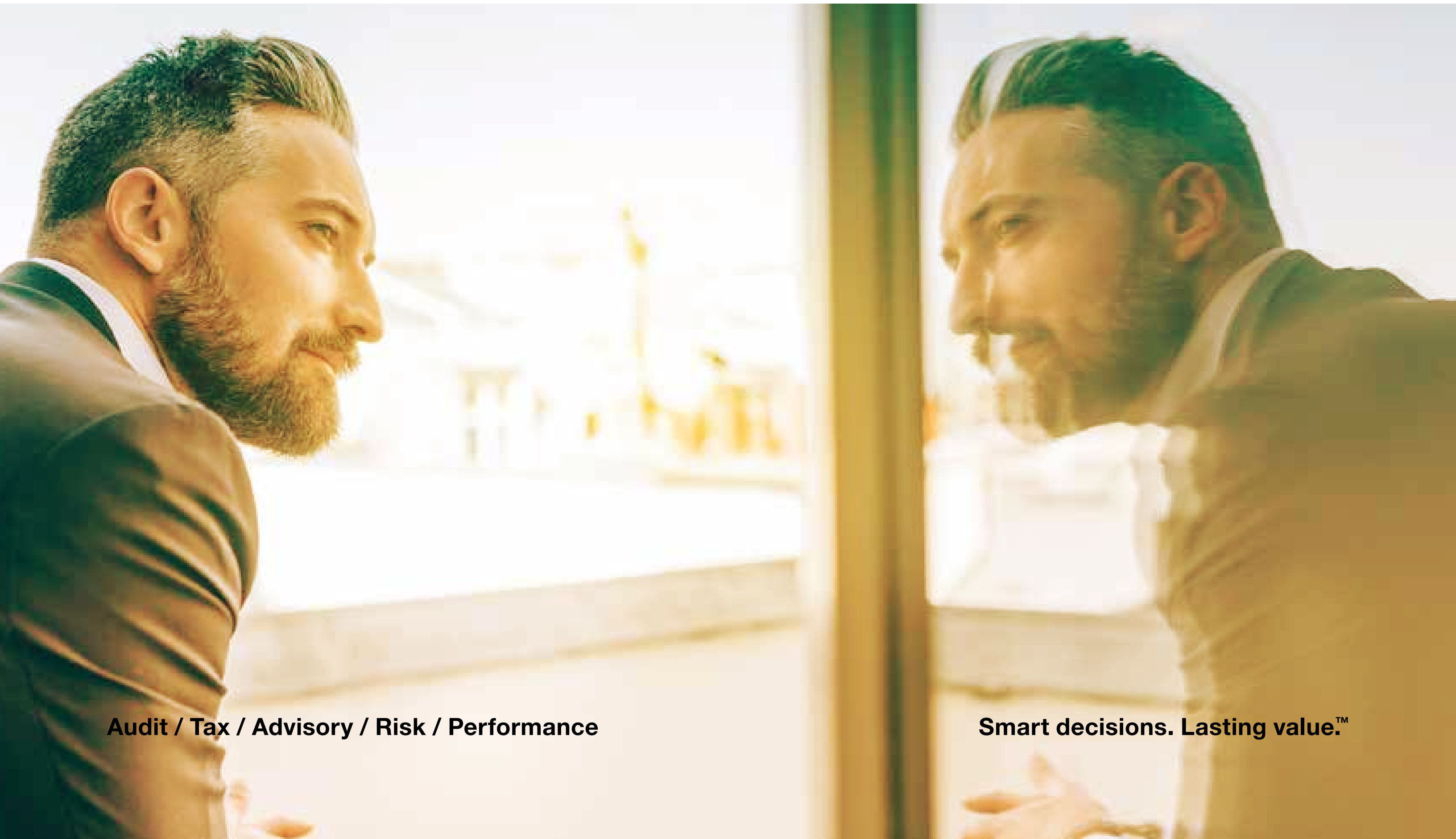
December 2016

Year-End Accounting and Financial Reporting Issues for Financial Institutions



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Contents

A Note From the Author

The Financial Accounting Standards Board (FASB) has been busy this year finalizing two of the three standards in the financial instruments project – one for recognition and measurement and the other for credit losses. It also issued the new standard on lease accounting and additional guidance related to the revenue recognition standard, issuing a total of 18 Accounting Standards Updates (ASUs) and 22 proposals.

A critical step for financial institutions is determining whether or not the entity is a public business entity (PBE). The definition is far-reaching and includes institutions beyond those that file with the Securities and Exchange Commission (SEC). The FASB typically uses this definition to determine effective dates, including for its major standards. This definition is covered in this publication.

Implementation for the four major accounting standards (that is, revenue recognition, recognition and measurement, leases, and credit losses) should be top of mind for individuals with financial reporting responsibilities or oversight roles. Implementation efforts involve everything from understanding the technical changes in the accounting literature to putting in place new controls in order to completely and accurately report under the new standards.

For SEC registrants in particular, consideration must be given to keeping investors informed of implementation efforts through disclosure. SEC Staff Accounting Bulletin (SAB) No. 74 (Topic 11.M), "Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period," requires disclosure of the potential effects of adoption of recently issued accounting standards in registration statements and reports filed with the SEC. In addition, the SEC made a staff announcement, at an Emerging Issues Task Force (EITF) meeting on Sept. 22, 2016, addressing situations where an SEC registrant does not know or cannot reasonably estimate the impact that adoption of the recent major accounting standards is expected to have on the financial statements. In that situation, a statement to that effect should be disclosed, and the registrant should consider additional qualitative disclosures related to the significance of the impact that the standard will have on the financial statements when adopted. In other speeches,[1] the SEC has advised that disclosure of when and how companies will transition to the reporting under a given standard may be useful to investors, and the robustness of disclosures is expected to increase as more information becomes available between now and adoption of a given standard. Furthermore, until the actual impact is known, disclosure could be in the form of a range or directional trend (rather than a statement that the impact is unknown).

The FASB spaced the effective dates for these standards to allow time for implementation. Despite the length of time given to preparers at both PBEs and non-PBEs, efforts to implement each of these standards should begin now in order to timely transition by the effective dates.

[1] See Acting Chief Accountant Wesley Bricker's speech at the 2016 Baruch College Financial Reporting Conference on May 5, 2016, and Chief Accountant James Schnurr's remarks before the UCI Audit Committee Summit on Oct. 23, 2015.

Effective Dates for Major Standards

Major Accounting Standard	**PBE Effective Date**	**Non-PBE Effective Date**
Recognition and Measurement ASU 2016-01	PBEs – Fiscal years beginning after Dec. 15, 2017, and interim periods in those fiscal years. **First applies to March 31, 2018, interim financial statements for calendar year-end PBEs.** For the following one item, early adoption is permitted immediately in interim or annual financial statements that have not yet been issued: • The fair value change resulting from own credit risk for financial liabilities measured under the fair value option recognized through other comprehensive income (OCI)	Non-PBEs – Fiscal years beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019. Early adoption using the PBE effective dates is permitted. For the following two items, early adoption is permitted immediately in interim or annual financial statements that have not yet been made available for issuance: • The fair value change resulting from own credit risk for financial liabilities measured under the fair value option recognized through OCI • The elimination of fair value disclosure requirements for financial instruments not recognized at fair value
Revenue Recognition ASU 2014-09 ASU 2015-14 (deferral of effective date)	Public entities (including PBEs, certain not-for-profit entities, and certain employee benefit plans) – Annual reporting periods beginning after Dec. 15, 2017, and interim reporting periods in those annual reporting periods. **First applies to March 31, 2018, interim financial statements for calendar year-end PBEs.** Earlier adoption is permitted only as of annual reporting periods beginning after Dec. 15, 2016, and interim reporting periods in those reporting periods.	Other than public entities – Annual reporting periods beginning after Dec. 15, 2018, and interim periods in annual periods beginning after Dec. 15, 2019. Earlier application is permitted, but only as of either: • An annual reporting period beginning after Dec. 15, 2016, and interim periods in that reporting period • An annual reporting period beginning after Dec. 15, 2016, and interim periods in annual periods that begin one year after that annual adoption period

Major Accounting Standard	PBE Effective Date	Non-PBE Effective Date
Leases ASU 2016-02	Public entities (including PBEs, certain not-for-profit entities, and certain employee benefit plans) – Annual periods beginning after Dec. 15, 2018, and interim periods in those annual periods. **First applies to March 31, 2019, interim financial statements for calendar year-end PBEs.** Early adoption is permitted.	Other than public entities – Fiscal years beginning after Dec. 15, 2019, and interim periods in fiscal years beginning after Dec. 15, 2020. Early adoption is permitted.
Credit Losses ASU 2016-13	SEC filers – Fiscal years beginning after Dec. 15, 2019, and interim periods in those fiscal years. **First applies to March 31, 2020, interim financial statements for calendar year-end SEC filers.** PBEs that are not SEC filers – Fiscal years beginning after Dec. 15, 2020, and interim periods in those fiscal years. Early adoption is allowed in fiscal years beginning after Dec. 15, 2018, and interim periods in those fiscal years.	Non-PBEs – Fiscal years beginning after Dec. 15, 2020, and interim periods in fiscal years beginning after Dec. 15, 2021. Early adoption is allowed in fiscal years beginning after Dec. 15, 2018, and interim periods in those fiscal years.

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

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

Sydney K. Garmong
Partner, Crowe

From the FASB: Major Final Standards

Financial Instruments

Background

For financial institutions, the FASB had a convergence project with the International Accounting Standards Board (IASB) to address accounting for financial instruments. The FASB issued its initial exposure draft, "Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities – Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)," on May 26, 2010. Although often referred to as "the fair value proposal," it also addressed classification and measurement (now referred to as recognition and measurement), impairment, and hedging.

Since the original proposal, the FASB has split the project into three: 1) credit losses, 2) recognition and measurement, and 3) hedging. For the first two, the FASB issued re-proposals in late 2012 and early 2013 and was re-deliberating the proposed decisions until the final standards were issued in 2016. For recognition and measurement, the board took a meaningful departure from its most recent proposal and made only targeted improvements to existing generally accepted accounting principles (GAAP) in the final standard discussed in "Recognition and Measurement" Section of this article. For credit losses, the story is much different, given that the FASB has chosen to stick with its current expected credit loss (CECL) model, which was unveiled in its 2012 proposal (see the discussion of the final standard in the next section under "Credit Losses"). The FASB started re-deliberating the hedging component in late 2014, and we discuss the hedging project in the section, "In the Pipeline: Major Projects on the FASB's Agenda."

At this point, the FASB and the IASB have chosen separate paths for their respective projects on financial instruments.

Credit Losses

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

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

Under the CECL model, those who prepare financial statements should address the following guidelines included in the standard:

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

AFS debt securities

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

- An allowance instead of a basis adjustment will be used for recognizing impairment losses, which will allow an entity to recognize reversals of credit losses.
- ASC 320-10-35-33F(a) is amended to remove the requirement to consider the length of time that the fair value of an AFS debt security has been less than its amortized cost basis when estimating whether a credit loss exists.
- ASC 320-10-35-33F(g) is removed so that when estimating whether a credit loss exists, an entity is not required to consider recoveries or additional declines in the fair value after the balance sheet date.

