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Keeping You Informed

Fourth Quarter Accounting and Financial Reporting Developments

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Contents

Fourth Quarter Highlights

During the fourth quarter of the 2017 calendar year, the Financial Accounting Standards Board (FASB) issued two standards for codifying the Securities and Exchange Commission's (SEC's) rescission of prior guidance on revenue recognition and eliminating outdated guidance on certain deferred taxes of steamship entities as well as one proposal that includes various improvements to the codification.

The focus for the SEC during the quarter continued to be on the topics of major accounting standard implementation, capital formation simplifications, and the advancement of technology. This emphasis remained through the final speeches of the year, delivered by the SEC's chairman, chief accountant, and staff members at the annual American Institute of CPAs (AICPA) Conference on Current SEC and PCAOB Developments. With the passage of the federal income tax reform law, it too, became a focus for the SEC.

The highlight of the quarter for the Public Company Accounting Oversight Board (PCAOB) was the appointment of a new chairman and board and the approval of its auditor's reporting model (ARM) auditing standard by the SEC. The SEC's approval cleared the way for implementation of the first phase of changes to the auditor's report for audits of fiscal years ending on or after Dec. 15, 2017. The initial changes to the auditor's report apply to audits of Dec. 31, 2017, annual financial statements for calendar year-end public companies.

This article covers these highlights from the quarter and more from the Center for Audit Quality (CAQ), the AICPA, and others.

From the FASB

Final Standards

Elimination of Deferred Tax Guidance for Steamship Entities

On Dec. 6, 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-15, "Codification Improvements to Topic 995, U.S. Steamship Entities: Elimination of Topic 995," to eliminate obsolete accounting guidance on deferred taxes for steamship entities that had statutory reserve deposits that were made before Dec. 15, 1992. The 25-year time frame provided for these statutory reserve deposits has expired, and the board believes that the guidance should be eliminated because any remaining unrecognized tax liabilities resulting from deposits would already have been recognized. If an entity has unrecognized deferred income taxes related to statutory reserve deposits made on or before Dec. 15, 1992, the entity should recognize the unrecognized deferred income taxes in accordance with Topic 740.

No change is expected in current practice; the FASB observed that all steamship entities to which this guidance may have applied in the past appear to already apply the deferred income tax guidance in Topic 740 to their statutory reserve deposits.

Effective Dates

The ASU applies to fiscal years and first interim periods beginning after Dec. 15, 2018, which means it first applies to March 31, 2019, for calendar year-end entities that issue quarterly reports. Early adoption is permitted for all entities, including adoption in an interim period.

Transition

An entity should apply the amendments in this update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the adoption period.

Rescission of SEC Guidance on Revenue Recognition

In November 2017, the FASB released ASU 2017-14, "Income Statement – Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue From Contracts With Customers (Topic 606)," to codify Staff Accounting Bulletin (SAB) 116, which the SEC issued on Aug. 18, 2017. SAB 116 eliminates previous SEC guidance on revenue recognition, to conform to the FASB's guidance in Accounting Standards Codification (ASC) Topic 606. In particular, it eliminates SAB Topic 13, "Revenue Recognition," which includes interpretations and four specific criteria for the FASB's previous revenue model under ASC Topic 605. It also eliminates SAB Topic 8 for department store retailers because the presentation and recognition guidance for leased or licensed store space is superseded.

The ASU also includes the SEC's rescission of guidance for bill-and-hold arrangements. Specifically, it references SEC Release 33-10402, which eliminates 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.

Finally, the ASU codifies SEC Release 33-10403, to revise guidance from the 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, and other vaccines and countermeasures sold to the federal government for placement in the Strategic National Stockpile.

Once the guidance in ASC Topic 606 is adopted, reference to the previous SEC guidance discussed here (that is, SAB Topics 8 and 13, Accounting and Auditing Enforcement Release 108, and the 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") no longer will be appropriate.

