASB) released its annual report for 2017. The report includes a letter from Golden, FASB highlights, and the FAF's 2017 audited financial statements and management's discussion and analysis of the financial results.

FASAC Meeting

On June 8, 2018, the Financial Accounting Standards Advisory Council (FASAC) met primarily to discuss two topics:

- Financial performance reporting and disaggregation of performance information
- Subsequent accounting for goodwill and possible decision-making factors

The next FASAC meeting is scheduled for Sept. 25, 2018.

From the SEC

New Smaller Reporting Company Definition

On June 28, 2018, the SEC voted to expand the “smaller reporting company” (SRC) definition to include entities with public float of less than \$250 million, which is an increase from the previous public float threshold of \$75 million. This means that more entities will qualify for the SRC scaled disclosure accommodations. The SEC did not change the threshold for the definition of “accelerated filer,” which includes the requirement for an auditor attestation of management’s assessment of internal control over financial reporting (ICFR). Accordingly, for those entities with public float between \$75 million and \$250 million, Section 404(b) of the *Sarbanes-Oxley Act of 2002* (Sarbanes-Oxley) (that is, the auditor attestation of ICFR) remains applicable.

Additionally, for entities with no public float or with public float of less than \$700 million, those entities will qualify as an SRC if annual revenues are less than \$100 million during its most recently completed fiscal year.

SEC Chair Jay Clayton has directed the SEC staff to consider providing further relief on Section 404(b) of Sarbanes-Oxley.

Draft Strategic Plan

On June 19, 2018, the SEC released its draft strategic plan and requested comment to guide the agency in its priorities through fiscal year 2022. The plan outlines the following three goals along with initiatives to achieve each goal:

- Focus on the long-term interests of Main Street investors.
- Recognize significant developments and trends in evolving capital markets, and adjust SEC efforts to ensure effective resource allocation.
- Elevate the SEC’s performance by enhancing its analytical capabilities and human capital development.

Comments are due July 25, 2018.

Auditor Independence for Certain Lending Relationships

On June 20, 2016, the SEC issued a no-action letter to an investment management company stating that, if certain conditions were met, the SEC would not recommend enforcement action even though the company's funds were not in compliance with the "Loan Provision" found in Rule 2-01 of Regulation S-X. The provision specifically relates to determining whether an auditor is independent when the auditor has a lending relationship with certain shareholders of the audit client. Subsequent to the release of the no-action letter, registrants and auditors continue to seek clarification from the SEC on various aspects of the provision.

On May 2, 2018, the SEC proposed a rule, "Auditor Independence With Respect to Certain Loans or Debtor-Creditor Relationships," that would revise guidance on the Loan Provision. Covering both the audit and professional engagement periods, the proposal would revise the analysis to determine independence as follows:

- Center only on beneficial ownership, thus removing the owners of record (such as financial institutions and broker-dealers that register shares for the benefit of customers) from the analysis.
- Establish a new "significant influence" test to replace the 10 percent bright-line shareholder ownership test.
- Add a "known through reasonable inquiry" standard to identify beneficial equity owners.
- Revise, for a fund, the definition of "audit client" to exclude funds that would be considered affiliates of the audit client.

Comments were due July 9, 2018.

Corp Fin Deficiency Letters for Certain Registration Statements

On June 12, 2018, Corp Fin announced that it will be releasing letters that identify certain registration statements and offering documents as seriously deficient earlier than in the past. To promote transparency, within 10 calendar days of issuing a letter that identifies a registration statement or offering document as not minimally compliant with regulatory requirements, it will be released to the public through the company's filing history on EDGAR. This process began with letters issued on June 15, 2018.

Non-GAAP Measures

- The SEC's Division of Corporation Finance (Corp Fin) updated its Compliance and Disclosure Interpretations (C&DIs) on Non-GAAP Financial Measures on April 4, 2018, by adding two questions related to business combinations. The new answers clarify when certain forecasts disclosed by registrants would not meet the definition of a non-GAAP measure.

