October 2017

Keeping You Informed

Third Quarter Accounting and Financial Reporting Developments

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Contents

Third Quarter Highlights **3**

From the FASB **4**

- Final Standards 4
  - Hedge Accounting Overhaul 4
  - Financial Instruments With Down Round Features Simplification 6
- Proposals 7
  - Recognition and Measurement Clarifications 7
  - Lease Accounting Clarifications 8
  - Practical Expedient for Land Easements 8
  - Rearrangement of Consolidation Guidance 9
  - Revenue Recognition of Grants and Contracts by Not-for-Profit Entities 9
- Other Projects on Our Watch List 10
  - Troubled Debt Restructurings in Credit Losses Standard 10

From the SEC **11**

- Major Accounting Standards Implementation 11
  - Implementation Matters to Improve Financial Reporting 11
  - Chief Accountant Speech on CECL Implementation and SAB 74 Disclosure 12
  - Revenue Recognition Interpretations 12
  - Revenue and Lease Standards Adoption Dates for Certain PBEs 13
- Capital Formation Simplifications 14
  - Financial Statement Relief in Confidential Registration Statements 14
  - Contacting Corp Fin for Financial Statement Relief 14
- PCAOB's Auditor's Reporting Model 14
- Cyber Matters 15
  - SEC Chair's Focus on Cybersecurity 15
  - Offerings and Sales of Virtual Assets in Cyberspace 16
- Pay Ratio Disclosure Rule 16

From the AICPA **17**

- Revenue Recognition Task Force Exposure Drafts 17
- Auditor Involvement With Exempt Offerings 18

Checklist A: ASU Effective Dates for Public Business Entities (PBEs) **19**

Checklist B: ASU Effective Dates for Non-Public Business Entities (Non-PBEs) **25**

Third Quarter Highlights

During the third quarter of the 2017 calendar year, the Financial Accounting Standards Board (FASB) issued three standards for an overhaul of hedge accounting, simplification of financial instruments with down round features, and codification of the SEC's adoption date deferral (mentioned in the next paragraph) as well as five proposals related to not-for-profit entities, reorganizing existing consolidation guidance, land easements, and clarifications to the recognition and measurement and lease accounting standards.

The focus for the Securities and Exchange Commission (SEC) during the quarter was on cyber matters, simplifying the capital formation process and implementing the new major accounting standards, including a deferral of the adoption of revenue recognition and lease accounting for certain public business entities (PBEs).

This quarter, we have added checklists to summarize FASB Accounting Standards Updates (ASUs) that are effective in 2017 and after and to indicate whether early adoption is available. For the majority of ASUs, the FASB has staggered the effective dates for PBEs and non-PBEs, and we have compiled checklists for both entity types – Checklist A for PBEs and Checklist B for non-PBEs. The checklists present effective dates for Dec. 31 year-end entities. For those who wish to find effective dates for other fiscal year-ends, the FASB has a listing of effective dates, arranged by ASU number, on its website.

From the FASB

Final Standards

Hedge Accounting Overhaul

On Aug. 28, 2017, the FASB issued ASU No. 2017-12 "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The update provides much-welcomed targeted improvements to simplify certain aspects of hedge documentation, effectiveness assessments, and accounting and disclosures, and it expands permissible hedge strategies. It also aligns financial reporting with an entity's risk management activities and provides users with more decision-useful information about the effect of hedging activities. These are among the most significant changes:

Fair value hedges

- Retains the concept of benchmark interest rates and expands it to include the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate for hedges of fixed-rate tax-exempt financial instruments
- Permits companies to use the change in fair value of the hedged item using either the entire coupon or the portion of the contractual cash flows related to the benchmark interest rate, substantially reducing ineffectiveness in interest-rate hedges
- Permits partial-term hedging (for example, hedging of first two years of 10-year instrument)
- Introduces a new hedge method ("last-of-layer"), which allows for simplified hedging of pools of fixed-rate financial instruments (for example, mortgage loans)