Proposals

Codification Improvements

On Oct. 3, 2017, the FASB issued a proposed ASU, "Codification Improvements," to clarify the guidance contained in the ASC and correct unintended application of guidance, including these clarifications:

- Comprehensive income (Subtopic 220-10) – to clarify certain taxes not payable in cash should include only tax benefits related to deductible temporary differences and carryforwards arising from a quasi-reorganization and should be reported as a direct adjustment to paid-in capital
- Earnings per share (Topic 260) – to clarify the purpose of an illustration on the two-class method
- Investments in debt and equity securities (Subtopic 320-10) – to clarify disclosure requirements that previously appeared to be redundant
- Debt modifications and extinguishments (Subtopic 470-50) – to address measurement and recognition of gains or losses on debt extinguishments when the fair value option is elected
- Distinguishing liabilities from equity (Subtopic 480-10) – to conform an illustration to existing guidance that prohibits the combination of certain freestanding financial instruments with noncontrolling interest
- Income taxes for stock compensation (ASC 718-740) – to clarify that excess tax benefits (or tax deficiencies) should be recognized in the period when the amount of tax deduction for compensation expense is determined
- Other expenses (ASC 720-35, 944-30, and 944-720) – to clarify guidance on advertising costs
- Income taxes for business combinations (ASC 805-740) – to remove three methods for allocating the consolidated tax provision to an acquired entity after acquisition, and instead require that the tax benefit from the tax basis step-up be credited to the acquired entity's additional paid-in capital consistent with Topic 740
- Derivatives and hedging (Subtopic 815-10) – to clarify that the intent to set off may not be required in order to offset derivative assets and liabilities when the related instruments are executed with the same counterparty under a master netting agreement
- Fair value measurement (Subtopic 820-10) – to clarify that an entity should consider transfer restrictions that are characteristics of the asset (and not restrictions that are characteristics of the entity) when measuring the fair value of a liability or instrument classified in owner's equity when the fair value is based on the quoted price of the corresponding asset
- Financial services – brokers and dealers (Topic 940) and financial services – depository and lending (Topic 942) – to remove guidance that incorrectly indicated that a broker-dealer could offset securities borrowed and loaned transactions if there are explicit settlement dates, and to replace the guidance by referencing other generally accepted accounting principles (GAAP) that address offsetting securities borrowed and loaned transactions
- Financial services – depository and lending (Topic 942) – to clarify that disclosure requirements for regulatory capital include all applicable required and actual ratios and amounts

Comments were due Dec. 4, 2017.

Other Projects on Our Watch List

Income and Comprehensive Income Topics

The FASB's ongoing Codification Improvements project includes simplifying the ASC. To that end, Topic 225, "Income Statement," and Topic 220, "Comprehensive Income," have been identified as two topics that cover related guidance and would be simplified by being combined. The board decided the guidance in Topic 225 will be moved to Topic 220. All guidance for the income statement and the statement of comprehensive income will appear in a single topic, "Income Statement – Reporting Comprehensive Income."

No incremental changes will be made to the guidance.

Implementation Costs in Cloud Computing Arrangements

At its Oct. 12, 2017, meeting, the Emerging Issues Task Force (EITF) addressed whether implementation costs associated with cloud computing arrangements (CCAs) should be capitalized or expensed under ASU 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The EITF took up this project given the diversity in practice.

The EITF agreed with the FASB staff's view that all hosting arrangements (including CCAs) include a software element and preliminarily concluded to align the accounting for implementation costs with ASC Subtopic 350-40 for internal-use software. As such, implementation costs incurred in a CCA would be accounted for as follows:

- Costs in the preliminary project and post-implementation operation stages are expensed.
- Setup fees are accounted for as prepaid assets in Topic 340, or other relevant guidance.
- Integration costs for on-premise software, coding, and configuration or customization are capitalized as intangible assets.
- Data conversion and training costs are expensed.
- Business process re-engineering costs are expensed as incurred in accordance with Subtopic 720-45.

The EITF will discuss this issue again at its Jan. 18, 2018, meeting.

From the SEC

Federal Income Tax Reform

Speeches

AICPA Conference on Current SEC and PCAOB Developments – Dec. 4-6, 2017

The annual AICPA Conference on Current SEC and PCAOB Developments was held in Washington, D.C., Dec. 4-6, 2017. The conference included remarks from the SEC chairman and the chief accountant as well as professionals from the SEC's Office of the Chief Accountant (OCA) and the Division of Corporation Finance (Corp Fin). Representatives from the PCAOB and the FASB also addressed the conference.

Themes at the conference included the implementation of major accounting standards (such as revenue recognition, lease accounting, and credit losses), cybersecurity and emerging technologies, capital formation simplifications, and – in light of recent legislation – the impact of tax reform.

See highlights from the conference in the Crowe e-communication "Headline Speeches From the 2017 AICPA Conference on SEC and PCAOB Developments."

