FALL 2017 ACCOUNTING UPDATE

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FALL 2017 TECHNICAL UPDATE

- Disclaimer – Not all new literature is being covered!
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WHAT WE WILL COVER TODAY

- FASB Standards Update (ASUs)
- What's on the Horizon:
  - Final guidance expected soon
  - FASB exposure documents
- PCAOB Standards, SEC Final Rules, and Rule Proposals
- Reminder: What's Effective for 2017

FALL 2017 TECHNICAL UPDATE

ASU 2017-01 – Business Combinations (Topic 805): Clarifying the Definition of a Business

- Effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those years. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted.
- Provides guidance to assist entities with evaluating when a set of transferred assets and activities is a business.
- Under the new guidance, an entity first determines whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set is <u>not</u> a business. If it's not met, the entity then evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

FALL 2017 TECHNICAL UPDATE
(cont.)

ASU 2017-02 – Not-for-Profit Entities – Consolidation (Topic 958-810): Clarifying When a Not-for-Profit Entity That is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity

- Effective dates are the same as those of the applicable standards.
- Retains the presumption that a not-for-profit (NFP) entity that is a general partner of a for-profit limited partnership or similar entity controls the limited partnership, unless that presumption can be overcome. Entities will adopt the reinstated guidance when they adopt ASU 2015-02. Transition guidance is provided for entities that have already adopted ASU 2015-02.
- Clarifies that the consequential amendments in the new guidance on classifying and measuring financial instruments in ASU 2016-01 were not intended to affect the ability of NFPs with investments in certain for-profit entities to elect to measure those investments at fair value. These amendments will be effective upon adoption of ASU 2016-01, which is effective for NFPs in annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019.

FALL 2017 TECHNICAL UPDATE
(cont.)

ASU 2017-03 – Accounting Changes and Error Correction (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meeting (SEC Update)

- Effective immediately.
- Amends certain SEC paragraphs to incorporate SEC staff announcements made at the September 22, 2016 and November 17, 2016 Emerging Issues Task Force meetings. The amendments affect ASC Topic 250 (Accounting Changes and Error Corrections) and ASC Topic 323 (Investments—Equity Method and Joint Ventures).
- ASC Topic 323: The primary effect of the amendment is to change the reference “effective yield method” to “proportional amortization method.”

FALL 2017 TECHNICAL UPDATE
(cont.)

ASU 2017-03 – Accounting Changes and Error Correction (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meeting (SEC Update)

- Staff Accounting Bulletin (SAB) Topic 11.M requires SEC registrants to evaluate the impact of accounting standards that haven't yet been adopted and provide disclosure in both Management's Discussion and Analysis and the notes to the financial statements about the potential material impact of accounting standards when adopted in the financial statements.
- If a registrant doesn't know or can't reasonably estimate the impact of adoption of new standards, the SEC staff expects the registrant to make a statement to that effect.
- SEC staff also expects the registrant to provide qualitative disclosures to help users assess the significance the adoption will have on the financial statements.

FALL 2017 TECHNICAL UPDATE
(cont.)

ASU 2017-04 – Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

- The standard has tiered effective dates, starting in 2020 for calendar-year public business entities that meet the definition of an SEC filer. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017.
- Simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in today's two-step impairment test under ASC Topic 350.
- Entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on today's Step 1).
- Eliminating Step 2 of today's test could increase the frequency of goodwill impairment.

FALL 2017 TECHNICAL UPDATE
(cont.)

ASU 2017-05 – Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

- Effective at the same time as the new revenue standard. For public entitie,s that means annual periods beginning after December 15, 2017 and interim periods therein. Early adoption is permitted but only as of fiscal years beginning after December 15, 2016, including interim periods therein.
- Clarifies the scope and application of ASC 610-20 on the sale or transfer of nonfinancial assets and in substance nonfinancial assets to noncustomers, including partial sale.
- Applies to nonfinancial assets, including real estate (e.g., buildings, land, windmills, solar farms), ships, and intellectual property, and clarifies that the derecognition of all businesses is in the scope of ASC 810. It also defines an in-substance nonfinancial asset.

FALL 2017 TECHNICAL UPDATE
(cont.)