Speeches and Testimony

Tax Reform and Major Accounting Standards – Sagar Teotia, Deputy Chief Accountant

On June 7, 2018, Deputy Chief Accountant Sagar Teotia, in the SEC's Office of the Chief Accountant (OCA), addressed the 37th Annual SEC and Financial Reporting Institute Conference in Los Angeles. In his remarks, he covered the following topics:

- Tax reform and SAB 118
 - SAB 118 does not provide an option to defer application of the income tax accounting guidance. Instead, issuers should complete their analysis of the effect of the *Tax Cuts and Jobs Act*. While the SEC understands that some entities could not immediately analyze all the effects of the act and allows the measurement period alternatives to be taken in those cases, the SEC does not view this as permission to wait a full year before analyzing the effects. The SEC expects issuers to progress through the analysis in good faith, and timing will vary depending on facts and circumstances. Furthermore, the disclosures about the effects for which the accounting is incomplete should not be overlooked. The OCA remains open for consultations on any application issues.
- Revenue recognition (Topic 606)
 - Teotia covered the activities that his office has undertaken with respect to Topic 606 implementation, including the speeches OCA staff made during 2017 on revenue recognition implementation matters.
- Lease accounting (Topic 842)
 - Echoing his previous speeches, Teotia re-emphasized that lease accounting implementation will take time and require numerous steps. He focused on the identification of all arrangements that include leases, or embedded leases, saying that, "it may require time to complete."
 - He noted agreement with the FASB to not form a TRG for lease accounting, unlike the board's decision for revenue and credit losses. Even without a TRG, the FASB has moved quickly to address implementation issues by issuing one accounting standard and two proposed standards. Registrants, audit committees, and auditors are responsible for ensuring that any implementation issues are identified and resolved with the appropriate parties.
- Credit losses (Topic 326)
 - Teotia summarized the OCA's involvement with credit loss implementation including consultations discussed in a previous OCA staff speech. He also noted the work of the TRG for Credit Losses.
- Other new accounting standards
 - Specifically noting the cash flow statement and recognition and measurement standards, he reminded the audience not to forget about the other new standards that became effective on Jan. 1, 2018, as well as other standards such as those about hedging that will become effective soon.

FASB Role, New Standards, Non-GAAP, Market Risk Disclosures, Audit Firm Governance – Wesley Bricker, SEC Chief Accountant

Bricker addressed the 2018 Baruch College Financial Reporting Conference on May 3, 2018. He began by sharing his view on the objective of *general* purpose financial reporting and how the FASB's general purpose financial reporting standards are formulated to meet that objective. He then contrasted general purpose financial reporting with *special* purpose financial reporting – noting that the latter fulfills more limited purposes – and observed that both types of financial reporting best serve their intended purpose when their objectives are kept separate.

He next touched on the new accounting standards on revenue, leases, and credit losses as well as the SEC staff guidance related to income tax reform, discussing how these changes will strengthen the overall financial reporting system. In addition, he briefly mentioned the new requirement to record the fair value changes of equity securities in the income statement rather than through other comprehensive income (OCI) as a result of ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” which is effective for public companies beginning in 2018. For companies that choose to present non-GAAP information related to this change, he emphasized “non-GAAP reporting may supplement but is not a substitute for GAAP reporting.”

Further, on non-GAAP measures, Bricker noted the requirement to have disclosure controls and procedures that would “prevent error, manipulation, or mischief with the numbers” and “a policy that addresses how any changes in the non-GAAP measure will be reported and how corrections of errors will be evaluated.” He encouraged audit committees that do not already do so to “review the [non-GAAP] metrics to understand how management evaluates performance, whether the metrics are consistently prepared and presented from period to period, and the related disclosure policies.”

In light of the recent rise in market interest rates, he reminded both audit committees and management of the market risk disclosure requirements, noting that some companies' financial statements are particularly sensitive to market factors including market liquidity and pricing.

Bricker asked the audience to consider commenting on the May 2 rule proposal on auditor independence, known as the “Loan Provision.” The proposal seeks to identify lending relationships between the auditor and the equity owners of audit clients that could impair or appear to impair auditor objectivity and impartiality.

On the topic of audit firm governance, Bricker noted the need for constant efforts to “maintain and nurture trust.” He observed the largest accounting firms have appointed or are appointing independent directors or advisory council members and voluntarily produce audit quality reports to communicate “about the design of an audit firm’s governance and culture.”

Financial Reporting – Wesley Bricker, SEC Chief Accountant

In his [address](#) to the Institute of Management Accountant’s 2018 Annual Conference and Expo on June 19, 2018, SEC Chief Accountant Wesley Bricker covered topics similar to his June 6, 2018, speech. Referencing the new financial reporting illustrations on the SEC’s website, he discussed the financial reporting process and the involvement of all participants in the process including management, auditors, audit committees, and the external auditor. Regarding the financial reporting responsibilities of management, he emphasized the importance of strong ethics and culture as well as financial training and literacy. He concluded with the topic of emerging technologies.