Rulemaking and Guidance

New Guidance on Income Tax Reform

With the *Tax Cuts and Jobs Act* (tax reform law) signed into law by President Donald Trump on Dec. 22, 2017, the SEC's OCA and Corp Fin staff issued interpretive guidance for public companies, auditors, and other stakeholders to consider as they contemplate disclosures for investors related to the accounting impacts of the tax reform law.

The interpretive guidance includes a new SAB and a new Compliance and Disclosure Interpretation (C&DI).

- SAB 118 addresses the following:
  - Fact patterns where the accounting for changes in tax laws or tax rates under ASC Topic 740 is incomplete upon issuance of an entity's financial statements for the reporting period in which the tax reform law is enacted (that is, reporting periods that include Dec. 22, 2017) are addressed.
  - During the reporting period that includes Dec. 22, 2017, for those tax effects in which the accounting under ASC Topic 740 is incomplete, the income tax effects of the tax reform law should be reported as a provisional amount based on a reasonable estimate (to the extent a reasonable estimate can be determined).

- The provisional amount is subject to adjustment during a measurement period, until the accounting under ASC 740 is complete.
    - The measurement period should not extend beyond one year from the tax reform law's enactment date.
    - Supplemental disclosures should accompany the provisional amounts, including the reasons for the incomplete accounting, the additional information or analysis that still needs to occur, and other information relevant to why the registrant was not able to complete the accounting required under ASC 740 in a timely manner.
- Question 110.02 was added to the C&DIs for Item 2.06 ("Material Impairments") on Form 8-K, and it addresses whether the obligation to file under Item 2.06 of Form 8-K is triggered due to the remeasurement of a deferred tax asset (DTA) in order to incorporate the effects of the newly enacted tax rates or other provisions of the tax reform law, and how use of the measurement period approach in SAB 118 affects this filing obligation.

For more on this topic, see our article "Securities and Exchange Commission (SEC) Provides Clarity and Assistance on Income Tax Reform," released on Dec. 28, 2017.

Major Accounting Standards Implementation

Speeches

AICPA Conference on Current SEC and PCAOB Developments – Dec. 4-6, 2017

As previously discussed, a topic at the annual AICPA Conference on Current SEC and PCAOB Developments was implementation of the major accounting standards.

See highlights from the conference in the Crowe e-communication "Headline Speeches From the 2017 AICPA Conference on SEC and PCAOB Developments."

Financial Executives International (FEI) 36th Annual Current Financial Reporting Issues Conference, Wesley Bricker – Nov. 14, 2017

SEC Chief Accountant Wesley R. Bricker addressed the FEI 36th Annual Current Financial Reporting Issues Conference on Nov. 14, 2017, where he discussed "Effective Financial Reporting in a Period of Change." The topics that he covered related to the implementation of the revenue, leases, and credit losses accounting standards and others.

Discussing the revenue standard, Bricker cautioned preparers to consider internal controls and documentation that address management's judgments and estimates required for implementation and application. He encouraged audit committees to pay close attention to the status of implementation reported to them by management and by the auditors. He also announced his expectation that companies should be in a position, through third- and fourth-quarter reporting, to disclose "the anticipated impact, at least qualitatively and directionally, of adoption of the revenue standard."

For leases, Bricker emphasized the need for preparers to begin identifying and working through accounting questions for lease arrangements, and he highlighted a best practice to concurrently (rather than sequentially) implement the leases and revenue standards.

Related to credit losses, Bricker covered factors that the FASB considered in developing the standard, such as these:

- Bias-free financial reporting that is transparent in all market cycles
- Credit loss estimates that include forward-looking information and timelier recognition
- Total economics of lending transactions, including both credit losses and interest income (which will continue to be separately reported in the financial statements)
- Financial statement preparation costs – noting that many loss-estimation methods used today will be appropriate under the new standard, accompanied by changes to inputs and assumptions

Rulemaking and Guidance

Financial Reporting Manual Update

Corp Fin updated its Financial Reporting Manual (FRM) on Dec. 1, 2017. The revisions to the FRM address the timing of applying new accounting standards to pro forma financial information and the adoption of new accounting standards after an issuer loses its emerging growth company (EGC) status.

Elimination of Guidance on Available for Sale (AFS) Equity Securities

On Nov. 29, 2017, the SEC staff issued SAB 117, to eliminate guidance in SAB Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Equity Securities." Because FASB ASC Topic 321, "Investments – Equity Securities," (codified by ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities") eliminates the AFS classification for investments in equity securities, the SEC guidance in SAB Topic 5.M on that security type and classification is no longer applicable.