Cash flow hedges

- Replaces benchmark rate concept with contractually specified rate (for example, permits direct hedging of prime interest rate)
- Permits designating the hedged risk of a forecasted purchase or sale of a nonfinancial asset to a contractually specified component within the hedged transaction (for example, if the settlement of a purchase or sale contract for brass was contractually tied to copper, permits the company to specify the copper component as the hedged risk)
- Allows an assumption, under specific circumstances, that critical terms match in hedges of a group of forecasted transactions, which means that an entity can assume that the maturity dates of a derivative and the forecasted transaction are the same (that is, the terms match) if they occur within the same 31-day period or fiscal month

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

Disclosure

- Removes the ineffectiveness disclosure from the tabular footnote because it is no longer separately recorded
- Adds tabular disclosure for cumulative-basis adjustments for fair value hedges to promote transparency of the last-of-layer method

Concurrent with the release of the ASU, the board also published a "FASB in Focus" article summarizing the new guidance.

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.

Early adoption is permitted, including in any interim period after issuance of the ASU for financial statements that have not been issued or have not yet been made publicly available. If a company 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.

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. Many items in the ASU may be electively applied to existing hedges (without dedesignating) also using the modified retrospective method, or they may be applied to new hedges prospectively.

The update also allows a one-time transfer of securities from held-to-maturity to available-for-sale, if they are eligible to be hedged under the last-of-layer method. Caution should be used when adopting as elections affecting existing hedges and security transfers are permitted only during adoption.

Resources

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

Financial Instruments With Down Round Features Simplification

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 I 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 (ASC) 480-10-65-1. Some find that content in the codification difficult to read and to navigate, so the board replaced the indefinite deferral with a scope exception. As such, there is no accounting impact.

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.

Proposals

Recognition and Measurement Clarifications

On Sept. 27, 2017, the FASB issued an exposure draft that contains two proposals for technical corrections and improvements 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 in ASC 321-10-35-2 applies until the investment has a readily determinable fair value or becomes eligible for the net asset value practical expedient. The proposal would clarify 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, ASC 321-10-55-9 requires that adjustments made should reflect the current fair value of the security, and the proposal would clarify that those adjustments should be made as of the date that the observable transaction took place.
  - Forward contracts and purchased options on equity securities for which the measurement alternative is expected to be applied are accounted for on a look-through basis in accordance with ASC 815-10-35-6. The proposal would clarify that remeasurement of the entire value 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, and the proposal would clarify that approach is only required 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 would further clarify 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. The proposal would clarify, for FVO financial liabilities measured in a foreign currency, that the change in fair value related to instrument-specific credit risk should be presented separately from other changes in fair value in the liability's currency of denomination. Then, the instrument-specific credit risk component of the fair value change should be adjusted to reflect the current exchange rate, consistent with ASC 830-20-35-2, and the remeasurement of the instrument-specific credit risk component should be presented in accumulated other comprehensive income.

Comments are due Nov. 13, 2017.

Lease Accounting Clarifications

The exposure draft issued on Sept. 27, 2017, also addresses the recent lease accounting standard: "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 16 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 are due Nov. 13, 2017.

Practical Expedient for Land Easements

The FASB issued, on Sept. 25, 2017, a proposal, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842," to address 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"). Currently, in accounting for land easements, some entities apply Topic 840 for leases, and others apply guidance such as Topic 360 for property, plant, and equipment.

Under the proposal, all entities would apply the new lease accounting guidance in Topic 842 to land easements. However, a practical expedient in transition would allow entities that do not currently apply Topic 840 to existing land easements to continue to apply current accounting policies to all land easements that existed or expired before the effective date of Topic 842. Subsequent to adoption of the new lease guidance, 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)."

Comments are due Oct. 25, 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 are due Dec. 4, 2017.

Revenue Recognition of Grants and Contracts by Not-for-Profit Entities

On Aug. 3, 2017, the FASB issued a proposed ASU, "Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made," to address diversity in practice on how contributions are characterized and accounted for by not-for-profit entities. It proposes a framework for determining whether certain transactions (such as grants) are exchanges or contributions, which is an important distinction because the accounting treatment differs.

In an exchange transaction, the resource provider receives commensurate value in exchange for resources transferred, and entities would apply Topic 606 ("Revenue From Contracts With Customers") or other applicable guidance. In a contribution, on the other hand, each party does not receive and sacrifice commensurate value. The proposed guidance may result in more grants and contracts being accounted for as contributions than under current practice.