As concluded at the Nov. 11, 2015, FASB meeting, a fair value floor is incorporated into the credit loss model for AFS debt securities such that the credit losses are limited to the difference between the debt security's amortized cost basis and its fair value.

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

Purchased credit deteriorated (PCD) assets

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

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

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

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

<u>TDRs</u>

Credit losses on TDRs should be measured using the CECL methodology – a change from existing GAAP, which limits the measurement techniques for credit losses on TDRs to a discounted cash flow technique, fair value of the collateral, or fair value of the loan. Cost-basis adjustments will not be required, and credit losses – including the concession given to the borrower from a TDR – will be recognized using an allowance account. This will provide opportunity for reversal upon increases in cash flows.

<u>Beneficial interests</u>

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

<u>Disclosures</u>

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

- A description and discussion of the factors that influenced management’s current estimate of expected credit losses, including reasonable and supportable forecasts about the future
- The method applied to revert to historical credit loss experience for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts
- The policies for writing off uncollectible receivables (which is current GAAP)
- The policies for accounting for nonaccrual financial assets, including policies for placing financial assets on nonaccrual status (which is current GAAP)
- Qualitative disclosures relating to collateralized financial assets (which applies only to collateral-dependent financial assets)

- A roll-forward of the allowance for expected credit losses, for both financial assets measured at amortized cost (for example, loans held for investment by portfolio segment) and fair value through OCI (for example, AFS debt securities by major security type)
- Vintage disclosure – a disaggregation of the credit-quality indicators, for all classes of financing receivables (excluding revolving lines of credit such as credit cards) that are disclosed under current GAAP, by year of the asset's origination (that is, vintage year):
    - The disaggregation year would be limited to no more than five annual reporting periods, with the balance for financing receivables originated before the fifth annual reporting period shown in aggregate.
    - For an interim reporting period, the year-to-date originations of the current annual reporting period would be considered to be current-period originations.
    - For the purpose of determining the vintage year for disaggregated credit-quality disclosures, an entity would use the guidance for determining a new loan resulting from loan refinancing or restructurings in current GAAP.
    - Certain entities would be offered relief:
        - For PBEs that are not SEC filers (as discussed under "Effective Dates"), a practical expedient in transition is available to disclose only three years of the required vintage information in the year of adoption and four years in the year after adoption. In years thereafter, these entities must comply with the full five-year disclosure requirement.
        - For entities that are not PBEs, the vintage disclosure is optional.

<u>Transition</u>

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

Effective Dates

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

The original effective dates were determined on Nov. 11, 2015, but later, at the board's April 27, 2016, meeting, the effective dates were extended by one year as follows:

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

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

Views From the Regulators

From the SEC: On Sept. 21, 2016, SEC Interim Chief Accountant Wesley R. Bricker, addressed the AICPA [American Institute of CPAs] National Conference on Banks & Savings Institutions. He began his remarks with a comprehensive historical perspective on reserving for bad loans in the U.S. dating back to the 67th Congress's *Revenue Act of 1921*. He went on to discuss the SEC's existing guidance that will continue to be applicable to the CECL standard in the SEC's Financial Reporting Release 28 and SAB 102, "that directs registrants to ensure their loan loss allowance methodologies:

- "Include a detailed analysis of the loan portfolio, performed on a regular basis;
- "Consider all known relevant internal and external factors that may affect loan collectibility;
- "Be applied consistently but modified for new factors affecting collectibility, when appropriate; and
- "Be well documented, in writing, with clear explanations of the supporting analyses and rationale."

For further reference, his speech includes extensive footnotes to guidance that the staff has provided over the years.

Regarding an institution's assessment of internal control over financial reporting, he noted that companies may need to consider how to identify and resolve significant differences in views on collectibility that may come from different departments or groups within a particular institution.

Finally, Bricker discussed the following for companies, audit committees, and auditors to consider when assessing implementation plans:

- An appropriate allocation of time and resources
- A fresh look at the estimation process, procedures, systems, and internal controls, including changes to internal controls to implement the standard
- Setting the correct tone at the top and expectations for corporate conduct such that sound judgments (required by the new standard) will be applied consistently

From the federal financial institution regulators: On June 17, 2016, the four federal financial institution regulatory agencies issued "Joint Statement on the New Accounting Standard on Financial Instruments – Credit Losses," to provide initial supervisory views on implementation. In addition, the Federal Reserve offered its perspectives in its 2016 first issue of "Community Banking Connections." See the section "From the Federal Financial Institution Regulators" later in this document for details.

Transition Resource Group for Credit Losses

The FASB formed a transition resource group (TRG) to assist the staff with the remaining transition and implementation issues for the credit loss standard. The TRG for Credit Losses solicits, analyzes, and discusses issues related to implementation of the CECL standard. The TRG for Credit Losses is chaired by Larry Smith, a FASB member, and comprises industry experts including preparers, auditors, and regulators.

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

Future and archived public meetings of the TRG are available by webcast. Visit the TRG's Meetings page on the FASB website for those webcasts and meeting materials.

Crowe Resources

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

Crowe published a series of articles on adapting to CECL:

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

Crowe has kept current throughout the FASB's deliberations and leading up to the final standard.

- "Is the Third Time the Charm? The FASB Proposes Major Changes for Credit Losses," published in January 2013, is an in-depth discussion of the exposure draft.
- Crowe expressed its views on the exposure draft in comment letter 318 addressed to the FASB.
- "FASB's CECL Model: Navigating the Changes" is an article published in 2015 during re-deliberations of the proposal.
- "FASB Answers the Million-Dollar Question: What Is the Effective Date for Credit Losses (CECL)?" was a Nov. 11, 2015, e-communication.
- "FASB's Current Expected Credit Losses (CECL) Model to Be Discussed on Friday" was a March 30, 2016, e-communication.
- "FASB Votes to Proceed With CECL and Delays Effective Dates by One Year" was an April 27, 2016, e-communication.
- "Here's CECL: FASB Issues Final Standard for Credit Losses" was a June 16, 2016, e-communication.

Archived CECL Webinars

- July 19, 2016 – SNL Knowledge Center webinar: CECL: What You Need to Know
- July 21, 2016 – FASB webinar: In Focus: FASB Accounting Standards Update on Credit Losses
- Aug. 11, 2016 – American Bankers Association webinar: 5 Questions You Need to Answer Before Making a Decision on CECL

Recognition and Measurement

The FASB completed part one of its financial instruments project with the issuance of ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," on Jan. 5, 2016.

This began as a major project. In its May 2010 exposure draft, the FASB proposed to carry most financial assets and liabilities at fair value. In its February 2013 exposure draft, the FASB proposed to permit the use of amortized cost in some cases; however, the determination process would have been complicated compared to today's intent-based classification. The final standard reflects a meaningful change from the board's prior proposals by choosing to retain the existing accounting models for securities (HTM, AFS, and trading) and loans (held for investment (HFI) and held for sale (HFS)) and making only targeted improvements to the models.

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

Equity investments:

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

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

Fair value option:

- Retains the unconditional fair value option in existing GAAP under ASC Topic 825, “Financial Instruments.”
- For financial liabilities that are measured at fair value under the fair value option election, the portion of the total fair value change caused by a change in instrument-specific credit risk should be presented separately in OCI. Under current GAAP, this amount is presented on the income statement and can create counterintuitive changes in income when an institution’s own credit risk changes.
- As noted under “Effective Dates and Transition” later, early adoption of this specific provision is permitted for all entities immediately, as of the beginning of the fiscal year, for interim or annual financial statements of fiscal years or interim periods that have not yet been issued (by PBEs) or that have not yet been made available for issuance (by non-PBEs).

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

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

Disclosure:

- The board distinguished between PBEs and non-PBEs for certain disclosures. In addition, consistent with existing GAAP, trade receivables and payables with a maturity date of less than one year are outside the scope of the new standard for disclosures.
- **Assets and liabilities** – On the balance sheet or in the footnotes, disclose all financial assets and financial liabilities grouped by measurement category and form (for example, securities or loans and receivables) of financial assets.
- **Fair value for amortized cost financial instruments** – In accordance with ASC 825, “Financial Instruments” (formerly known as FASB Statement 107, “Disclosures About Fair Value of Financial Instruments”), the board decided the following:
  - For non-PBEs, the FASB is removing the disclosure requirement completely. As noted under “Effective Dates and Transition” later, early adoption of this provision is permitted immediately for financial statements that have not yet been made available for issuance. For calendar year-ends, early adoption of this provision was allowed for Dec. 31, 2015, annual financial statements that have not yet been made available for issuance.
  - For PBEs, the FASB is raising the bar with an important change in how the fair values would be determined. Currently, an exception in GAAP permits loans to be measured using an entry price, which commonly is computed by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This differs from the general requirement in GAAP to determine fair value using an exit price. Because the new

disclosure requirement refers to "fair value" as it is defined in the glossary, and it is the same definition as that for current GAAP fair value, the exception for measuring certain assets at an entry price has been removed. As such, entities will need to measure all financial instruments in this table based on an exit price. This requirement could present challenges, particularly for loan portfolios, given that common practice for those portfolios is to rely on the current exception in GAAP (ASC 825-10-55-3) to measure financial instruments using an entry price.

Also, an entity will disclose the level of the fair value hierarchy within which the fair value measurement of financial instruments measured at amortized cost is categorized in its entirety (level 1, 2, or 3). Certain public companies (under the definitions before ASU 2013-12) already have this requirement, which was established by ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs."

In some good news for PBEs, the board is removing the requirements to disclose the method or methods and significant assumptions used to estimate the fair value for disclosure purposes of financial instruments measured at amortized cost. With these changes, the board also is removing the requirement to disclose any changes in methods and significant assumptions.

- **Equity securities using the practical expedient** – Disclose the carrying amount of investments that are measured using the practicability exception, as well as the amount of adjustments made to the carrying amount due to observable changes and impairment charge during the period. An entity would not have to disclose the information it considered to reach the carrying amount or upward or downward adjustments resulting from observable price changes.

Effective Dates and Transition

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

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

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

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

Upon adopting ASU 2016-01 an entity will be required to make a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period in which the guidance is effective (that is, to take a modified retrospective approach). For example, to reclassify an AFS equity security to FV/NI, the entity will make an adjustment from accumulated other comprehensive income (loss) to retained earnings at the date of adoption. The practical expedient for equity securities without readily determinable fair values will be applied prospectively.

Crowe Resources

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

Leases

On Feb. 25, 2016, the FASB issued its long-awaited standard on leases. ASU 2016-02, "Leases (Topic 842)," is the culmination of a joint project of the FASB and the IASB that both boards added to their agendas in July 2006. Earlier in 2016, the IASB issued International Financial Reporting Standard (IFRS) 16, "Leases," which is converged with the FASB standard with respect to recording most leases on the balance sheet. ASU 2016-02 was issued in three sections: "Section A – Leases: Amendments to the FASB Accounting Standards Codification," "Section B – Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification," and "Section C – Background Information and Basis for Conclusions."