Subsequent to an SEC registrant adopting ASC Topic 321, SAB Topic 5.M will no longer apply.

Capital Formation Simplifications

Speeches

AICPA Conference on Current SEC and PCAOB Developments – Dec. 4-6, 2017

As previously discussed, a topic at the annual AICPA Conference on Current SEC and PCAOB Developments was capital formation simplifications.

See highlights from the conference in the Crowe e-communication "Headline Speeches From the 2017 AICPA Conference on SEC and PCAOB Developments."

Rulemaking and Guidance

Regulation S-K Simplification

The SEC released, on Oct. 11, 2017, a proposal, "FAST Act Modernization and Simplification of Regulation S-K," for public comment. Requirements of the *Fixing America's Surface Transportation Act of 2015* present the SEC with an opportunity to streamline its entire disclosure framework. Among the proposed changes to Regulation S-K, registrants would no longer be required to provide, under certain circumstances, a discussion of the earliest year when three years are presented in Item 303, Management's Discussion and Analysis (MD&A).

The proposal would make the confidential treatment process more efficient for registrants and SEC staff without changing the responsibilities of registrants with regard to personally identifiable information as well as immaterial and competitively harmful information contained in exhibits. Registrants would no longer be required to first seek approval for confidential treatment from the SEC on specified matters.

In addition, a description of property would no longer be required if the property is not material to the registrant, and material contracts outside the ordinary course of business that were entered into within a two-year window of filing a registration statement or report would be required only for new registrants, rather than all registrants.

In order to eliminate various incorporation by reference provisions in SEC rules and regulations, registrants would be required to include hyperlinks in current filings to the incorporated information that was previously filed on the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system.

In the required exhibit that includes a list of the registrant's subsidiaries, the proposal would require disclosure of Legal Entity Identifiers (LEIs) for the registrant and its subsidiaries to the extent the LEI has been obtained. LEIs are alphanumeric codes used across markets and jurisdictions to track entities and understand entities' corporate structure.

Comments were due Jan. 2, 2018.

Technology and Cybersecurity Matters

Speeches and Statements

SEC Chairman Jay Clayton on Cryptocurrencies and Initial Coin Offerings (ICOs) – Dec. 11, 2017

On Dec. 11, 2017, SEC Chairman Jay Clayton issued a public statement to highlight the rapid growth in the cryptocurrency and ICO markets. In his statement, Clayton provided his views on the cryptocurrency and ICO markets, including considerations for both Main Street investors and market professionals in these markets. He shared that, to date, no ICOs have been registered with the SEC, and no exchange-traded products (such as exchange-traded funds) holding cryptocurrencies or other assets related to cryptocurrencies have been approved for listing and trading by the SEC. He also emphasized securities law matters that should be considered by market professionals (such as lawyers, accountants, and consultants) when evaluating transactions in the cryptocurrency and ICO markets. Finally, he provided some sample questions for investors to consider when evaluating a cryptocurrency or ICO investment opportunity.

AICPA Conference on Current SEC and PCAOB Developments – Dec. 4-6, 2017

As previously discussed, a topic at the annual AICPA Conference on Current SEC and PCAOB Developments was cybersecurity and emerging technologies.

See highlights from the conference in the Crowe e-communication "Headline Speeches From the 2017 AICPA Conference on SEC and PCAOB Developments."

FEI 36th Annual Current Financial Reporting Issues Conference, Wesley Bricker – Nov. 14, 2017

At the previously mentioned FEI conference, where Bricker delivered his speech "Effective Financial Reporting in a Period of Change," he covered emerging technology. Specifically, Bricker encouraged the accounting profession to understand distributed ledger (or blockchain) technology and the potential risks for investors. He noted that the SEC's Office of the Chief Accountant is investing time to understand the technology under the framework of the SEC's rules and regulations.

More on this technology can be found in the SEC's "Investor Bulletin: Initial Coin Offerings."

Washington, D.C., Stephanie Avakian (Co-director, SEC Division of Enforcement) – Oct. 26, 2017

During an Oct. 26, 2017, speech, Stephanie Avakian, co-director in the SEC's Division of Enforcement, spelled out the division's priorities for retail investors (spearheaded by the newly created Retail Strategy Task Force) and cyber matters (the focus of the newly formed Cyber Unit).