Financial Reporting and Innovation – Wesley Bricker, SEC Chief Accountant

On June 6, 2018, in London, Bricker [addressed](#) the Institute of Chartered Accountants in England and Wales. He covered the following topics:

- Highly connected global investing markets
- Financial reporting information available in markets, including information other than what is in the financial statements
- Financial reporting processes, including reference to the [“U.S. Financial Reporting Structure for Public Issuers”](#) that illustrates the financial reporting structure in three different ways
- Critical role of audit regulators and audit standard-setters
- Critical role of auditors, including auditor choice and audit quality, and the auditors of tomorrow

Culture at Financial Institutions – Jay Clayton, SEC Chairman

In Clayton's address at the Federal Reserve Bank of New York conference on governance and culture reform in New York on June 18, 2018, he shared several ideas related to corporate culture at financial institutions and the SEC:

- Culture is not an option. Every organization has a culture.
- Know your culture. In order to effectively manage a firm, you must know its culture.
- Culture is a collection of countless internal and external actions. Culture is not related solely to the words of management; rather, it is a collection of all the actions carried out within the organization at every level on a daily basis.
- Culture is preserved and enhanced through a clear and constant mission. The SEC's mission is furthering the interests of long-term retail investors.
- Culture goes beyond the law and regulations. "The law may not prohibit all forms of lying, but your culture should reject it."
- The SEC does not expect perfection; it does expect commitment and action. People will make mistakes, and those mistakes should be assessed to determine what remediation efforts are needed.

Digital Asset Transactions – William Hinman, Corp Fin Director

In Corp Fin Director William Hinman's [address](#) to the Yahoo Finance All Markets Summit on June 14, 2018, he covered the application of aspects of the securities laws to digital assets. He addressed whether a digital asset offered as a security can, over time, become something other than a security. He shared his views related to certain specified circumstances in which a digital asset can no longer be a security – that is, when there no longer is any central enterprise being invested in or when the digital asset is sold only to be used to purchase a good or service available through the network on which it was created. He also provided factors to consider when determining whether a digital asset is a security or whether it is structured more like a consumer item (such as a good or service to be purchased).

Congressional Testimony on Corp Fin Activities – William Hinman, Corp Fin Director

On April 26, 2018, Hinman testified before the U.S. House of Representatives about Corp Fin activities. He covered the filing review process as well as recent initiatives and upcoming priorities for Corp Fin.

Hinman said that upcoming priorities for Corp Fin include the following recommendations for the SEC:

- Raise the “smaller reporting company” (SRC) threshold from \$75 million to \$250 million in public float, or if no public float, less than \$100 million in revenue (which would be an increase from \$50 million), which would allow more companies to apply the scaled disclosure requirements for SRCs. See earlier section, “New Smaller Reporting Company Definition.”
- Update and simplify disclosure requirements in Regulations S-X and S-K, including industry guides.
- Extend the “test the waters” provision from the *Jumpstart Our Business Startups Act* to non-emerging growth companies, which would allow companies to communicate with potential investors meeting certain criteria before or following the filing of a registration statement.

Commissioner and Personnel Updates

Nomination of New Commissioner

On June 4, 2018, President Donald Trump nominated Elad L. Roisman to be a commissioner of the SEC for a five-year term. Roisman would replace outgoing Commissioner Michael Piwowar, who announced his resignation in May.

Corp Fin Senior Adviser for Digital Assets and Innovation

On June 4, 2018, the SEC named Valerie A. Szczepanik as the senior adviser for digital assets and innovation for Corp Fin Director William Hinman. This new position was created to focus on emerging digital asset technologies and innovations, including initial coin offerings and cryptocurrencies, and coordinate work across the SEC on these matters. Most recently, Szczepanik was an assistant director in the Division of Enforcement’s Cyber Unit.

Chief Risk Officer

On May 31, 2018, the SEC announced that Julie A. Erhardt has been named as the acting chief risk officer as the SEC searches to fill this newly created position. Erhardt joined the SEC in 2004 as a deputy chief accountant in the Office of the Chief Accountant, and she continues to hold that position.