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

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

Lessees

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

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

Under the new standard, after determining that a contract contains a lease, a lessee will need to evaluate whether the lease is finance or operating at the commencement of a new lease and upon change in the lease term or change in the lessee's option to purchase the asset. Generally consistent with existing GAAP, a lessee will assess whether it has met any of the five criteria in the new standard that are based on whether the lessee obtains control of the leased asset rather than merely control over the use of the leased asset, and if so, the lease will be classified as a finance lease (see paragraph BC56 of the ASU).

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

<u>Lessee Lease Classification</u>

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

Lessors

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

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

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

Lessor Lease Classification

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

Sale and Leaseback Transactions

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

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

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

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

Sale and Leaseback Transition Guidance

Previously Qualified as a Sale Under Existing GAAP

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

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

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

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

Failed Sales Under Existing GAAP

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

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

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

Effective Dates

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

For all other entities, the standard is effective for fiscal years beginning after Dec. 15, 2019, and interim periods within the fiscal years beginning after Dec. 15, 2020, which first applies to Dec. 31, 2020, annual financial statements for calendar year-end entities.

Early adoption is permitted upon issuance.

Transition

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

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

Practical Expedients for Transition

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

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

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

Crowe Resources

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

Revenue Recognition

In current GAAP, many different methods, as well as various depths of guidance, address revenue recognition, and they often are grounded in industry-specific guidance. In an effort to remedy the situation, the FASB and the IASB took on a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and IFRS. On May 28, 2014, the two boards jointly issued their converged standard on the recognition of revenue from contracts with customers. The new revenue recognition standard, ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)," consists of three sections:

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

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

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

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

The challenge is to take the core principle and accompanying steps and discern how the guidance applies. The AICPA has formed 16 industry task forces to help develop a new accounting guide on revenue recognition; the task forces are seeking to provide helpful hints and illustrative examples for how to apply the new standard. One of the task forces is dedicated to the depository institutions industry. In addition, the FASB and the IASB have formed a joint TRG, which includes preparers, auditors, regulators, users, and other stakeholders. Its objective is to promote effective implementation and transition.

Scoping Issues for Financial Institutions

Given that most financial instruments (including debt securities, loans, and derivatives) are not in the scope of ASU 2014-09, wholesale changes are not expected for the financial institutions industry. However, noninterest income revenue streams will need to be evaluated. The AICPA revenue recognition task force for depository institutions is continuing to evaluate the various areas to determine what is in scope and what is not. Draft implementation issues are posted to the task force's page at the AICPA Financial Reporting Center.

The FASB TRG for Revenue Recognition met on April 18, 2016, to discuss scoping issues specific to financial institutions. The TRG's meeting handout specific to financial institutions, Memo 52, "Scoping Considerations for Financial Institutions," is publicly available. The TRG conclusions are recorded in "Topic 3" of Memo 55, "April 2016 Meeting – Summary of Issues Discussed and Next Steps."

The following financial institution-specific topics were addressed by the TRG at the April meeting:

- Mortgage servicing income – Income that is in the scope of ASC 860, "Transfers and Servicing," is not in the scope of the revenue recognition standard.
- Deposit-related fees – These fees are in the scope of the revenue recognition standard. The TRG memo provides insight into the staff views on deposit fee transactions.
- Financial guarantee fees – Guarantees in the scope of ASC 460, "Guarantees," or ASC 815, "Derivatives and Hedging," are not in the scope of the revenue recognition standard.

Clarifications

1. Identifying performance obligations and licensing

On April 14, 2016, the FASB issued the final standard (which was originally proposed on May 12, 2015), ASU 2016-10, "Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing," in order to add guidance for identifying performance obligations. The ASU clarifies that an entity does not have to identify performance obligations involving goods and services that are immaterial. It also provides guidance for evaluating the criterion of "separately identifiable." In addition, the ASU clarifies both the licensing implementation guidance and the scope for a sales-based or usage-based royalty promised in exchange for an intellectual property license.

The effective date for this ASU is consistent with the revenue recognition standard. See section, "Effective Dates."

2. Principal versus agent (reporting gross versus net)

On March 17, 2016, the FASB issued the final standard (which was originally proposed on Aug. 31, 2015), ASU 2016-08, "Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)." Under the guidance previously issued in ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)" (as amended by ASU 2015-14), when another party, along with the entity, is involved in providing a good or service to a customer, the entity must determine if the nature of its obligation is to provide a good or service to a customer (that is, to be a principal) or is to arrange for the good or service to be provided to the customer (that is, to act as an agent).

The joint FASB-IASB Transition Resource Group for Revenue Recognition discussed the analysis, and the FASB took on a project to improve the guidance. The amendments of this ASU are intended to clarify items such as:

- "An entity determines whether it is a principal or an agent for each specified good or service promised to a customer.
- "An entity determines the nature of each specified good or service (for example, whether it is a good, a service, or a right to a good or service).

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

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

The effective date for this ASU is consistent with the revenue recognition standard. See section, “Effective Dates.”

3. Narrow-scope improvements and practical expedients

On May 9, 2016, the FASB issued the final standard (which was previously proposed on Sept. 30, 2015), ASU 2016-12, “Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,” to address implementation issues related to the collectibility criterion in ASU 2014-09, an accounting policy election for the presentation of sales taxes, noncash consideration, contract modifications at transition, and completed contracts at transition.

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

The effective date for this ASU is consistent with the revenue recognition standard. See section, “Effective Dates.”

4. Technical corrections and improvements

On May 18, 2016, the FASB issued a proposed ASU, "Technical Corrections and Improvements to Update 2014-09, Revenue From Contracts With Customers (Topic 606)," to address narrow aspects of ASU 2014-09. A total of nine issues are addressed by the proposal; these include issues related to measuring impairment of capitalized costs for revenue contracts, and a practical expedient for disclosing the remaining performance obligations for variable consideration.

Comments were due July 2, 2016.

5. Additional corrections

On Sept. 19, 2016, the FASB issued another proposal related to revenue recognition, "Technical Corrections and Improvements to Update No. 2014-09, Revenue From Contracts With Customers (Topic 606) – Additional Corrections," that addresses four additional issues brought to the board's attention – about guarantee fees, two illustrative examples, and advertising costs. The issue related to guarantee fees proposes to clarify that guarantee fees in the scope of Topic 460 (other than product or service warranties) are not in the scope of Topic 606, which was discussed by the TRG when considering scoping for financial institutions.

Comments were due Oct. 4, 2016.

Effective Dates

For this standard, the FASB uses the term "public entity," which it defines as:

"1. A public business entity

"2. A not-for-profit entity that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over-the-counter market

"3. An employee benefit plan that files or furnishes financial statements to the SEC."

Because items 2 and 3 do not apply to financial institutions, we will simply refer to "PBEs."

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

- For PBEs, the standard is effective for annual reporting periods beginning after Dec. 15, 2017, including interim reporting periods in those annual reporting periods. Earlier application is permitted only as of annual reporting periods beginning after Dec. 15, 2016, including interim reporting periods in those annual reporting periods.
- For non-PBEs, the standard is effective for annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods in annual reporting periods beginning after Dec. 15, 2019. Early application is permitted in either of these situations:
  - An annual reporting period beginning after Dec. 15, 2016, including interim reporting periods in that reporting period
  - An annual reporting period beginning after Dec. 15, 2016, and interim reporting periods in annual reporting periods beginning one year after the annual reporting period in which an entity first applies the guidance

Transition

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

1. Full retrospective application to each prior reporting period presented, and an election of any of the following practical expedients:
   - Completed contracts that begin and end within the same annual reporting period do not need to be restated.
   - When variable consideration is included in completed contracts, the transaction price at the contract completion date may be used to record revenue rather than estimating variable consideration amounts in the comparative reporting periods.
   - In reporting periods prior to the date of initial application, disclosure may be omitted for both the amount of the transaction price allocated to remaining performance obligations and for an explanation of when the entity expects to recognize that remaining revenue.

2. Modified retrospective application with a cumulative effect adjustment to the opening retained earnings balance in the year of adoption. Under this method, an entity must disclose the following in the interim and annual reporting periods that include the initial application:
   - The quantitative impact in the current reporting period, by financial statement line item, of the application of the new revenue recognition standard as compared to prior GAAP
   - An explanation of the reasons for significant changes

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

Over the decades, the FASB often has divided entities into the categories of "public" and "private." That dividing line was used to draw a distinction for purposes of scope, disclosure, and effective dates, and varying definitions of "public" and "private" have been created along the way.

As a result, the FASB Accounting Standards Codification includes several definitions of "nonpublic" and "public." For "public," among the definitions are several variations of both "public entity" and "publicly traded company." All of the definitions include, with slight variations, those entities whose stock trades in a public market, including those traded on a stock exchange or in the over-the-counter (OTC) market (including securities quoted only locally or regionally). For financial institutions, interpreting the phrase "quoted only locally or regionally" had been challenging.

In early 2012, the FASB added to its agenda a project to re-examine the definition of "public." The decision was based on requests to clarify the existing definitions and address questions about which definition of "nonpublic entity" was being used in various projects. There was also a similar need for clarity about the definition of a nonpublic entity with respect to guidance issued by the Private Company Council (PCC).

On Dec. 23, 2013, the FASB issued ASU 2013-12, "Definition of a Public Business Entity – An Addition to the Master Glossary," to provide a single definition of a "public business entity" to be used in future financial accounting and reporting guidance. The definition the new standard provides does not affect existing requirements, but it applies to all standards issued after ASU 2013-12.

At essentially one paragraph long, it is one of the shortest standards ever issued, but its impact has been significant for those now deemed to be public for financial reporting purposes. Because of this revised definition, many more financial institutions are considered public business entities than, perhaps, were considered public under previous guidance.

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

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

"A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

"a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

"b. It is required by the *Securities Exchange Act of 1934* (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

"c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

"d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

"e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

"An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC."

Criterion (d) includes any issued securities that trade on an exchange or OTC market – which includes debt or equity securities. At the 2015 AICPA National Conference on Banks & Savings Institutions, one of the federal financial institution chief accountants shared the agencies' understanding that the FASB intends an OTC market to be defined broadly. The use of a broker to effect trades of securities generally means that the securities trade on an OTC market and therefore an entity whose securities are traded through a broker would meet criterion (d) and be deemed a PBE. At the 2016 AICPA National Conference on Banks & Savings Institutions, one of the federal financial institution chief accountants provided an update on this matter – that is, brokered deposits may fall in the scope of this criterion because those deposits require the use of a broker to effect trades.

The FASB introduced a new criterion, (e), to include certain entities that are under regulatory and legal requirements to prepare U.S. GAAP financial statements and make them publicly available – which is a requirement for those banks subject to the *Federal Deposit Insurance Corporation Improvement Act of 1991* (FDICIA). Unless the entity is a mutual institution or has a contractual restriction on the transfer of its stock (as is commonly the case for S-corporation banks), most institutions subject to the FDICIA are considered public for financial reporting purposes.

The agencies initially addressed the FASB's definition of a PBE in the September 2014 supplemental call report instructions and, subsequently, in the September 2015 instructions. In March 2016, the agencies added "public business entity" to the call report's glossary. The glossary includes a discussion of why institutions with more than $500 million in assets might be considered public for financial reporting purposes. The agencies noted that, regardless of the level (that is, the bank level or holding company level) at which FDICIA financial statements are made available, the second condition of criterion (e) would be met.