For a contribution, the proposal provides guidance on determining whether the contribution is conditional or unconditional by clarifying a donor-imposed condition versus a donor-imposed restriction. Determining whether a contribution is conditional or unconditional is important because it affects the timing of revenue recognition.

The proposal primarily would affect not-for-profit entities because a major source of income for those entities is contributions, and it would be applicable for both receiving and providing contributions. But the guidance would not be limited to not-for-profit entities; it would apply to any entity that receives or makes contributions of cash or other assets. However, it would not apply to transfers of assets from the government to business entities.

If adopted, the standard would be effective consistent with the revenue recognition guidance in Topic 606:

- For PBEs and not-for-profit entities that have issued, or are conduit bond obligors for securities that are traded, listed, or quoted on an exchange or an over-the-counter market, the standard would be effective in annual periods beginning after Dec. 15, 2017, including interim periods within.
- For all other entities, it would be effective in annual periods beginning after Dec. 15, 2018, and interim periods within annual periods beginning after Dec. 15, 2019.
- Early adoption would be permitted for all entities.

Concurrent with the proposal, the board released a "FASB in Focus" article that provides background information on why the board is addressing the issue and how the proposal would improve accounting for contributions by not-for-profit entities.

Comments are due Nov. 1, 2017.

Other Projects on Our Watch List

Troubled Debt Restructurings in Credit Losses Standard

On Sept. 6, 2017, the FASB discussed unresolved issues for troubled debt restructurings (TDRs). The issues, previously debated at the June 12, 2017, meeting of the Credit Losses Transition Resource Group (TRG), related 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 FASB meeting (memorialized in Memo 6A on the TRG Meetings page), 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.

From the SEC

Major Accounting Standards Implementation

Implementation Matters to Improve Financial Reporting

In remarks on Sept. 21, 2017, in San Diego, SEC Deputy Chief Accountant Sagar Teotia focused on implementation of the major standards (revenue recognition, leases, and credit losses). He offered observations in the following areas:

- Keep going/get going – that is, keep focused on implementation
- Internal control over financial reporting
- Transition disclosures required by SAB 74
- New disclosures required by the new standards
- Importance of reasonable judgment
- Role of audit committees in the implementation of the new generally accepted accounting principles (GAAP) standards

For revenue recognition, he noted adoption is only a few months away. The SEC will accept well-reasoned judgments, but those generally take time to develop. The SEC is available to answer questions, and the time to submit those is now. Teotia also stressed the importance of the accompanying disclosures and noted that it takes time to develop how the disclosures will be made and time to implement system and internal control changes to gather and present the data.

Turning to leases, he encouraged companies to consider beginning their leases implementation efforts. The standard will require several steps including identifying relevant legal contracts, evaluating whether an arrangement is or contains a lease, and applying the standard to contracts within its scope. These steps can potentially be time-consuming, so getting started sooner rather than later is a best practice. He pointed to a few lessons learned from revenue recognition including making sure companies have the appropriate resources to evaluate the lease arrangements and setting the right tone at the top.

For credit losses, Teotia shared observations from the SEC's monitoring activities. He stressed the importance of coordination among all stakeholders – namely preparers and auditors moving in parallel so that one group does not significantly get ahead of the other. He suggested registrants should bring interpretative concerns to the SEC and encouraged stakeholders to refer challenging issues to the FASB's Credit Losses TRG.

Chief Accountant Speech on CECL Implementation and SAB 74 Disclosure

SEC Chief Accountant Wesley R. Bricker addressed the 2017 American Institute of CPAs (AICPA) National Conference on Banks and Savings Institutions on Sept. 11, 2017. In his remarks, he discussed FASB's standard for measuring current expected credit loss (CECL) and the improvements it offers, including earlier recognition of credit losses and transparency of a financial asset portfolio's credit quality. Regarding CECL implementation, he reminded the audience that portions of Financial Reporting Release (FRR) 28 and Staff Accounting Bulletin (SAB) 102 will continue to apply and that existing practices are a good starting point for transitioning to the standard. Bricker also highlighted important judgments to consider related to selecting a methodology, identifying data, and developing assumptions. Finally, he emphasized the importance of internal control over financial reporting in adopting the standard, including the importance of the tone at the top, technology, and documentation.