From the PCAOB

The PCAOB's Future – William D. Duhnke, Chairman

PCAOB Chairman William Duhnke, on May 17, 2018, addressed the University of Kansas Auditing Symposium, where he discussed the first-ever request for public comment on the PCAOB's strategic plan and covered principles that will guide the board's actions and decisions. He shared a number of items that the board is considering in order to improve audit quality through inspections, as well as improving the reporting and communicating inspection results. The chairman also discussed approaches by audit regulators in other countries that could inform the board's views.

Before closing, he posed a number of questions that the board must consider as it evaluates improvements to its programs that go beyond the inspections program.

Strategic Plan for 2019

The newly appointed board is seeking feedback from the public on its priorities over the next five-year cycle that will begin in 2019. On April 17, 2018, the PCAOB released a survey to gather views from external parties interested in the work of the board, including investors, auditors, preparers, audit committee members, and academics.

The survey closed on May 15, 2018.

2017 Annual Report

On May 2, 2018, the PCAOB made public the 2017 annual report that it submitted to the SEC, as required by Sarbanes-Oxley. The report provides an overview of the board's activities for 2017, including public accounting firm registrations, inspections, standard setting, and enforcement actions, in addition to its audited financial statements and notes for 2017.

Standing Advisory Group (SAG) Meeting

The PCAOB's SAG met June 5-6, 2018, in Washington, D.C. The SAG comprises various stakeholders – investors, auditors, audit committee, members, public company executives, and others – and advises the PCAOB on audit and professional practice matters.

Meeting topics included the following:

- Panel discussion with the new board
- PCAOB standard-setting update
- Data and technology
- Cybersecurity
- Corporate culture implications for the audit
- Revised auditor's reporting model implementation

Personnel Changes

The PCAOB announced, on May 22, 2018, that Chief Auditor Martin F. Baumann would leave the board after 12 years of service. The PCAOB also announced, on May 18, 2018, that Director of Registration and Inspections Helen Munter would leave the board after 14 years of service. Finally, the PCAOB announced that Director of Enforcement and Investigations Claudius Modesti would leave the agency after 14 years of service, and Director of the Office of Information Technology Nirav Kapadia left after seven years of service.

All departures were effective by the end of May 2018.

From the CAQ

Cybersecurity Tool

On April 12, 2018, the CAQ released a new tool, [“Cybersecurity Risk Management Oversight: A Tool for Board Members,”](#) that board members can use to enhance their oversight of enterprisewide cybersecurity risk management. The tool includes questions that boards can ask management and financial statement auditors (or other CPA firms, depending on the engagement type).

The tool is organized into four sections:

- Understanding how the financial statement auditor considers cybersecurity – in the context of financial statement and, if applicable, internal control over financial reporting audits
- Understanding the role of management and responsibilities of the financial statement auditor related to cybersecurity disclosures – of both cybersecurity incidents and cybersecurity programs
- Understanding management’s approach to cybersecurity risk management – including whether a framework has been used to design a cybersecurity risk management program
- Understanding how CPA firms can assist boards of directors in their oversight of cybersecurity risk management – including independence considerations for entities subject to SEC independence rules and their financial statement auditors

Also, the CAQ released, on May 15, 2018, a one-page overview of how CPAs can help companies as they seek to manage cybersecurity risks. On June 6, 2018, the CAQ hosted a webinar, “Putting Cyber Risk in Context.”

Lease Accounting Tool

On April 4, 2018, the CAQ released a new tool, [“Preparing for the Leases Accounting Standard: A Tool for Audit Committees,”](#) that audit committees can use to enhance their oversight of management’s implementation of Accounting Standards Codification Topic 842, “Leases,” which begins to take effect for many public companies in January 2019. The tool includes questions that audit committees can ask management and their auditors, and is organized into four sections:

- Understanding the new leases standard – identifying all contracts with leases and, for lessees, measurement of the new right-of-use asset and lease liability
- Evaluating the company’s impact assessment – addressing disclosure of the expected impact on the financial statements as well as the impact on debt covenants, income tax effects, investor relations, regulatory compliance, and other considerations
- Evaluating the implementation project plan – including an evaluation of the timeline, the corporate culture and resources, involvement of key stakeholders, accounting policies and judgments, and systems and controls
- Other implementation considerations – including transition methods and disclosure requirements

Revised Auditor’s Reporting Model (ARM) Insights

In an April 3, 2018, [post](#) on the National Association of Corporate Directors’ Board Leaders’ Blog, CAQ Executive Director Cindy Fornelli summarized insights about the updated ARM gleaned from participation in the “Challenges Facing the Audit Profession” panel during the American Accounting Association’s 2018 Auditing Section Midyear Meeting. In the post, Fornelli presented opportunities, challenges, and strategies for success related to the updated ARM.