Given that credit unions are mutually owned (that is, members' equity does not include ownership issued in the form of securities), the definition excludes credit unions. For the same reason, most mutual thrifts also are excluded. An exception is a mutual (including mutual thrifts and credit unions) that has issued debt that is traded, listed, or quoted on an exchange or OTC market.

Implications for Those Deemed "Public" for Financial Reporting Purposes

The implications of being public for financial reporting purposes stand to be significant. Following are the main differences between being public and nonpublic:

- **Recognition and measurement.** An entity deemed a PBE would be unable to elect any guidance issued by the PCC.
- **Effective dates.** For many standards issued by the FASB, the effective dates are earlier for PBEs. An entity deemed to be a PBE will follow earlier effective dates.
- **Disclosures.** For some standards, more disclosures are required for public entities. An entity deemed a PBE would be subject to more disclosures for those standards that do have differences.

Because the determination of PBE or non-PBE drives the effective dates, disclosures, and perhaps recognition and measurement – and drives the use of the PCC alternatives as well – we encourage each financial institution to evaluate carefully whether it is considered "public" for financial reporting purposes.

From the FASB: Other Final Standards

Derivatives

Derivative Novations

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

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

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

Effective Dates

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

Transition

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

Contingent Puts and Calls on Debt Instruments

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

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

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

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

Effective Dates

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

Transition

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

Compensation and Benefits

Employee Share-Based Payment Accounting

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

- Income taxes for vesting or settlement of awards:
    - All excess tax benefits and tax deficiencies will be consistently recognized in the income statement as income tax expense or benefit. Under existing GAAP, excess tax benefits are recognized in additional paid-in capital (APIC), and tax deficiencies are recognized either as an offset to accumulated excess tax benefits or in the income statement.
    - The tax benefit no longer has to be realized in the current period in order to recognize the excess tax benefit.
    - The tax effects of exercised or vested awards should be treated as discrete items in the period that they occur.
- Forfeitures: An accounting policy election can be made to either estimate forfeitures or account for forfeitures when they occur. If the latter is elected, the entity must disclose information about unvested awards rather than awards expected to vest. This is a change from existing GAAP, which currently requires an estimate of expected forfeitures to accrue compensation based on awards that are expected to vest.
- Minimum statutory withholding requirements: The existing requirement, for equity classification, that an entity cannot partially settle the award in cash in excess of the employer's minimum statutory withholding requirements for an equity-classified award is revised. The threshold for equity classification is raised by permitting withholding up to the maximum individual statutory rate in the applicable jurisdiction.

- Cash flow statement presentation:
  - Excess tax benefits will be presented in operating activities, which is a change from existing GAAP that requires classification in financing activities.
  - Employee taxes paid will be presented in financing activities when an employer withholds shares to meet minimum statutory tax withholding requirements. This may be a change for some entities given that existing GAAP contained no guidance.
- Private company practical expedients (applies to "nonpublic entities" as defined in ASC Topic 718, which are generally entities whose equity securities do not trade in a public market):
  - Expected term:
    - Permitted to estimate the expected term for awards, for which vesting depends on a service condition only, as the midpoint between the requisite service period and the contractual term of the award.
    - Permitted to estimate the expected term for awards, for which vesting depends on a performance condition only, by first determining whether the performance condition is probable of being achieved:
      - If it is probable of being achieved, then the entity shall estimate the expected term as the midpoint between the requisite service period and the contractual term.
      - If it is not probable of being achieved, the entity shall estimate the expected term as 1) the contractual term if the service period is implied or 2) the midpoint between the requisite service period and the contractual term if the service period is explicitly stated.
  - Intrinsic value:
    - Permitted to make a one-time election to switch from measuring liability-classified awards at fair value to measuring those awards at intrinsic value. Under existing GAAP, nonpublic entities were given an option to measure all liability-classified awards at intrinsic value upon initial adoption of ASC 718.
- Eliminates the guidance in ASC Topic 718, "Compensation – Stock Compensation," that currently is deferred indefinitely.

<u>Effective Date</u>

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

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

Early adoption is permitted in an interim or annual period.

Transition

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

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

Presentation and Disclosure

Cash Flow Statement Classification Issues

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

The ASU provides guidance on how to classify cash flows:

- **Debt prepayment or debt extinguishment costs.** Cash payments for debt prepayment or extinguishment costs should be classified as cash outflows for financing activities.
- **Settlement of zero-coupon bonds or debt with coupon interest rates that are insignificant in relation to the effective interest rate.** At settlement, the portion of the cash payment attributable to the accreted interest should be classified as a cash outflow for operating activities, and the portion of the cash payment attributable to the principal (original proceeds) should be classified as a cash outflow for financing activities. The scope of debt instruments for this sub-issue was further clarified to include instruments with coupon interest rates that are insignificant relative to the effective interest rate, including those without a stated coupon rate (for example, commercial paper). See BC9 of ASU 2016-15.

- **Contingent consideration payments made after a business combination.** Cash payments not made soon after a business combination, by an acquirer, for the settlement of a contingent consideration liability should be separated and classified as cash outflows for financing activities (for payments up to fair value, which is the amount of the contingent consideration liability and measurement period adjustments) and operating activities (for any excess over fair value). Payments made soon after the acquisition date to settle contingent consideration should be classified in investing activities. "Soon after" is intended to be a relatively short period of time and not specified in the standard; however, in the Basis for Conclusions, it is noted that some task force members believed that an example of a relatively short period of time would be three months or less. See BC16 of ASU 2016-15.
- **Proceeds from the settlement of insurance claims.** Classification of the proceeds received from insurance claims settlements excluding bank-owned and corporate-owned life insurance (BOLI and COLI) should be based on the nature of the insured loss, including those proceeds that are received in a lump-sum settlement for which reasonable judgment is required to determine the classification based on the nature of each insured loss in the settlement.
- **Proceeds from the settlement of BOLI and COLI policies:**
  - **Classification of proceeds received from the settlement of BOLI policies.** Cash proceeds received from the settlement of BOLI policies should be classified as cash inflows from investing activities.
  - **Aligning the classification of premiums and proceeds for BOLI policies.** Premiums paid and proceeds received related to BOLI policies will be permitted but not required to be classified in the same cash flow category. Specifically, the classification of premiums paid may be classified in operating, investing, or a combination of those two classes.
- **Distributions received from equity method investees.** This issue may affect parent company-only financial statements for bank holding companies filed with the SEC pursuant to Rule 9-06 of Regulation S-X if companies are not already consistently using one of the two approaches allowed under the standard for all subsidiaries to the holding company.

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

  The proposal would have required the cumulative earnings approach alone, but subsequent to the proposal, the EITF decided, and the board agreed, that another approach, the distribution approach, also would be acceptable. Companies must elect and disclose their accounting policy to apply either approach to equity method investments consistently.
  - **Cumulative earnings approach.** In general, distributions received from an equity-method investee should be classified as cash flows from operating activities (therefore, reflected as returns on investment). If cumulative distributions less prior period distributions do not exceed cumulative equity in earnings, the distributions are considered to be returns on investment (a dividend) and classified as an operating cash flow. If cumulative distributions less prior period distributions exceed cumulative equity in earnings, the current period distribution should be classified as a return of investment, an investing cash flow.

  - **Distribution approach** (also referred to as the look-through approach during deliberations). Under this approach, companies will determine whether distributions are returns on investment classified as operating activities or returns of investment classified as investing activities based on individual facts and circumstances.

    If the company elects the distribution approach as its policy but lacks sufficient information to classify a specific distribution, it must 1) report a change in accounting principle on a retrospective basis and 2) apply the cumulative earnings method to that specific investee in all subsequent periods. The cash flows for the remainder of the company's investees will continue to be classified using the distribution approach.
- **Beneficial interests in securitization transactions:**
  - **Presentation of beneficial interests at inception of securitization.** Disclose the transferor's beneficial interest obtained in a securitization of financial assets as a noncash activity.
  - **Classification of cash receipts from beneficial interests in trade receivables.** Cash receipts from payments on a transferor's beneficial interests in securitized trade receivables should be classified as cash inflows from investing activities.
- **Predominant cash receipts and cash payments.** When cash receipts and payments have aspects of more than one class of cash flows, current GAAP provides an example of using the activity that is likely to be the predominant source of cash flow for determining the cash flow classification. This generally is referred to as the predominance principle and is applied inconsistently in current practice.

  The new guidance clarifies when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows, and when an entity should classify the aggregate of those cash receipts and payments into a single class of cash flows based on predominance.

  Under the new guidance, if there is no specific literature contained in ASC 230 or in other GAAP, an entity should:

  - First, determine each separately identifiable source (for cash inflows) or use (for cash outflows) on the basis of the underlying cash flows' nature.
  - Then, classify, in financing, investing, or operating activities, each separately identifiable source or use on the basis of the cash flows' nature.
  - In situations in which cash flows have aspects of more than one class and those aspects cannot be separately identified by source or use, the classification should depend on the activity that is likely to be the predominant source or use of cash flows for the item.

Effective Dates

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

For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods in fiscal years beginning after Dec. 15, 2019.

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

Transition

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

Cash Flow Statement Classification of Restricted Cash

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

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

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

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

Effective Dates

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

For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods in fiscal years beginning after Dec. 15, 2019, which will be Dec. 31, 2020, for calendar year-end entities.

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

Transition

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

Going Concern

On Aug. 27, 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern." The guidance defines management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures in the notes to the financial statements. Under existing U.S. auditing standards and federal securities laws, auditors are responsible for performing this evaluation. Until the issuance of ASU 2014-15, there was no guidance in GAAP about management's responsibilities in this regard.

Guidance in ASU 2014-15 provides principles and definitions that are intended to assist management in determining when and how the financial statements should disclose conditions and events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are issued or, for nonpublic entities, are available to be issued.

Effective Date

The amendments in ASU 2014-15 are effective for annual periods ending after Dec. 15, 2016, and for interim and annual periods thereafter. For calendar year-end entities, they first apply to the Dec. 31, 2016, annual financial statements. Early application is permitted.

The FASB also published a "FASB in Focus" article recapping the ASU.

Presentation of Debt Issuance Costs

As part of its simplification initiative, the FASB issued ASU 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," on April 7, 2015. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as a deferred charge (an asset). This change is consistent with the treatments for debt discounts and premiums. The amendments generally do not change the recognition and measurement guidance for debt issuance costs.

ASU 2015-03 did not address debt issuance costs for line-of-credit arrangements. During an EITF meeting, the SEC staff observed that it would not object if an entity defers debt issuance costs (that is, presents the costs as an asset that is amortized ratably over the term of the line-of-credit arrangement) regardless of whether it has any outstanding borrowings on the line of credit. To codify the SEC view, the FASB issued ASU 2015-15, "Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated With Line-of-Credit Arrangements – Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting," on Aug. 18, 2015.