Avakian discussed Corp Fin's reminders to registrants that material information regarding cyberrisk may be required in Management's Discussion and Analysis and Risk Factor disclosures. She said:

"In an era where nearly every company is dependent on computer systems to operate their business, it is frequently necessary to provide meaningful and timely disclosures regarding cyber risks and incidents. These disclosures are often material on their own or necessary in order to make other disclosures, in light of the circumstances under which they are made, not misleading. The guidance issued by the Corp Fin staff in 2011 is principles based and remains an important indication of how issues related to cybersecurity should be disclosed in SEC filings. We recognize this is a complex area subject to significant judgment, and we are not looking to second-guess reasonable, good faith disclosure decisions, though we can certainly envision a case where enforcement action would be appropriate."

Auditor's Reporting Model (ARM)

Speeches

AICPA Conference on Current SEC and PCAOB Developments – Dec. 4-6, 2017

The ARM was another topic discussed at the annual AICPA Conference on Current SEC and PCAOB Developments by the SEC chairman and OCA panel, as well as by representatives from the PCAOB.

See highlights from the conference in the Crowe e-communication "Headline Speeches From the 2017 AICPA Conference on SEC and PCAOB Developments."

FEI 36th Annual Current Financial Reporting Issues Conference, Wesley Bricker – Nov. 14, 2017

At the FEI conference where Bricker delivered his speech "Effective Financial Reporting in a Period of Change," he covered the recently SEC-approved ARM standard from the PCAOB. In particular, he discussed the requirement to disclose critical audit matters (CAMs) during the second phase of implementation, which is effective for large accelerated filers in audits of fiscal years ending on or after June 30, 2019.

Bricker recommended a few questions that audit committees could ask when planning for implementation of the audit standard:

- "What would the critical audit matters be this year?
- "What would be the close calls?
- "When could those matters have been raised, and which ones could have been identified at the *start* of the audit cycle?
- "What does the auditor expect to say about those matters?
- "When would we expect to see a draft report or at least a draft of the critical audit matters?"

Rulemaking and Guidance

Approval of the PCAOB's ARM Standard

On Oct. 23, 2017, the SEC approved PCAOB auditing standard (AS) 3101, "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion," which the PCAOB adopted on June 1, 2017. The SEC previously issued a release (No. 34-81187) and obtained comments from stakeholders on the auditing standard. The final standard will change the auditor's report significantly.

Effective dates for the standard will occur in two phases. In the first phase, the auditor's report will disclose auditor tenure and make other improvements including clarifying the auditor's responsibilities. The first phase applies to audit reports issued on financial statements of public companies for fiscal years ending on or after Dec. 15, 2017, which first applies to Dec. 31, 2017, for calendar year-end public companies.

In the second phase, the auditor is required to include critical audit matters in the auditor's report. A CAM is a matter that is communicated or required to be communicated to the audit committee and that 1) relates to accounts or disclosures that are material to the financial statements, and 2) involves especially challenging, subjective, or complex auditor judgment. The second phase is effective for fiscal years ending on or after June 30, 2019, for large accelerated filers. For all other entities, the second phase is effective for fiscal years ending on or after Dec. 15, 2020.

Non-GAAP Measures

Speeches

AICPA Conference on Current SEC and PCAOB Developments – Dec. 4-6, 2017

At the annual AICPA Conference on Current SEC and PCAOB Developments, the Corp Fin panel discussed the status of non-GAAP measures.

See highlights from the conference in the Crowe e-communication "Headline Speeches From the 2017 AICPA Conference on SEC and PCAOB Developments."

Rulemaking and Guidance

Updated Compliance and Disclosure Interpretations

Corp Fin, on Oct. 17, 2017, updated its C&DIs on non-GAAP measures by adding two questions related to business combinations:

- Question 101.01 clarifies that financial measures included in forecasts provided to a financial adviser and used in connection with a business combination transaction are not non-GAAP financial measures if they meet certain criteria identified in the C&DIs.
- Question 101.02 clarifies that the exemption from Regulation G and Item 10(e) of Regulation S-K for non-GAAP measures disclosed in communications relating to a business combination transaction does not extend to the same non-GAAP measures disclosed in registration statements, proxy statements, and tender offer statements.