At the end of his speech, he answered a question from the audience related to SAB 74 on disclosing the anticipated effect of new accounting pronouncements in a future period. His advice was that registrants should describe the relevant information about what the company does know, and companies should not disclose what they do not know about the anticipated effect, whether quantitative or qualitative.

Revenue Recognition Interpretations

On Aug. 18, 2017, the SEC staff issued three updates to conform its guidance to the FASB's revenue recognition guidance in ASC Topic 606, as follows:

- SAB 116, on revenue recognition. Upon the adoption of Topic 606, the new SAB eliminates guidance in SAB Topic 13, "Revenue Recognition," because its interpretations and criteria for applying the previous revenue recognition model under GAAP (that is, ASC Topic 605) will no longer be applicable. In addition, SAB 116 eliminates SAB Topic 8 for department store retailers because the presentation and recognition guidance for leased or licensed store space will be superseded.
- Release No. 33-10402, to eliminate existing revenue recognition guidance (specifically, Accounting and Auditing Enforcement Release 108, "In the Matter of Stewart Parness") for bill-and-hold arrangements (that is, arrangements when delivery has not occurred). Under ASC Topic 606, revenue will be recognized on bill-and-hold arrangements when, as prescribed by the guidance, control has been transferred and other criteria are met.
- Release 33-10403, to revise guidance (specifically, 2005 "Commission Guidance Regarding Accounting for Sales of Vaccines and Bioterror Countermeasures to the Federal Government for Placement Into the Pediatric Vaccine Stockpile or the Strategic National Stockpile"). Upon the adoption of ASC Topic 606, vaccine manufacturers will be required to recognize revenue and provide required disclosures when vaccines are placed into federal governmental stockpile programs because control of the enumerated vaccines will have been transferred to the customer and the criteria to recognize revenue in a bill-and-hold arrangement under ASC Topic 606 will have been met.

Release 33-10403 is applicable to only the following vaccines:

- Childhood disease vaccines
- Influenza vaccines
- Other vaccines and countermeasures sold to the federal government for placement in the Strategic National Stockpile

The new staff guidance on revenue recognition is consistent with the effective dates for ASC Topic 606.

Revenue and Lease Standards Adoption Dates for Certain PBEs

At the FASB Emerging Issues Task Force meeting held on July 20, 2017, the SEC staff made an announcement specifically related to providing relief for PBEs that otherwise would not meet the definition of a PBE, except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC (certain PBEs). Common examples of SEC rules that trigger a requirement to include one entity's financial statements or financial information in another entity's SEC filing include rules 3-05 (significant business acquisitions), 3-09 (separate financials of an entity that is a significant nonconsolidated equity method investment), or 4-08(g) (summarized financial information of a significant group of nonconsolidated equity method investments) of Regulation S-X.

Essentially deferring the effective date for certain PBEs by one year, the SEC will not object if certain PBEs adopt the revenue recognition and lease accounting standards using the non-PBE effective dates, which are as follows:

- Revenue recognition (Topic 606), for annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2019, which first applies to Dec. 31, 2019, annual financial statements for calendar year-end entities
- Lease accounting (Topic 842), for fiscal years beginning after Dec. 15, 2019, and interim periods within fiscal years beginning after Dec. 15, 2020, which first applies to Dec. 31, 2020, annual financial statement for calendar year-end entities

The deferral is applicable only to certain PBEs for the revenue recognition and lease accounting standards. It does not apply to the credit loss standard because that standard already contains staggered effective dates for PBEs that are not SEC filers.

The FASB codified this SEC announcement in ASU 2017-13, "Revenue Recognition (Topic 605), Revenue From Contracts With Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments."

Capital Formation Simplifications

Financial Statement Relief in Confidential Registration Statements

The SEC's Division of Corporation Finance (Corp Fin) on Aug. 17, 2017, updated its Compliance & Disclosure Interpretations (C&DIs) to reflect staff policy that companies may omit certain financial information from confidential registration statements. If a company reasonably believes that interim or annual financial statements will not be required at the time of the contemplated offering (for emerging growth companies – EGCs), or at the time of publicly filing the registration statement (for non-EGCs), those financial statements are not required in the confidential submission.