Effective Dates

For PBEs, the amendments are effective for financial statements issued for fiscal years beginning after Dec. 15, 2015, and interim periods in those fiscal years, which first applied to March 31, 2016, interim financial statements for calendar year-end PBEs. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after Dec. 15, 2015, and interim periods in fiscal years beginning after Dec. 15, 2016. Early adoption is permitted for financial statements that have not been issued previously.

Transition

The amendments are to be applied on a retrospective basis, with the period-specific effects of applying the new guidance reflected on the balance sheet of each period presented.

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

On May 1, 2015, the FASB issued ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which applies to entities that elect to measure the fair value of an investment using the NAV per share (or its equivalent) practical expedient.

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

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

As such, this ASU removes the following requirements:

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

Effective Dates

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

Transition

A reporting entity should apply the amendments retrospectively.

Business Combinations

Measurement Period Adjustments in a Business Combination

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

Under existing GAAP, when an acquirer obtains new information about facts and circumstances that existed on the acquisition date and the acquirer determines that, if known, that information would have affected the measurement of the amounts initially recognized or resulted in the recognition of an asset or liability, the acquirer retrospectively adjusts the amounts recognized at the acquisition date to reflect those facts and circumstances. A change to the amount is offset with a corresponding adjustment to goodwill. The acquirer then revises comparative information for prior periods presented in financial statements as needed. This includes making any changes to depreciation, amortization, or other income effects that were recognized under the initial accounting to reflect the effect of the new information. The measurement period ends once the acquirer is able to determine that it has obtained all necessary information that existed as of the acquisition date or once the acquirer has determined that such information is unavailable, but in no event should it exceed one year.

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

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

Effective Dates

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

Transition

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

Transfers and Consolidations

Consolidated Collateralized Financing Entities

The FASB issued ASU 2014-13, "Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity," on Aug. 5, 2014, to address measurement for consolidated collateralized financing entities (CFEs) – such as collateralized debt obligation (CDO) or collateralized loan obligation (CLO) entities – for reporting entities that account for the financial assets and financial liabilities of the CFE at fair value. The fair value, as determined under GAAP, of a CFE's financial assets might differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. Diversity in practice had developed in the accounting for the measurement difference in both the initial consolidation and the subsequent measurement.

The ASU provides an election to measure the financial assets and liabilities of a consolidated CFE using either the measurement alternative in the ASU or ASC Topic 820, "Fair Value Measurement." Under the ASU's measurement alternative, the reporting entity measures both the financial assets and financial liabilities of the CFE in its consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. The ASU provides measurement guidance that depends on which one is more observable.

When the measurement alternative is not elected, 1) the fair value of the financial assets and the fair value of financial liabilities should be measured using the requirements of ASC 820, and 2) any differences in those fair values should be reflected in earnings and attributed to the reporting entity in the consolidated income statement.

Effective Dates

The amendments are effective for PBEs for annual periods beginning after Dec. 15, 2015, and interim periods in those annual periods, which first applied to March 31, 2016, interim financial statements for calendar year-end PBEs. For entities other than PBEs, the amendments are effective for annual periods ending after Dec. 15, 2016, and interim periods beginning after Dec. 15, 2016. Early adoption is permitted.

Transition

There are optional approaches to transition:

- Modified retrospective approach – Record a cumulative-effect adjustment to equity as of the beginning of the annual period.
- Retrospective approach – Apply to all periods beginning with the annual period in which the amendments in ASU 2009-17, "Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved With Variable Interest Entities," were initially adopted.

The EITF acknowledged some entities might not have elected the fair value option upon initial consolidation of a CFE and therefore do not meet the scope of the ASU. For those situations, the EITF decided to allow a one-time election to use the measurement alternative but not permit any changes to the basis of measurement of the CFE's assets and liabilities, such as electing the fair value option.

Consolidation of Legal Entities

In order to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (for example, CDOs, CLOs, and mortgage-backed security (MBS) transactions), the FASB issued ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," on Feb. 18, 2015. The ASU focuses on the evaluation for determining whether certain legal entities should be consolidated. Current GAAP requires a qualitative evaluation of power over, and economics from, a variable-interest entity (VIE) to determine whether it should be consolidated. For some, the outcome has been consolidation of a VIE that resulted in less useful information about the financial position and operating results of the reporting entity.

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

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

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

Effective Dates

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

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

Transition

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

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

Other

Breakage for Certain Prepaid Cards

On March 10, 2016, the FASB issued ASU 2016-04, "Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products." The amendments of this ASU narrowly address breakage (that is, the monetary amount of the card that ultimately is not redeemed by the cardholder) for prepaid stored-value products that are redeemable for monetary values of goods or services but also may be redeemable for cash.

The scope of this guidance does not include the following:

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

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

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

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

Effective Dates

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

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

Early application is permitted.

Transition

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

Equity Method Accounting Simplification – Retroactive Accounting

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

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

Effective Dates

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

Transition

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

Internal-Use Software Obtained by Customers in Cloud Computing Arrangements

The FASB issued ASU 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," to provide guidance to customers on whether a cloud computing arrangement (that is, a type of hosting arrangement) includes a software license. Prior to this, no explicit guidance was available to customers on software licenses contained in such arrangements. Thus, it was common practice to capitalize and amortize hosted software arrangement costs by analogizing to operating lease guidance (ASC 350-40-25-16) to determine whether such arrangements included a software license asset.

This standard addresses whether a software license is purchased by the customer in a hosting arrangement. Hosting arrangements include cloud computing arrangements such as software as a service, platforms as a service, and infrastructure as a service, among others. Hosting arrangements are fairly common and are defined in the standard as "in connection with the licensing of software products, an arrangement in which an end user of software does not take possession of the software; rather, the software application resides on the vendor's or a third party's hardware, and the customer accesses and uses the software on an as-needed basis over the internet or via a dedicated line."

If a hosting arrangement includes a software license for internal use, the customer should account for the software license element of the arrangement as it would for the acquisition of an intangible asset, by capitalizing the software license. The criteria for recognizing the software license as an intangible asset in accordance with the new guidance include 1) a contractual right to take possession of the software at any time without significant cost or reduction in usefulness or value and 2) the ability to run the software on the customer's own hardware or to contract with a separate vendor to host the software. Such an arrangement also is considered a multiple-element arrangement to purchase both a software license and a service for hosting the software; therefore, costs should be allocated to the license and hosting service based on the relative fair value of each element.

If a hosting arrangement does not include a software license that meets the two criteria contained in the new guidance, the arrangement should be accounted for as a service contract, and costs would be recognized as an operating expense.

Some commenters asked the board to provide additional guidance on the accounting for upfront costs incurred by customers entering into cloud computing arrangements. Examples of these activities could include training, creating or installing an interface, reconfiguring existing systems, and capturing and reformatting data. The board noted that to the extent the arrangement results in recognition of a software license, ASC 350-40 contains guidance on how to account for such costs. For arrangements that do not transfer a software license to a customer, the board decided not to expand the scope to address those costs, observing that initial costs incurred in service arrangements are not unique to cloud computing arrangements.

As a result of the new standard, some entities may need to change their accounting for these contracts and will need to evaluate such contracts using the previously noted criteria for recognizing the software license as an intangible asset. If a software license does not exist, the entity may qualify to defer certain items as a prepaid expense; however, the timing of expense recognition may be different from recognition under previous GAAP.

Effective Dates

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

For all other entities, the amendments are effective for annual periods beginning after Dec. 15, 2015, and interim periods in annual periods beginning after Dec. 15, 2016. For calendar year-end non-PBEs, they first apply in the Dec. 31, 2016, annual financial statements.

Early adoption is permitted.

Transition

Entities can elect to adopt the amendments either retrospectively or prospectively to all arrangements entered into or materially modified after the effective date. Retrospective transition would require re-evaluation of existing hosted arrangements to determine if they qualify for capitalization under the new criteria. Prospective transition would allow companies to apply the new criteria only to new or materiality modified arrangements entered into after the adoption date.

Checklist of Recently Issued and Effective FASB Pronouncements

This table summarizes recently issued and effective pronouncements that Crowe believes are most relevant for financial institutions. It does not include all the caveats and intricacies that may accompany the adoption of a pronouncement, such as the ability to early adopt or transition provisions. The FASB provides a recap of effective dates of its recent pronouncements on its website.

For the majority of new standards, the FASB uses the definition of "PBE" and "non-PBE" to distinguish between effective dates; however, there are some exceptions, so we encourage paying careful attention when determining the appropriate effective date. In some cases, the FASB has chosen to use different terminology (e.g., "public entity"). Because the majority of the standards use "PBE" and "non-PBE," we have organized the following table using those terms but have identified the difference in the individual PBE column on the applicable pronouncements.

Accounting Standard	Public Business Entities	Nonpublic Entities
Financial Instruments		
ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"	For SEC filers, the ASU is effective for fiscal years beginning after Dec. 15, 2019, including interim periods in those fiscal years. For calendar year-end SEC filers, it is effective for March 31, 2020, interim financial statements. For PBEs that are not SEC filers, the ASU is effective for fiscal years beginning after Dec. 15, 2020, including interim periods within those fiscal years. For calendar year-end PBEs that are not SEC filers, it is effective for March 31, 2021, interim financial statements. For all entities, early adoption is allowed in fiscal years beginning after Dec. 15, 2018, including interim periods in those fiscal years, which means that calendar year-end entities may adopt as early as the March 31, 2019, interim financial statements.	For all other entities, the ASU is effective for fiscal years beginning after Dec. 15, 2020, and interim periods within the fiscal years beginning after Dec. 15, 2021. For calendar year-end entities that are not PBEs, it is effective for Dec. 31, 2021, annual financial statements. For all entities, early adoption is allowed in fiscal years beginning after Dec. 15, 2018, including interim periods in those fiscal years, which means that calendar year-end entities may adopt as early as the March 31, 2019, interim financial statements.

Accounting Standard	Public Business Entities	Nonpublic Entities
ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities"	For PBEs, the standard will be effective in fiscal years beginning after Dec. 15, 2017, including interim periods in those fiscal years, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs. For one item, early adoption by a PBE is permitted immediately as of the beginning of the fiscal year for interim or annual financial statements that have not yet been issued: • Fair value change resulting from own credit risk for financial liabilities measured under the fair value option recognized through OCI	For non-PBEs, the standard will be effective for fiscal years beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019. Non-PBEs may early adopt the standard using the PBE effective dates. For two items, early adoption is permitted immediately as of the beginning of the fiscal year for interim or annual financial statements that have not yet been made available for issuance: • Fair value change resulting from own credit risk for financial liabilities measured under the fair value option recognized through OCI • The elimination of fair value disclosure requirements for financial instruments not recognized at fair value by entities that are not PBEs
Leases		
ASU 2016-02, "Leases (Topic 842)"	PBEs and certain not-for-profit entities and employee benefit plans – effective for interim and annual periods beginning after Dec. 15, 2018, which applies to March 31, 2019, interim financial statements for calendar year-end entities. Early adoption is permitted.	All other entities – effective for fiscal years beginning after Dec. 15, 2019, and interim periods within the fiscal years beginning after Dec. 15, 2020, which applies to Dec. 31, 2020, annual financial statements for calendar year-end entities. Early adoption is permitted.