The possibility for investor insight is identified as one of three opportunities for the revised auditor’s report. Challenges of the updated ARM include the potential for boilerplate language, the temptation for management to interfere with audit committee and external auditor communication, and the tension between management and the auditors based on what they want to disclose.

Finally, strategies for implementing the revised ARM successfully include maintaining an open dialogue between auditors and audit committees, doing preliminary testing of the revised model, and paying close attention to the post-implementation review.

CAQ Highlights of SEC Regulations Committee Meeting

On May 22, 2018, the CAQ released highlights from its SEC Regulations Committee meeting held on March 13, 2018, with SEC staff. At the meeting, the SEC's Corp Fin staff provided a staffing update for Corp Fin's Office of the Chief Accountant (Corp Fin OCA).

Financial reporting updates discussed at the meeting included:

- Disclosure of the impact of tax reform legislation using non-GAAP and pro forma financial information
- Waivers of financial statements required by Rule 3-09 of Regulation S-X (for equity method investees)
- Certain SEC presentation and disclosure requirements for the revenue and lease accounting standards
- Financial statements used in an initial public offering to assess significance when a draft registration statement is submitted
- Certain audit requirements for a reverse merger involving two operating companies

Monitoring Inflation in Certain Countries

The CAQ released a discussion document, "Monitoring Inflation in Certain Countries," dated May 16, 2018, which includes inflation data that its International Practices Task Force (IPTF) accumulated to facilitate a discussion among IPTF members. The discussion document does not represent formal views of the IPTF or any accounting or regulatory body.

Learning Opportunities

Deterring Fraud and Restatements – Self-Study

The Anti-Fraud Collaboration – comprised of the CAQ, Financial Executives International (FEI), the National Association of Corporate Directors (NACD), and the Institute of Internal Auditors (IIA) – released a self-study Continuing Professional Education (CPE) program. The program, [“What Is Your Role? When Accounting Policy Meets ICFR,”](#) covers how improvements to accounting policies and internal controls can be made in an effort to deter fraud and limit financial reporting restatements.

Non-GAAP Measures – Webcast

To expand on information in the CAQ’s March 2018 report, [“Non-GAAP Measures: A Roadmap for Audit Committees,”](#) the Anti-Fraud Collaboration is hosting a free CPE webcast, [“Non-GAAP Measures – What Do They Say About Fraud Risk?”](#) on July 18, 2018. Cindy Fornelli will moderate the panel discussion on how to deter fraud and misconduct in the development and presentation of non-GAAP measures.

From the AICPA

Comparison of Cybersecurity Guidance

On April 13, 2018, the AICPA issued a [comparison](#) of its guidance (for both public and private entities) and the SEC's guidance (for public companies) on cybersecurity, "Communications of Cybersecurity Incidents: Comparison Between SEC Release 33-10459 and the AICPA's Cybersecurity Risk Management Framework." In the comparison, the AICPA identifies the following similarities:

- Both describe cybersecurity processes and controls that should be designed and implemented for a robust cybersecurity risk management program.
- Both support the need for a robust program to manage an entity's unique cybersecurity risks.
- Both include criteria for processes and controls necessary to effectively communicate material cybersecurity events to key shareholders.
- Both recognize that senior management and the board of directors should have effective oversight over the processes and controls in the program, including:
 - Setting the "tone at the top" that cybersecurity matters are important
 - Assessing identified deficiencies
 - Monitoring the results of in-house cybersecurity controls evaluations
 - Overseeing corrective actions

A difference noted in the comparison is that the SEC's guidance addresses the need for corporate insiders to refrain from making selective disclosures of material nonpublic information about cybersecurity risks or incidents. That requirement is not included in the AICPA's framework.