New Commissioners

On Dec. 21, 2017, the U.S. Senate confirmed two new SEC commissioners, Hester Peirce and Robert J. Jackson Jr., which means that all seats at the commission are full for the first time since 2015.

From the PCAOB

New Chairman and Board Members

On Dec. 12, 2017, the SEC appointed a new board of four members and a chairman, William D. Duhnke III, to the PCAOB. Duhnke is currently the staff director and general counsel to the U.S. Senate Committee on Rules and Administration, and he previously served as staff director and general counsel to the U.S. Senate Committee on Banking, Housing, and Urban Affairs and the Committee on Appropriations.

The four new board members include:

- J. Robert Brown, currently a professor of law at the University of Denver, where he is director of the corporate and commercial law program and is the Lawrence W. Treece professor of corporate governance
- Kathleen M. Hamm, currently the global leader of securities and fintech (financial technology) solutions and senior strategic adviser on cyber solutions at Promontory Financial Group
- James G. Kaiser, currently a partner and the global assurance methodology and transformation leader at PricewaterhouseCoopers
- Duane M. DesParte, soon to retire as senior vice president and corporate controller of Exelon Corporation. He previously was an audit partner at Deloitte & Touche and, prior to that, at Arthur Andersen.

Auditor's Reporting Model (ARM)

Staff Guidance for Phase One and Overview of Phase Two

On Dec. 4, 2017, the PCAOB published staff guidance describing changes to the auditor's report that are effective for phase one of implementation, which includes audits for fiscal years ending on or after Dec. 15, 2017. The guidance addresses these key changes to the auditor's report:

- Form of the auditor's report – requires the opinion section to be first, immediately followed by the basis for the opinion; in addition, requires section titles
- Addressee – requires the report to be addressed to the shareholders and the board of directors
- Auditor independence – requires a statement that the auditor is registered with the PCAOB and is independent
- Auditor tenure – requires a statement containing the year the auditor began serving consecutively as the company's auditor

- Auditor reporting regarding internal control over financial reporting (ICFR) – requires explanatory language when management's report is not required to be audited and makes conforming amendments when management's report is audited
- Explanatory and emphasis paragraphs – addresses when an explanatory paragraph is required and the use of emphasis paragraphs
- Information about certain audit participants – permits the auditor's report to include information regarding the engagement partner and/or other accounting firms participating in the audit

The guidance also provides an overview of the requirements for CAMs, which are not required to be reported until phase two of implementation, for audits of fiscal years ending on or after June 30, 2019 (for large accelerated filers), or Dec. 15, 2020 (for all other companies to which the requirements apply).

Major Accounting Standards

Staff Guidance for the Revenue Recognition Standard

On Oct. 5, 2017, the PCAOB released Staff Audit Practice Alert 15, "Matters Related to Auditing Revenue From Contracts With Customers," to provide guidance for auditors to consider during their interim reviews and annual audits of financial statements with regard to the revenue recognition standard. The revenue recognition standard is effective for calendar year-end public business entities (PBEs) beginning in the first quarter of 2018, with the exception of 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 (refer to ASU 2017-13).

The practice alert addresses the following topics:

- Management's transition disclosures in the notes to the financial statements
- Transition adjustments
- Internal control over financial reporting
- Fraud risks
- Revenue recognition in conformity with the financial reporting framework
- Revenue disclosures

From the CAQ

Audit Committee Tools for Changes to the Auditor's Report

On Dec. 6, 2017, the Center for Audit Quality (CAQ) distributed a tool, "The Auditor's Report: Considerations for Audit Committees," that public company audit committees can use to understand the changes in and implementation timing of the PCAOB's new auditing standard, "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion."

The first phase of implementation includes disclosure of auditor tenure among other changes, and the second phase includes the most significant change – that is, disclosure of CAMs. For both phases, the CAQ tool identifies the changes to the auditor's report and provides questions for audit committees to consider as they discuss those changes with auditors and other stakeholders.

Previously, on Oct. 24, 2017, the CAQ issued Alert 2017-06, "The Auditor's Report – New Requirements for 2017," which summarizes the PCAOB auditing standard on the revised ARM.