Accounting Standard	Public Business Entities	Nonpublic Entities
Revenue Recognition		
ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)"	See deferral of effective dates by ASU 2015-14 discussed next.	See deferral of effective dates by ASU 2015-14 discussed next.
ASU 2015-14, "Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date"	The amendments in this ASU defer the effective date of ASU 2014-09 for all entities by one year. PBEs, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after Dec. 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after Dec. 15, 2016, including interim reporting periods within that reporting period.	All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2019. Early application is permitted in either of these cases: • An annual reporting period beginning after Dec. 15, 2016, including interim reporting periods in that reporting period • An annual reporting period beginning after Dec. 15, 2016, and interim reporting periods in annual reporting periods beginning one year after the annual reporting period in which an entity first applies the guidance
ASU 2016-08, "Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)"	Same as the effective date for ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)," which was deferred by ASU 2015-14.	Same as the effective date for ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)," which was deferred by ASU 2015-14.

Accounting Standard	Public Business Entities	Nonpublic Entities
ASU 2016-10, "Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing"	Same as the effective date for ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)," which was deferred by ASU 2015-14.	Same as the effective date for ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)," which was deferred by ASU 2015-14.
ASU 2016-12, "Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients"	Same as the effective date for ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)," which was deferred by ASU 2015-14.	Same as the effective date for ASU 2014-09, "Revenue From Contracts With Customers (Topic 606)," which was deferred by ASU 2015-14.
Business Combinations		
ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments"	Effective for PBEs for fiscal years beginning after Dec. 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date. Earlier application is permitted for financial statements that have not been issued.	Effective for entities other than PBEs for fiscal years beginning after Dec. 15, 2016, and interim periods within fiscal years beginning after Dec. 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date. Earlier application is permitted for financial statements that have not yet been made available for issuance.

Accounting Standard	Public Business Entities	Nonpublic Entities
Transfers and Consolidations		
ASU 2014-13, "Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (a Consensus of the FASB Emerging Issues Task Force)"	For PBEs, the new standards are effective for annual periods, and interim reporting periods within those annual periods, beginning after Dec. 15, 2015. Early adoption is permitted as of the beginning of an annual period.	For all other entities, the new standards are effective in the first annual period ending after Dec. 15, 2016, and interim periods beginning after Dec. 15, 2016. Early adoption is permitted as of the beginning of an annual period.
ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis"	Effective for PBEs for fiscal years, and for interim periods within those fiscal years, beginning after Dec. 15, 2015. Early adoption is permitted, including adoption in an interim period.	For all other entities, the amendments in this ASU are effective for fiscal years beginning after Dec. 15, 2016, and for interim periods within fiscal years beginning after Dec. 15, 2017. Early adoption is permitted, including adoption in an interim period.
Presentation and Disclosure		
ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments"	For PBEs, the amendments are effective for fiscal years beginning after Dec. 15, 2017, and interim periods in those fiscal years, which first applies to March 31, 2018, interim financial statements for calendar year-end PBEs. Early adoption is permitted.	For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods in fiscal years beginning after Dec. 15, 2019. Early adoption is permitted.
ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a Consensus of the FASB Emerging Issues Task Force)"	For PBEs, effective in fiscal years beginning after Dec. 15, 2017, and interim periods in those fiscal years. Early adoption is permitted.	For all other entities, effective in fiscal years beginning after Dec. 15, 2018, and interim periods in fiscal years beginning after Dec. 15, 2019. Early adoption is permitted.

Accounting Standard	Public Business Entities	Nonpublic Entities
ASU 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern"	All entities are required to apply the new requirements in annual periods ending after Dec. 15, 2016, and interim periods thereafter. Early application is permitted.	All entities are required to apply the new requirements in annual periods ending after Dec. 15, 2016, and interim periods thereafter. Early application is permitted.
ASU 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs"	For PBEs, the amendments in this ASU are effective for financial statements issued for fiscal years beginning after Dec. 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued.	For all other entities, the amendments in this ASU are effective for financial statements issued for fiscal years beginning after Dec. 15, 2015, and interim periods within fiscal years beginning after Dec. 15, 2016. Early adoption is permitted for financial statements that have not been previously issued.
ASU 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a Consensus of the FASB Emerging Issues Task Force)"	Effective for PBEs for fiscal years beginning after Dec. 15, 2015, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the NAV per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted.	For all other entities, the amendments in this update are effective for fiscal years beginning after Dec. 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the NAV per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted.

Accounting Standard	Public Business Entities	Nonpublic Entities
Derivatives		
ASU 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships"	For PBEs, effective for financial statements issued for fiscal years beginning after Dec. 15, 2016, and interim periods within those years, which applies to March 31, 2017, interim financial statements for calendar year-end entities. Early adoption is permitted.	For Non-PBEs, effective for financial statements issued for fiscal years beginning after Dec. 15, 2017, and interim periods within fiscal years beginning after Dec. 15, 2018, which applies to Dec. 31, 2018, annual financial statements for calendar year-end entities. Early adoption is permitted.
ASU 2016-06, "Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments"	Effective for PBEs for fiscal years beginning after Dec. 15, 2016, and interim periods within those fiscal years, which applies to March 31, 2017, interim financial statements for calendar year-end entities. Early adoption is permitted.	All other entities must apply the new requirements for fiscal years beginning after Dec. 15, 2017, and interim periods within fiscal years beginning after Dec. 15, 2018, which applies to Dec. 31, 2018, annual financial statements for calendar year-end entities. Early adoption is permitted.
Compensation and Benefits		
ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting"	For PBEs, the ASU is effective in interim and annual periods beginning after Dec. 15, 2016, which first applies to March 31, 2017, interim financial statements for calendar year-end PBEs. Early adoption is permitted.	For all other entities, the update will be effective for annual periods beginning after Dec. 15, 2017, and interim periods beginning after Dec. 15, 2018, which first applies to Dec. 31, 2018, annual financial statements for calendar year-end entities. Early adoption is permitted.
PCC Standards		
ASU 2016-03, "Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance (a Consensus of the Private Company Council)"	Not applicable.	Removes effective dates for all PCC alternatives.

Accounting Standard	Public Business Entities	Nonpublic Entities
Other		
ASU 2016-04, "Liabilities – Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products"	For PBEs, certain not-for-profit entities, and certain employee benefit plans – effective for fiscal years beginning after Dec. 15, 2017, and interim periods within those fiscal years, which applies to March 31, 2018, interim financial statements for calendar year-end entities. Early application is permitted.	For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019, which applies to Dec. 31, 2019, annual financial statements for calendar year-end entities. Early application is permitted.
ASU 2016-07, "Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting"	The ASU is effective for all entities for both interim periods and fiscal years beginning after Dec. 15, 2016, with early adoption permitted. Calendar year-end entities will adopt the standard in the March 31, 2017, interim financial statements.	The ASU is effective for all entities for both interim periods and fiscal years beginning after Dec. 15, 2016, with early adoption permitted. Calendar year-end entities will adopt the standard in the March 31, 2017, interim financial statements.
ASU 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement"	For PBEs, the amendments are effective for interim and annual periods beginning after Dec. 15, 2015. For calendar year-end PBEs, they are effective for March 31, 2016, interim financial statements. Early adoption is permitted, and entities can elect to adopt the amendments either retrospectively or prospectively.	For all other entities, the amendments are effective for annual periods beginning after Dec. 15, 2015, and interim periods in annual periods beginning after Dec. 15, 2016. For calendar year-end non-PBEs, they are effective for Dec. 31, 2016, annual financial statements. Early adoption is permitted, and entities can elect to adopt the amendments either retrospectively or prospectively.

For Private Entities: The Private Company Council and Financial Institutions

For financial institutions, several factors should be considered when determining whether the PCC standards may be used. First, the PCC alternatives are not available to any entity deemed a "public business entity," as discussed earlier in this publication, and this includes an entity that is registered or registering with the SEC as an emerging growth company. Given that the PCC alternatives do create differences in U.S. GAAP, whether the agencies would accept the use of the alternatives for regulatory reporting purposes had been an open question.

In the 2014 third-quarter supplemental call report instructions, the agencies noted their conclusion that a bank or savings association that is a private company, as defined in GAAP (that is, is not a PBE, as previously discussed), is permitted to use private company accounting alternatives issued by the FASB for call report purposes, except if the agencies determine that a particular alternative is inconsistent with supervisory objectives. The agencies will provide appropriate notice if they disallow any accounting alternative under the statutory process.

The National Credit Union Administration (NCUA) now permits the use of the PCC alternatives. See the topic "NCUA's Policy on PCC Standards" in a later section, "From the Federal Financial Institution Regulators."

While no standard issued by the PCC is available to any PBE, the PCC does make further determinations on a standard-by-standard basis about whether certain industries, such as financial institutions, should be permitted to use the alternative. In fact, the PCC has determined that financial institutions may not use the alternative provided for certain interest-rate swaps.

With this background, the following are standards issued by the PCC that might be available to a financial institution.

Effective Dates for PCC Alternatives

On March 7, 2016, the FASB issued ASU 2016-03, "Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance (a Consensus of the Private Company Council)." With its issuance, the effective dates are revised for PCC alternatives that have been previously issued, including ASUs 2014-02, 2014-07, and 2014-18, which are discussed later. Specifically, a qualifying entity may elect to apply the accounting alternatives provided by the previously issued PCC standards at any point in time without performing a preferability assessment, but for any change subsequent to the initial election of such accounting alternative, preferability must be assessed under ASC Topic 250 as a change in accounting policy.

Goodwill

On Jan. 16, 2014, the FASB issued ASU 2014-02, "Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill (a Consensus of the Private Company Council)," which provides private companies an alternative under GAAP. The ASU allows a private company to amortize goodwill on a straight-line basis over a period of 10 years – less if a shorter life is deemed more appropriate. It also requires a private company to make an accounting policy decision to test goodwill for impairment at either the reporting-unit level (as existing GAAP requires) or the entity level.

Under the simplified impairment model the ASU provides, goodwill is tested for impairment when a triggering event occurs that indicates that the fair value of the reporting unit or the company may be below its carrying value. In addition, step two of the impairment test in existing GAAP is eliminated. PCC and FASB members believe the amortization of goodwill by private companies should reduce the likelihood of impairments and, when impairment testing is required, the ability to test at the company level and the elimination of step two of the existing requirements should significantly reduce the cost of the impairment test.

The FASB also added a project to its agenda to consider if the applicability of the decisions in this ASU should be extended to PBEs and not-for-profit organizations (see "Goodwill" in the section titled "In the Pipeline: Other FASB Projects of Interest to Financial Institutions").

The FASB published a "FASB in Focus" article and a short video describing the standard.

Effective Dates and Transition

The accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the period of adoption. As previously discussed, ASU 2016-03 removed the effective dates for ASU 2014-02.