Also, on July 17, 2018, the AICPA will cohost a webinar, "[Putting Cyber Risk in Context: Lessons From the 2018 Cyber Balance Sheet Report.](#)"

Accounting Standards Updates (ASU) Effective Dates

Checklist A – ASU Effective Dates for Public Business Entities (PBEs)	A-1
Checklist B – ASU Effective Dates for Non-Public Business Entities (Non-PBEs).....	B-1

Checklist A

ASU Effective Dates for Public Business Entities (PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Tax Reform – SEC Accounting and Disclosure Guidance (ASU 2018-05) Codifies the SEC's SAB 118, which provides guidance on accounting for income tax effects of the <i>Tax Cuts and Jobs Act</i> (H.R. 1). Provisional amounts should be recorded for tax effects that are incomplete and can be reasonably estimated at the end of the reporting period, and disclosure should accompany the incomplete tax effects.	Dec. 22, 2017 – enactment of H.R. 1, included in the Dec. 31, 2017, annual financial statements	Not applicable
Rescission of Obsolete Deferred Tax Guidance for Financial Institutions (ASU 2018-06) Supersedes guidance that originated from the Office of the Comptroller of the Currency's (OCC's) Banking Circular 202, "Accounting for Net Deferred Tax Charges." Because the OCC previously rescinded this guidance, it is no longer relevant.	Upon issuance, May 7, 2018	Not applicable
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 Certain SEC Guidance in Topic 605 (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 SEC SAB Topics 8 and 13 and bill-and-hold guidance; revision of SAB Topic 11.A and SEC guidance for certain vaccine manufacturers	March 31, 2018¹	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within

¹ 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 a 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.

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
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
Service Concession Arrangements for Operators of Public Infrastructure (ASU 2017-10) In all service concession arrangements between a public sector entity and the operator of the public sector entity’s infrastructure, the public sector entity (or the grantor) should be identified as the customer.	March 31, 2018 (unless ASU 2014-09 was previously adopted)	Permitted, including in an interim period
Recognition and Measurement (ASU 2016-01) Applies to the classification and measurement of financial instruments. Removes the AFS category for equities. Equities (excluding equity method and consolidated investments) will be carried at fair value; however, the changes will run through the income statement rather than OCI. For PBEs, requires the use of exit pricing in fair value disclosure for instruments carried at amortized cost. Clarifying standards: ASU 2018-03 – Clarifications for equity securities without a readily determinable fair value and fair value option liabilities ASU 2018-04 – (SAB 117) Rescission of SEC guidance on AFS equities	March 31, 2018 For ASU 2018-03, Sept. 30, 2018	Not permitted, except for two provisions For ASU 2018-03, permitted, including in an interim period, if ASU 2016-01 has been adopted
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 life insurance (COLI) 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

Checklist A – ASU Effective Dates
for Public Business Entities (PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
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 subsidiary); 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
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
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 the balance sheet for lessees. Replaces Topic 840 with Topic 842. Clarifying standards: ASU 2018-01 – Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840.	March 31, 2019 ²	Permitted

² 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 a 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.

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
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
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 earnings per share (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
Certain Deferred Taxes for Steamship Entities (ASU 2017-15) Requires steamship entities to recognize any remaining deferred taxes on certain statutory reserve deposits in accordance with Topic 740.	March 31, 2019	Permitted, including in an interim period
Tax Reform – Reclassification of Stranded Tax Effects in AOCI (ASU 2018-02) If elected, an entity may reclassify stranded tax effects in AOCI specifically affected by the <i>Tax Cuts and Jobs Act</i> from AOCI to retained earnings, instead of recognizing those effects in earnings.	March 31, 2019	Permitted, including in an interim period

Checklist A – ASU Effective Dates
for Public Business Entities (PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Nonemployee Stock Compensation Simplifications (ASU 2018-07) Aligns the accounting guidance for nonemployee stock payments with the guidance for employee stock compensation in ASC Topic 718.	March 31, 2019	Permitted, including in an interim period, but no earlier than the adoption of Topic 606
Contributions Received and Made for Not-for-Profit Entities (ASU 2018-08) Improves the guidance on contributions and exchange transactions. Although the ASU primarily impacts not-for-profit entities, it applies to all entities, including business entities, that receive or make contributions of cash and other assets.	March 31, 2019 (see the ASU for non-calendar yearend effective dates because they vary for contributions received and contributions made)	Permitted
Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test.	For SEC filers, tests performed on or after Jan. 1, 2020 For PBEs that are <u>not</u> 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
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 <u>not</u> SEC filers, March 31, 2021	Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within