Contacting Corp Fin for Financial Statement Relief

On Aug. 25, 2017, Corp Fin updated its Financial Reporting Manual by adding a section on how to communicate with Corp Fin's Office of Chief Accountant (CF-OCA) and whom to contact regarding financial statement relief in filings with the SEC under Rule 3-13 of Regulation S-X. Under Rule 3-13, registrants might, in certain circumstances, request relief from Rule 3-05 of Regulation S-X for financial statements of a significant acquired business. These types of formal requests should be emailed to the CF-OCA staff, and relief, if appropriate, would be granted in the form of a waiver letter from the staff. In addition, the new section addresses registrant requests for interpretations of financial statement requirements in SEC filings.

The updated manual also references the new C&DIs that clarify guidance on the omission of financial information from draft registration statements.

PCAOB's Auditor's Reporting Model

On July 21, 2017, the SEC issued a release (34-81187) that seeks comment on the new auditing standard from the Public Company Accounting Oversight Board (PCAOB), "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion," prior to the SEC taking further action on the standard.

The new standard would significantly modify the auditor's report while retaining the pass-fail reporting model. The most significant change to the auditor's report is the requirement to communicate in the report any critical audit matters (CAMs) arising during the current-period audit. A CAM is defined as a matter that has these elements:

- Has been or was required to be communicated to the audit committee
- Relates to accounts or disclosures that are material to the financial statements
- Involves especially challenging, subjective, or complex auditor judgment

The auditor's report will include:

- The identification of the CAMs
- A description of the principal considerations that led the auditor to determine that the matter was a CAM
- A description of how the CAM was addressed
- A reference to the relevant financial statement accounts and disclosures
- Disclosure of auditor tenure
- Clarifications of the auditor's role and responsibilities

Comments were due to the SEC on Aug. 18, 2017.

In his remarks before the 2017 AICPA National Conference on Banks and Savings Institutions on Sept. 11, 2017, Chief Accountant Bricker commented on PCAOB activity and the requirement for the SEC to take action on the PCAOB's new auditor's reporting model standard by Oct. 26, 2017. He stated that the SEC staff is evaluating comments received at this point.

Cyber Matters

SEC Chair's Focus on Cybersecurity

On multiple occasions recently, SEC Chair Jay Clayton emphasized his concerns about cybersecurity risks, including that investors may not currently have the information they need to understand those risks that issuers are facing and that more disclosure on cybersecurity is warranted. He has reminded issuers of Corp Fin's existing disclosure guidance on cybersecurity risks and incidents, "CF Disclosure Guidance: Topic No. 2."

Clayton has stated that the SEC is examining the cybersecurity disclosures of public companies, including after a breach has occurred. He has cautioned issuers to carefully consider disclosure obligations for material cybersecurity risks and events in periodic and current reports.

The chair's recent speechmaking on this topic include the following:

- Remarks before the Senate Committee on Banking, Housing, and Urban Development on Sept. 26, 2017
- Public statement on cybersecurity on Sept. 20, 2017
- Remarks at the Economic Club of New York on July 12, 2017

Offerings and Sales of Virtual Assets in Cyberspace

The SEC issued a report on July 25, 2017, related to offers and sales of digital assets by a virtual entity (or a decentralized autonomous organization) that exists in the form of computer code (that is, in a virtual environment). The SEC determined that offerings of such digital assets are subject to federal securities laws and must be registered with the SEC unless a lawful exemption applies.

Recently, virtual entities have raised capital through offerings of digital assets called “initial coin offerings” or “token sales.” Typically, the digital assets are purchased by investors using virtual currency (that is, currency that does not represent the legal tender of any particular country or jurisdiction, such as bitcoin and Ethereum).

The SEC concluded that, unless an exemption applies, digital asset issuers are subject to the same presentation and disclosure requirements as traditional issuers of securities as well as to other regulations that promote investor protection. For these entities, consultation with securities counsel is encouraged.

In his remarks before the 2017 AICPA National Conference on Banks and Savings Institutions on Sept. 11, 2017, Chief Accountant Bricker discussed initial coin offerings (or token sales) and the recent SEC report clarifying that federal securities laws apply to these digital token sales or offerings purchased using either traditional currency or virtual currency. He emphasized that the digital token offerings are subject to SEC oversight and registration whether the entity is a traditional company or not. He also illustrated financial reporting considerations for both issuers and holders of these digital tokens.