Identifiable Intangible Assets in a Business Combination

The PCC received feedback from private company stakeholders indicating that the benefits of the current accounting for identifiable intangible assets acquired in a business combination do not justify the related costs. In response, the PCC developed a proposal that would permit an accounting alternative. On Dec. 23, 2014, the FASB issued final ASU 2014-18, "Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a Consensus of the Private Company Council)." The final ASU allows a private company to elect this accounting alternative and therefore, not recognize the following intangible assets separately from goodwill:

- Customer-related intangible assets (CRIs), unless they are capable of being sold or licensed independently from the other assets of a business. Although many CRIs will not be required to be separately recognized, some CRIs that may meet the criteria for separate recognition include mortgage servicing rights, commodity supply contracts, and core deposits.
- Noncompetition agreements (NCAs).

Existing CRIs and NCAs shall continue to be measured in accordance with Topic 350 and should not be subsumed into goodwill upon adoption of this guidance.

The standard applies to any entity, except for a PBE or a not-for-profit entity, that 1) is required to apply the acquisition method under ASC 805, "Business Combinations"; 2) is adopting fresh-start reporting under ASC 852 on reorganizations; or 3) is performing certain assessments when applying the equity method under ASC 323. If this alternative is elected, the PCC alternative for amortizing goodwill also must be elected.

Current disclosures continue to apply under this accounting alternative.

The FASB published a "FASB in Focus" article to recap the standard, and the board added to its agenda a separate project for PBEs and not-for-profit organizations.

Effective Dates and Transition

If elected, the accounting alternative must be applied prospectively to the first business combination after the adoption of the accounting alternative. As previously discussed, ASU 2016-03 removed the effective dates for ASU 2014-18.

Consolidation for Common Control Leasing Arrangements

Guidance the FASB issued March 20, 2014, allows private companies to elect not to consolidate lessors under existing rules for VIEs in certain common control leasing arrangements under ASU 2014-07, "Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a Consensus of the Private Company Council)." Private entities that elect the option will be required to make certain disclosures about the lessor and the leasing arrangement.

Existing GAAP requires an entity to consolidate other entities in which it has a controlling financial interest. An entity has a controlling financial interest in a VIE when it has both 1) the power to direct the activities that most significantly affect the entity's economic performance and 2) the obligation to absorb losses or the right to receive benefits of the entity that potentially could be significant to the entity. Under the ASU's amendments, a private company lessee could elect not to apply VIE guidance to a lessor if certain conditions are met.

The FASB published a "FASB in Focus" article and a short video that recap the standard.

Effective Dates and Transition

In the fiscal year in which the option is elected, it should be applied retrospectively to all presented periods for all leasing arrangements meeting the requirements of the guidance. As previously discussed, ASU 2016-03 removed the effective dates for ASU 2014-07.

From the Federal Financial Institution Regulators

New Standard on Credit Losses

Joint Statement on Credit Losses

On June 17, 2016, the four federal financial institution regulatory agencies (Federal Deposit Insurance Corp. (FDIC), Board of Governors of the Federal Reserve System (Fed), NCUA, and Office of the Comptroller of the Currency (OCC)) issued a joint statement after the FASB released ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," on June 16. As discussed earlier, this standard introduces the CECL model and replaces the incurred loss model. The most significant impact for financial institutions will be to the allowance for loan and lease losses.

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

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

Federal Reserve Article on Credit Losses

On March 4, 2016, the Fed released its first issue of "Community Banking Connections," a quarterly publication that focuses on safety and soundness issues affecting community banks. That edition included an article, "New Rules on Accounting for Credit Losses Coming Soon," related to the implementation of the new credit loss model that at the time had not yet been released by the FASB. The article includes "numerous steps that bank management can take [now] to prepare for the implementation of the CECL model."

OCC’s Bank Accounting Advisory Series

The OCC issued, on Aug. 18, 2016, its updated “Bank Accounting Advisory Series” (BAAS). Topics in the BAAS, which is presented in a Q&A format, cover a variety of common fact patterns for national banks and federal savings associations. While the BAAS does not represent official rules or regulations of the OCC, it does represent interpretations by the OCC’s Office of the Chief Accountant – interpretations of GAAP and regulatory guidance based on the facts and circumstances presented in the series.

This update includes new answers to frequently asked questions about contingencies and fair value accounting, and it includes updated questions and answers on deferred taxes, transfers of financial assets, acquisitions, and fair value accounting. Page i of the BAAS provides a reference for the revised topics and Q&As.

NCUA’s Bulletin on PCC Standards

On Sept. 13, 2016, the NCUA clarified, in Accounting Bulletin 16-1, its policy regarding all federally insured credit unions’ use of PCC standards. The NCUA will permit a credit union to use PCC standards in call reports. However, if the NCUA determines that a PCC standard (or any standard under GAAP) is inconsistent with certain supervisory objectives, it reserves the right to prescribe a regulatory accounting standard that is no less stringent than the related GAAP standard.

This position is consistent with the other federal financial institution regulators.

In the Pipeline: Major Projects on the FASB's Agenda

Financial Instruments

Hedge Accounting

On Sept. 8, 2016, the FASB issued a proposed ASU, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." This proposal is the latest step in a process that began back in 2008, to improve hedge accounting.

The FASB has proposed only targeted improvements to hedge accounting rather than a full-scale rewrite of existing GAAP. The improvements are intended to simplify hedge accounting and better align the accounting with an entity's risk management practices with the following changes:

Hedge Designation and Documentation

- Initial quantitative testing of all hedges would continue to be required, unless the hedging relationship is designated using the shortcut or critical terms match methods. However, subsequent quarterly quantitative effectiveness testing would be required only if facts and circumstances change to the extent that the entity no longer may qualitatively assert that the hedging relationship was and continues to be highly effective.
- The quantitative portion of hedge documentation would no longer be required at inception and instead could be performed as late as the end of the three-month effectiveness testing period. Note that the timing of all other hedge documentation would remain unchanged.
- Although intended as a simplification when originally included in the standards, the shortcut method becomes problematic if it is determined later that the hedge was not eligible for that method. Current literature leaves no alternative but to evaluate failed shortcut hedges, regardless of the magnitude of the underlying cause, as if the derivative never had been designated as a hedge. Under the proposal, entities will be permitted to subsequently revert to a long-haul method if 1) a long-haul method was specified in the designation documentation at inception and 2) using the method specified, the hedge would have been highly effective from the inception of the hedging relationship.

Fair Value Hedges

- To minimize ineffectiveness, the duration of the hedging derivative needs to match the duration of the hedged instrument. The proposal would permit partial-term fair value hedges and, as such, the change in fair value of the hedged item would be permitted to be calculated assuming the same duration as the derivative. That is, a 10-year fixed-rate instrument could be hedged using a two-year interest-rate swap, without the difference in duration causing ineffectiveness.
- When calculating the change in fair value of a hedged item, now there would be a choice to use either the entire coupon or the portion of the contractual cash flows related to the benchmark interest rate. Currently, when assessing effectiveness and measuring ineffectiveness, the entity must consider the entire coupon of the hedged item, which inherently includes a credit component, even when the designated risk being hedged is the benchmark interest rate. Including the entire coupon in the change in fair value analysis creates a source of ineffectiveness, and, as a result, fair value hedges would be more effective using the alternative approach.
- With a hedge of callable fixed-rate debt, an entity would need to consider a prepayment option only as it relates to the hedged risk, such as interest-rate risk. There would no longer be a need to consider other reasons the call might be exercised.

Benchmark Interest Rates

- Benchmark interest rates would be eliminated from existing GAAP for hedges of variable-rate financial instruments. Instead, any contractually specified index of a variable-rate instrument could be designated as the hedged risk. This change would be particularly useful in hedging instruments tied to prime.
- The concept of benchmark rates would remain for hedging fixed-rate financial instruments but would be expanded to include the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

Hedges of Nonfinancial Items

- Component hedging for nonfinancial items would be allowed if an entity designated a contractually specified component linked to an index or rate as the hedged item. In existing GAAP, component hedging is not allowed for nonfinancial items. For example, if an entity entered a contract to purchase brass and the contract price were specifically tied to copper prices, the entity could now designate the copper price component with a copper futures contract.

Income Statement Presentation and Disclosure

- Separately recording ineffectiveness would be removed from existing GAAP, so that users would be able to see the full impact of a reporting entity's hedging program in an income statement's single line item.
- Fair value hedges – The entire derivative gain/loss would be presented in the same income statement line item as the hedged item.
- Cash flow hedges and hedges of net investments in foreign operations – The entire derivative gain/loss included in the effectiveness assessment would be recorded in OCI and subsequently reclassified to the income statement in the same line item as the hedged item when the hedged item affects earnings. This change would eliminate the separate recording of ineffectiveness and the concept of separate accounting models for over and under hedging.
- The portion of the derivative's gain or loss that was excluded from the effectiveness assessment for both cash flow and fair value hedges would continue to be reported immediately in the same income statement line as the hedged item.
- The proposal also includes changes to footnote disclosures:
  - Additional disclosure of cumulative basis adjustments for fair value hedges would be required.
  - Due to changes in recognition of ineffectiveness, the existing tabular disclosure requirements would be revised to reflect the changes to income statement classifications.
  - Additional qualitative disclosure describing quantitative hedging goals also would be required.

Although deliberated, the FASB's proposal retains the existing concepts of "highly effective" and the "related thresholds" (80 to 125 percent). The proposal also retains the ability for an entity to voluntarily de-designate a hedging relationship.

Transition

Entities would apply the new guidance using the modified retrospective approach for existing hedging relationships, with an adjustment to opening retained earnings in the most recent period presented upon adoption.

The proposal also provides three one-time transition elections to allow entities to take advantage of the proposed accounting changes for existing hedges:

- An option to amend hedge documentation for existing hedging relationships to incorporate whether subsequent assessments of effectiveness would be performed qualitatively
- An option to amend hedge documentation for existing shortcut method hedging relationships to incorporate how quantitative assessments of effectiveness would be performed if it is determined at a later date that use of the shortcut method is no longer appropriate
- An option, for existing cash flow hedges, to designate the variability in cash flows attributable to changes in a contractually specified component (or interest rate) as the hedged risk

The comment period ended Nov. 22, 2016.

Resources

The FASB's archived webcast from Oct. 17, 2016, is available for viewing. It introduces the proposed ASU and covers the following topics:

- The purpose and scope of the hedge accounting project
- Proposed changes to the hedge accounting guidance
- Presentation and disclosure considerations
- Proposed transition guidance
- Audience question-and-answer session

In the Pipeline: Other FASB Projects of Interest to Financial Institutions

Net Periodic Pension and Postretirement Benefit Costs

A final ASU ("Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost") is expected in the new year. It will improve the presentation of defined benefit cost, given stakeholder feedback that the presentation of this cost on a net basis in the income statement and balance sheet, under existing GAAP, lacks transparency and usefulness.

At its Nov. 2, 2016, meeting, the FASB decided that rather than reporting pension expense as a net amount under existing GAAP, the standard will require an employer to present the service cost component of pension expense consistent with other compensation for the same employees, and separately present the other components (including interest, expected return on plan assets, any gain or loss on settlements or curtailments, and termination costs) of pension expense in the income statement, outside of operating income (where applicable). The income statement line item that includes the other components of pension expense should be disclosed.

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

Effective Dates

The standard is expected to be effective for PBEs, for annual reporting periods beginning after Dec. 15, 2017, including interim periods in that reporting period.

For non-PBEs, it is expected to be effective for annual reporting periods beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019.