Checklist B

ASU Effective Dates for Non-Public Business Entities (Non-PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Tax Reform – SEC Accounting and Disclosure Guidance (ASU 2018-05) Codifies the SEC’s SAB 118, which provides guidance on accounting for income tax effects of the <i>Tax Cuts and Jobs Act</i> (H.R. 1). Provisional amounts should be recorded for tax effects that are incomplete and can be reasonably estimated at the end of the reporting period, and disclosure should accompany the incomplete tax effects.	Dec. 22, 2017 – enactment of H.R. 1, included in the Dec. 31, 2017, annual financial statements	Not applicable
Rescission of Obsolete Deferred Tax Guidance for Financial Institutions (ASU 2018-06) Supersedes guidance that originated from the OCC’s Banking Circular 202, “Accounting for Net Deferred Tax Charges.” Because the OCC previously rescinded this guidance, it is no longer relevant.	Upon issuance, May 7, 2018	Not applicable
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
Classification of Deferred Taxes (ASU 2015-17) Simplifies classification of deferred taxes in a classified balance sheet. Classification as noncurrent only is required.	Dec. 31, 2018	Permitted as of the beginning of an interim or annual 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
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.	Dec. 31, 2018	Permitted, including in an interim period

Checklist B – ASU Effective Dates for
Non-Public Business Entities (Non-PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
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
Not-for-Profit Entities – Financial Statements (ASU 2016-14) Represents major changes to not-for-profit financial statement presentation standards; focuses on improving the current net asset classification requirements and information presented in financial statements and notes to assess liquidity, financial performance, and cash flows.	Dec. 31, 2018	Permitted
Certain Deferred Taxes for Steamship Entities (ASU 2017-15) Requires steamship entities to recognize any remaining deferred taxes on certain statutory reserve deposits in accordance with Topic 740.	March 31, 2019	Permitted, including in an interim period
Tax Reform – Reclassification of Stranded Tax Effects in AOCI (ASU 2018-02) If elected, an entity may reclassify stranded tax effects in AOCI specifically affected by the <i>Tax Cuts and Jobs Act</i> from AOCI to retained earnings, instead of recognizing those effects in earnings.	March 31, 2019	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 Certain SEC Guidance in Topic 605 (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 SEC SAB Topics 8 and 13 and bill-and-hold guidance; revision of SAB Topic 11.A and SEC guidance for certain vaccine manufacturers	Dec. 31, 2019	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within

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
Service Concession Arrangements for Operators of Public Infrastructure (ASU 2017-10) In all service concession arrangements between a public sector entity and the operator of the public sector entity’s infrastructure, the public sector entity (or the grantor) should be identified as the customer.	Dec. 31, 2019 (unless ASU 2014-09 has been adopted)	Permitted, including in an interim period
Recognition and Measurement (ASU 2016-01) Applies to the classification and measurement of financial instruments. Removes the available-for-sale category for equities. Equities (excluding equity method and consolidated investments) will be carried at fair value; however, the changes will run through the income statement rather than OCI. Clarifying standards: ASU 2018-03 – Clarifications for equity securities without a readily determinable fair value and fair value option liabilities ASU 2018-04 – (SAB 117) Rescission of SEC guidance on AFS equities	Dec. 31, 2019	Not permitted, except for two provisions For ASU 2018-03, permitted, including in an interim period, if ASU 2016-01 has been adopted
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, company-owned life insurance (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 subsidiary); 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

Checklist B – ASU Effective Dates for
Non-Public Business Entities (Non-PBEs)

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 analysis 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
Employee Benefit Plan Master Trust Reporting (ASU 2017-06) Applies to disclosures of plans that have an interest in a master trust, which is a trust that a regulated financial institution serves as a trustee or custodian and in which assets of more than one plan sponsored by an employer or employers under common control are held.	Dec. 31, 2019	Permitted
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
Contributions Received and Made for Not-for-Profit Entities (ASU 2018-08) Improves the guidance on contributions and exchange transactions. Although the ASU primarily impacts not-for-profit entities, it applies to all entities, including business entities, that receive or make contributions of cash and other assets.	For contributions received, Dec. 31, 2019 For contributions made, Dec. 31, 2020	Permitted
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. Replaces Topic 840 with Topic 842. Clarifying standards: ASU 2018-01 – Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840.	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
Nonemployee Stock Compensation Simplifications (ASU 2018-07) Aligns the accounting guidance for nonemployee stock payments with the guidance for employee stock compensation in ASC Topic 718.	Dec. 31, 2020	Permitted, including in an interim period, but no earlier than the adoption of Topic 606
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 – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test.	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



Learn More

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