Pay Ratio Disclosure Rule

On Sept. 21, 2017, the SEC adopted interpretive guidance in Release No. 33-10415 to assist companies that are required to make the pay ratio disclosure (that is, the ratio of the compensation of the principal executive officer to the median employee’s compensation) beginning in 2018. The interpretive guidance addresses the following related to developing the disclosure:

- Use of reasonable estimates, assumptions, and methodologies and statistical sampling
- Use of existing internal records
- Use of a widely recognized test under another area of the law to determine which workers are employees

Simultaneous with the SEC’s release of interpretive guidance, Corp Fin released staff guidance in the form of questions and answers to cover acceptable methodologies for developing the pay ratio disclosure and provide examples of reasonable methodologies.

From the AICPA

Revenue Recognition Task Force Exposure Drafts

Based on work of the 16 AICPA industry task forces for revenue recognition, the AICPA's Financial Reporting Executive Committee (FinREC) has issued working drafts of revenue recognition accounting issues that include proposed content for the new AICPA "Accounting Guide on Revenue Recognition" that addresses ASU 2014-09, "Revenue From Contracts With Customers." Some of the working drafts have gone through the approval process and have been finalized for the guide, and others are in earlier phases.

Recently, working drafts have been posted for comment for the following industries, and for these, comments are due either Nov. 1, 2017, or Dec. 1, 2017, as indicated on each industry task force webpage:

- Aerospace and defense
- Airlines
- Asset management
- Broker-dealers
- Engineering and construction contractors
- Gaming
- Healthcare
- Oil and gas production
- Power and utility
- Software
- Telecommunications
- Timeshare

The status of issues addressed by other industry task forces can be found on the AICPA's Revenue Recognition page.

Resources

Broker-dealers may find more in-depth analysis on the working draft for their industry in "Soft-Dollar Arrangements: What FinREC's Recent Draft Implementation Paper Means for Revenue Recognition," issued by Crowe on Sept. 15, 2017.

Auditor Involvement With Exempt Offerings

In July, the Auditing Standards Board of the AICPA issued Statement on Auditing Standards (SAS) 133, "Auditor Involvement With Exempt Offering Documents." The audit standard addresses the auditor's responsibilities in situations where the auditor is involved with offerings exempt from registration with the SEC. Such offerings would include private placements such as those under SEC Regulation A, "Conditional Small Issues Exemption," or Regulation D, "Limited Offer and Sale of Securities Without Registration Under the 1933 Act."

Auditor involvement, under SAS 133, includes situations where the auditor's report on financial statements or review report on interim financial information is included or incorporated by reference into an exempt offering document, and the auditor performs activities related to the offering document, such as reading it. When the auditor is involved with an exempt offering, the new audit standard requires that the auditor performs specific procedures, including subsequent event procedures that are designed to identify events occurring between the date of the auditor's report and the distribution of the exempt offering document.

The audit standard is effective for exempt offering documents that are initially distributed, circulated, or submitted on or after June 15, 2018.

Checklist A

ASU Effective Dates for Public Business Entities (PBEs)

ACCOUNTING STANDARDS UPDATE (ASU)	EFFECTIVE DATES FOR DEC. 31 YEAR-END PBES	EARLY ADOPTION
Measurement of Inventory (ASU 2015-11) Requires inventory that is measured using first-in, first-out (FIFO) or average cost methods to be measured at the lower of cost and net realizable value. The concept of market is eliminated for these two methods as well as two market valuation techniques: replacement cost and net realizable value less an approximately normal profit margin.	**March 31, 2017**	**Permitted as of the beginning of an interim or annual period**
Classification of Deferred Taxes (ASU 2015-17) Simplifies classification of deferred taxes in a classified balance sheet. Classification as noncurrent only is required.	**March 31, 2017**	**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.	**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**

ASU Effective Dates for Public Business Entities (PBEs)

ACCOUNTING STANDARDS UPDATE (ASU)	EFFECTIVE DATES FOR DEC. 31 YEAR-END 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.	**March 31, 2017**	**Permitted, including in an interim period**
VIE Consolidation Model for Related Party Interests (ASU 2016-17) Applies to the variable interest entity (VIE) consolidation analysis for single decision-makers evaluating certain interests held by related parties under common control.	**March 31, 2017**	**Permitted, including in an interim period**
Technical Corrections and Improvements (ASU 2016-19) Various corrections to existing GAAP guidance, including six 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 • Subtopic 405-40 (joint and several liability arrangement obligations) is clarified that for an obligation amount to be considered fixed, the entire obligation amount – and not the entity's portion of the obligation – must be fixed at the reporting date • 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[1]**	**Permitted for amendments that require transition guidance**

[1] 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.