Early adoption will be permitted.

Transition

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

A practical expedient will be provided for entities that have difficulty in disaggregating the service cost component from the other components of pension expense in the comparative prior periods presented. Those entities will be able to use the amounts disclosed in the pension note to the financial statements as the basis for applying retrospective presentation requirements.

Goodwill

A final ASU (“Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment”) is expected around year-end; it seeks to simplify the accounting for goodwill. What started as a recommendation by the PCC to permit private entities to amortize goodwill (see “Goodwill” in the section titled “For Private Entities: The Private Company Council and Financial Institutions”) has resulted in a standard to simplify goodwill impairment testing by eliminating the second step in the current impairment test.

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

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

Effective Dates

For PBEs that are SEC filers, the new standard will be effective in years beginning after Dec. 15, 2019, and for entities that are not SEC filers, it will be effective in years beginning after Dec. 15, 2020.

Early adoption will be permitted for all entities as of Jan. 1, 2017.

Transition

Prospective application will be required.

Definition of a Business

A final ASU ("Business Combinations (Topic 805): Clarifying the Definition of a Business") is expected around year-end as the FASB completes phase one of its broader project to define a business. The final standard is expected to make the following changes to GAAP:

- A screening process will be performed to reduce the quantity of transactions that need to be evaluated under the business definition framework. If substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets, the assets acquired would not be a business.
- A framework will assist in evaluating whether both an input and a substantive process are present in a set of acquired assets, in order to be accounted for as a business. A business will include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs. The standard will define outputs (in an effort to align with ASC Topic 606) as the result of inputs and processes applied to those inputs that provide goods or services to customers, other revenues, or investment income, such as dividends or interest. If a set of acquired assets does not have outputs, it must have employees that perform a substantive process to be considered a business.

Effective Dates

For PBEs, the standard will apply to annual reporting periods beginning after Dec. 15, 2017, including interim periods in those annual reporting periods.

For all other entities, it will apply to annual reporting periods beginning after Dec. 15, 2018, and interim periods in annual reporting periods beginning after Dec. 15, 2019.

Early adoption upon issuance is allowed for acquisition transactions. For disposal transactions, early adoption is permitted as follows:

- For PBEs, as of annual reporting periods beginning after Dec. 15, 2016, including interim reporting periods in that reporting period
- For all other entities, as of annual reporting periods beginning after Dec. 15, 2016, including interim reporting periods in that reporting period, or as of the annual reporting periods beginning after Dec. 15, 2016, and interim reporting periods in annual reporting periods beginning one year after the annual reporting period in which the entity first applies the amendments

Transition

Prospective application will be required.

Disclosures by Business Entities About Government Assistance

On Nov. 12, 2015, the FASB issued an exposure draft, "Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance," because there currently is no existing GAAP for government assistance received by business entities, and diversity in accounting treatment exists.

The proposed amendments would require annual disclosure of material, existing, and legally enforceable government assistance agreements, including the following:

- Nature of the government assistance
- Accounting policy for government assistance
- Amounts presented in the financial statements by line item
- Significant terms of the agreements, including duration, tax and interest rates or the effects of those rates, commitments, provisions for recapturing the assistance, and other contingencies

The proposal would have required, unless impracticable, the amount of government assistance received but not recognized; however, in re-deliberations, the board decided not to require this disclosure.

Also in re-deliberations, the board decided that entities that omit required disclosures because the information is legally prohibited from being disclosed should disclose a description of the general nature of the information omitted and the specific source of the legal prohibition.

The scope of the proposal applies to entities that have entered into a legally enforceable agreement with a government to receive value. Excluded from the scope are the following:

- Not-for-profit entities
- Transactions in which the government is legally required to provide a nondiscretionary level of assistance simply because an entity meets eligibility requirements
- Transactions in which the government is solely a customer

In re-deliberations, the board has decided to also exclude the following from the scope:

- Employee benefit plans
- Government assistance that is provided in the form of taxable income benefits or that is based on income tax liability

Examples of government assistance agreements in scope are grants, loans, and tax incentives. In re-deliberations, the board decided to provide examples of government assistance benefits in the final standard.

Comments on the exposure draft were due Feb. 10, 2016, and re-deliberation meetings were held on May 4 and June 8, 2016.

Premiums on Callable Debt Securities

Under current GAAP, premiums and discounts are amortized and accreted over contractual life, not to call date. Some observe that there are significant premiums on securities, particularly on instruments issued by municipalities that are likely to be repaid earlier than maturity. This results in overrecognition of interest income during the holding periods before the call and recognition of a loss during the period when the call occurs. In March 2015, the FASB added a project to enhance the transparency of interest income on purchased debt securities and loans.

At its Sept. 16, 2015, meeting, the board decided to expand this project to also address accounting matters by considering the amortization period for purchased debt securities. At the same meeting, the board tentatively decided that, for purchased debt securities with an explicit call option, premiums should be amortized to the first call date, but discounts on such purchased debt securities would still be amortized to the maturity date.

On Sept. 22, 2016, the board issued a proposed ASU, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities," that would shorten the amortization period for premiums on callable debt securities by requiring that premiums be amortized to the first call date instead of as an adjustment to the yield over the contractual life. This change is expected to more closely align the accounting with the economics of a callable debt security and to align the amortization period with expectations that already are included in market pricing on the callable debt securities.

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

The board previously decided to exclude any changes in disclosures for interest income associated with purchased debt securities and loans from the proposal and instead moved that disclosure topic to a pre-agenda phase for additional research to be performed.

Transition

Transition would be on a modified retrospective basis.

Comments were due Nov. 28, 2016.

Technical Corrections and Improvements

A final ASU ("Technical Corrections and Improvements") was released by the FASB on Dec. 14, 2016. It relates to the April 21, 2016, proposed ASU, "Technical Corrections and Improvements," that sought to clarify, correct errors to, and make minor improvements to the FASB ASC.

The changes will include simplifications and minor improvements to topics on insurance; troubled debt restructuring; financial instruments; property, plant, and equipment and real estate sales; fair value measurement; and transfers and servicing or sales of financial assets. In some cases, the modifications will remove certain definitions from the master glossary or revise definitions to be more consistent among topics; in other cases, the amendments will provide clarification of considerations in the analysis of applicable transactions.

It is expected that only three changes will result in a change in practice:

- A correction will include the EITF's decision that loans insured by the Federal Housing Administration (FHA) or the Veterans Benefits Administration (VA) do not have to be fully insured by those government-insured programs to recognize profit using the full accrual method.
- The fair value measurement guidance will clarify the difference between an approach and a technique when applying ASC Topic 820. Disclosure will be required when there has been a change in either a valuation approach or a valuation technique.
- ASC Subtopic 860-20, "Transfers and Servicing – Sales of Financial Assets," will be changed to align implementation guidance in ASC 860-20-55-41 with the recognition guidance in ASC 860-20-25-11. The change will clarify what should be considered in determining whether a transferor once again has effective control over transferred financial assets.

Effective Dates

For public entities, including PBEs, the ASU will be effective in annual periods beginning after Dec. 15, 2016.

For private entities, it will be effective in annual periods beginning after Dec. 15, 2017.

Transition

With one exception for the amendment related to ASU 2015-05, prospective transition will be required.

For the amendment to ASU 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," transition will follow the guidance in ASU 2015-05.

Fair Value Measurement Disclosures

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

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

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

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

Disclosure	Public	Private
The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy	Removed	Removed
The policy for timing of transfers between levels	Removed	Removed
The valuation policies and procedures for Level 3 fair value measurements	Removed	Removed
The change in unrealized gains and losses for the period included in earnings (or changes in net assets) on recurring Level 3 fair value measurements held at the end of the reporting period	Unchanged	Removed
Reconciliation of the opening balances to the closing balances of recurring Level 3 fair value measurements	Unchanged	Removed
For investments in certain entities that calculate NAV, the timing of liquidation of an investee's assets and the date when restrictions from redemption will lapse only if the investee has communicated the timing to the entity or announced the timing publicly	Clarified	Clarified
For the measurement uncertainty disclosure, information about the uncertainty in measurement as of the reporting date rather than information about sensitivity to changes in the future	Clarified	Clarified
The changes in unrealized gains and losses for the period included in OCI and earnings (or changes in net assets) for recurring Level 1, Level 2, and Level 3 fair value measurements held at the end of the reporting period, disaggregated by level of the fair value hierarchy	Added	Not added
For Level 3 fair value measurements, the range, weighted average, and time period used to develop significant unobservable inputs	Added	Not added

Effective Date

The effective date would be determined after stakeholder feedback has been considered.

Comments were due Feb. 29, 2016.

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

Income Taxes

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

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

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

Comments were due Sept. 30, 2016.

Share-Based Payment Modification Accounting

The FASB issued a proposed ASU, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting," on Nov. 17, 2016, to provide guidance for which share-based payment award changes require modification accounting. Today, some entities evaluate whether changes are substantive, some apply modification accounting for any change unless it's purely administrative, and others apply modification accounting when the change results in a change to the fair value, vesting, or classification. In addition, questions had been posed on whether changes for the adoption of ASU 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," namely changes to statutory tax withholding requirements, would require modification accounting.

For changes to the terms or conditions of a share-based payment award, the proposed amendments would provide guidance about when to apply modification accounting in Topic 718. Modification accounting would apply unless all of the following are the same immediately before and after the modification:

- The award's fair value (or calculated value or intrinsic value, if such an alternative measurement method is used)
- The award's vesting provisions
- The award's classification as an equity instrument or a liability instrument

Current disclosure requirements in Topic 718 would apply whether or not an entity is required to use modification accounting under the proposed amendments.

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

Comments are due Jan. 6, 2017.

Distinguishing Liabilities From Equity

On Dec. 7, 2016, the FASB proposed amendments to remove some complexity for financial instruments that have both equity and liability characteristics. The two-part exposure draft, "Distinguishing Liabilities From Equity (Topic 480): I. Accounting for Certain Financial Instruments With Down Round Features and 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," addresses the following two issues.

1. The first issue relates to financial instruments with down-round features (that is, features that result in the exercise price declining based on the price of future equity offerings) and would more closely align the accounting with the economics of those features. Specifically, an entity no longer would consider down-round features when determining whether a financial instrument is indexed to its own stock under the liability or equity classification analysis. Instead, the effect of the down-round feature would be recognized when triggered:
   a. For equity-classified instruments, the effect would be recognized in equity as a dividend.
   b. For liability-classified instruments, it would be recognized in earnings.

   In the period when the down-round feature is triggered, disclosure would be required, including the quantitative effect of the feature being triggered and financial statement line item where the effect is recorded.

2. In 2003, the FASB deferred the effective date 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 ASC 480-10-65-1. Some find that content in the codification difficult to read and to navigate, so the board decided to replace the indefinite deferral with a scope exception. As such, no accounting impact is expected.

Comments are due Feb. 6, 2017.

Defined Benefit Plan – Disclosures by Plan Sponsors

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

The proposal would remove the following disclosures:

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

The proposal would add the following disclosures:

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

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

Comments were due on April 25, 2016.

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

Key Abbreviations and Acronyms

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

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

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