Audit Committee Transparency

The CAQ distributed its fourth annual "Audit Committee Transparency Barometer" report on Nov. 1, 2017. The report includes audit committee disclosure examples, and it shows that since 2014 a larger percentage of public companies are voluntarily including more robust disclosure of their audit committee's external auditor oversight activities in proxy statements, particularly for the following:

- Considerations in recommending the appointment of the audit firm
- Criteria considered when evaluating the audit firm
- Length of the audit firm engagement
- The audit committee's responsibility for fee negotiations
- The audit committee's involvement in selecting the audit engagement partner
- The rotation of the engagement partner every five years

Although the percentage of companies disclosing whether the external auditor is evaluated at least annually has increased, the report highlights this area as one where improvement could be made.

From the AICPA

Technical Q&A (TQA) on Public Business Entity (PBE) Definition

With the FASB's revenue recognition and financial instrument recognition and measurement standards first becoming effective in the first quarter of 2018, it is critical to determine whether an entity meets the definition of a PBE for financial reporting purposes. The definition can be far-reaching and includes entities beyond those that are registered with the SEC. The FASB typically uses this definition to determine effective dates, scale disclosure, and offer practical expedients – making the determination of whether an entity is a PBE an important analysis.

On Oct. 24, 2017, the AICPA issued a TQA document on the "Definition of a Public Business Entity," including 16 new questions and answers that provide guidance on the terminology included in the PBE definition and other considerations for applying the definition.

These are among the topics:

- Industry-specific questions about not-for-profit entities, banks, mutual and credit unions, insurance companies, and broker-dealers
- Use of terms including "security," "over-the-counter market," "conduit bond obligor," "contractual restriction on transfer," "prepare," "publicly available," "financial statements," and "periodic basis"
- Types of resale restrictions that qualify as contractual restrictions (for example, typical S-corporation management preapproval for resale) and types of resale restrictions that do not qualify (for example, right of first refusal)
- Types of instruments including brokered certificates of deposit, 144 and 144A (referred to as "private for life") securities, and not-for-profit conduit debt securities
- How to evaluate tiered organizational structures (parent, subsidiary, nonconsolidated pass-through entities, and guarantees)
- Equity method pickups
- Transactions reported in Financial Industry Regulatory Authority (FINRA) Trade Reporting and Compliance Engine (TRACE) or Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access (EMMA)

Proposal for Expanding the Auditor's Report

On Nov. 29, 2017, the AICPA's Auditing Standards Board issued three exposure drafts; one of particular interest to private entities is the proposed alignment of the form and content of the auditor's reporting under AICPA standards with the International Auditing and Assurance Standards Board standards and, in many ways, with the PCAOB standards.

The exposure draft, "Proposed Statements on Auditing Standards [SAS] – Auditor Reporting and Proposed Amendments – Addressing Disclosures in the Audit of Financial Statements," includes the following changes:

- The opinion section must be presented first in the auditor's report, followed by the basis for opinion, which must include an affirmative statement about the auditor's independence and fulfillment of other ethical responsibilities.
- Communication of key audit matters (KAMs) would not be required for audits of nonissuers unless the terms of the audit engagement include reporting KAMs.
- The description of the responsibilities of management for the preparation and fair presentation of the financial statements is expanded, including a requirement to identify those responsible for the oversight of the financial reporting process if different from those responsible for the preparation.
- The description of the responsibilities of the auditor and key features of an audit is expanded.

The proposal would be effective no earlier than for audits of financial statements for periods ending on or after June 15, 2019.

Comments are due May 15, 2018.

From the SOA

Mortality Improvement Scale Update

The Society of Actuaries (SOA) on Oct. 20, 2017, updated its mortality improvement scale for pension plans. According to the SOA, mortality rates increased between 2014 and 2015, which is the first annual rate increase since 2005. The SOA noted that the increase in mortality rates, reflected in the new MP-2017 improvement scale, might reduce pension plan obligations. The updated mortality scale incorporates data through 2014 and preliminary 2015 data developed by the SOA and obtained from the Centers for Disease Control and Prevention, the Centers for Medicare & Medicaid Services, and the U.S. Census Bureau.

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**
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**

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

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Technical Corrections and Improvements (ASU 2016-19) Various corrections to existing GAAP guidance, including 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**
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, 2018[2]**	**Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within**

[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.

[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 revenue recognition guidance is effective for Dec. 31, 2019, annual financial statements for calendar year-end entities.

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

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** **(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**
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 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**
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 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.

Checklist A – 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**
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**
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
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[4]**	**Permitted for amendments that require transition guidance**

[4] 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.

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
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[5]**	**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**

[5] 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.

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
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**
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**

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
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**
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**
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**

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
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**

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**
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**

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
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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