ASU Effective Dates for Public Business Entities (PBEs)

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	**March 31, 2018[2]**	**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**
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** **(if ASU 2014-09 has not yet 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. For PBEs, requires the use of exit pricing in fair value disclosure for instruments carried at amortized cost.	**March 31, 2018**	**Not permitted, except for two provisions**

[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 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.

ASU Effective Dates for Public Business Entities (PBEs)

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 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**
Income Taxes for Intra-Entity Asset Transfers (ASU 2016-16) Applies to the recognition of income taxes for intra-entity asset transfers.	**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**

ASU Effective Dates for Public Business Entities (PBEs)

ACCOUNTING STANDARDS UPDATE (ASU)	EFFECTIVE DATES FOR DEC. 31 YEAR-END PBES	EARLY ADOPTION
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.	**March 31, 2019[3]**	**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**

[3] 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 statement for calendar year-end entities.

ASU Effective Dates for Public Business Entities (PBEs)

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 – 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 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**
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**

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
Fair Value Disclosures for Investments in Entities That Calculate Net Asset Value (NAV) per Share (ASU 2015-07) Applies to entities that elect to measure the fair value of an investment using the NAV per share (or its equivalent) practical expedient.	**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 six 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 • Subtopic 405-40 (joint and several liability arrangement obligations) is clarified that for an obligation amount to be considered fixed, the entire obligation amount – and not the entity's portion of the obligation – must be fixed at the reporting date • 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[1]**	**Permitted for amendments that require transition guidance**

[1] 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.

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
Development Stage Entities – Amendment to Variable Interest Entities (VIE) Guidance (ASU 2014-10) Removes from the consolidation guidance, an exception provided to development stage entities for determining whether the entity is a VIE.	**Dec. 31, 2017[2]**	**Permitted for financial statements not previously issued or made available for issuance**
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**
Measurement Date of Defined Benefit Obligation – Practical Expedient (ASU 2015-04) Applies to entities that have both defined benefit plans and fiscal year-ends that do not fall on a month-end.	**Dec. 31, 2017**	**Permitted**
Disclosures for Short-Duration Insurance Contracts (ASU 2015-09) Applies to entities that write short-duration insurance policies.	**Dec. 31, 2017**	**Permitted**
Measurement of Inventory (ASU 2015-11) Requires inventory that is measured using first-in, first-out (FIFO) or average cost methods to be measured at the lower of cost and net realizable value. The concept of market is eliminated for these two methods as well as two market valuation techniques: replacement cost and net realizable value less an approximately normal profit margin.	**Dec. 31, 2017**	**Permitted as of the beginning of an interim or annual 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**

[2] The elimination of inception-to-date info and other disclosure requirements of Topic 915 was previously effective for annual periods beginning after Dec. 15, 2014, and interim reporting periods beginning after Dec. 15, 2015.

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
VIE Consolidation Model for Related Party Interests (ASU 2016-17) Applies to the variable interest entity (VIE) consolidation analysis for single decision-makers evaluating certain interests held by related parties under common control.	**Dec. 31, 2017**	**Permitted, including in an interim period**
Not-for-Profit Entities – Partnerships Consolidating a For-Profit Limited Partnership (ASU 2017-02) Applies to not-for-profit entities that are either general or limited partnerships with investments in a for-profit limited partnership or similar entity.	**Dec. 31, 2017**	**Permitted**
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**

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**
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	**Dec. 31, 2019**	**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 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**

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
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 (if ASU 2014-09 has not yet 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.	**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, 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 the recognition of income taxes for intra-entity asset transfers.	**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**

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**
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**

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
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 – 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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