ASU 2017-05 – Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

- Today, an entity that derecognizes real estate (or in substance real estate) applies ASC 360-20 (Property, Plant and Equipment – Real Estate Sales), regardless of whether the transferred asset is a business or the counterparty is a customer. ASC 360-20 will be eliminated upon adoption of the new revenue standard, and entities will determine which guidance to apply based on whether the sale involves a business and whether the counterparty is a customer.
- The ASU includes a flowchart to help entities determine when to apply ASC 606, ASC 810, ASC 610-20, and other guidance.

FALL 2017 TECHNICAL UPDATE (cont.)

ASU 2017-06 – Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting (a consensus of the Emerging Issues Task Force)

- Effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The guidance will be applied retrospectively.
- Will change the reporting requirements for an employee benefit plan that holds an interest in a master trust. It requires an employee benefit plan to report an interest in a master trust and the change in the value of that interest as separate line items on the statement of net assets available for benefits and the statement of changes in net assets available for benefits, respectively.
- Plans will have to disclose the master trust's investments and other assets and liabilities, as well as the dollar amount of its interest in these balances. Investments measured at fair value will have to be presented by general type of investment.

FALL 2017 TECHNICAL UPDATE (cont.)

ASU 2017-07 – Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Period Pension Cost and Net Periodic Postretirement Benefit Cost

- Effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods therein. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance.
- The guidance provides a practical expedient for disaggregating the service cost component and other components for comparative periods.
- Employers will present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets.

FALL 2017 TECHNICAL UPDATE
(cont.)

ASU 2017-07 – Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Period Pension Cost and Net Periodic Postretirement Benefit Cost

- Employers will present the other components of the net periodic benefit cost separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. These components will not be eligible for capitalization in assets.
- The requirement to present the service cost component separately from other components of net periodic benefit cost in the income statement aligns US GAAP more closely with IFRS.

FALL 2017 TECHNICAL UPDATE
(cont.)

ASU 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities

- Effective for public entities for fiscal years beginning after December 15, 2018 and interim periods therein. For other entities, it is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted.
- The guidance will be applied using a modified retrospective approach.
- The FASB shortened the amortization period for the premium on certain purchased callable debt securities to the earliest call date.
- Today, entities generally amortize the premium as a yield adjustment over the contractual life of the security. The accounting for purchased callable debt securities held at a discount does not change under the new guidance.

FALL 2017 TECHNICAL UPDATE
(cont.)

ASU 2017-09 – Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting

- Effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period.
- The guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification.
- Entities will apply the modification accounting guidance if the value, vesting conditions, or classification of the award changes.
- Entities will NOT apply the modification accounting guidance for entities that make non-substantive changes to their share-based payment awards.

FALL 2017 TECHNICAL UPDATE
(cont.)

ASU 2017-10 – Service Concession Arrangements (Topic 853): Determining the Customer of Operation Services (a consensus of the FASB Emerging Issues Task Force)

- Entities that have not adopted ASC 606: Effective upon adoption of the amendments in ASU 2014-09.
- For public entities that have adopted ASC 606: Effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods. For nonpublic entities that have adopted ASC 606: Effective for years beginning after December 15, 2018.
- The guidance clarifies the diversity in practice on how an operating entity determines the customer of the operation services for transactions within the scope of Service Transaction Arrangements.
- Specifies that for arrangements within the scope of Topic 853, the grantor is the customer for purposes of applying revenue accounting guidance.

FALL 2017 TECHNICAL UPDATE (cont.)

ASU 2017-11 – Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): Accounting for Certain Financial Instruments with Down Round Features

- Effective for public business entities for fiscal years beginning after December 15, 2018 and interim periods within those years. For all other entities, it is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted.
- The guidance eliminates today's requirement to consider "down round" features when determining whether certain equity-linked financial instruments or embedded features are indexed to an entity's own stock.
- Entities that present EPS under ASC 260 will recognize the effect of a down round feature in a freestanding equity-classified financial instrument only when it is triggered. The effect of triggering such a feature will be recognized as a dividend and a reduction to income available to common shareholders in basic EPS.
- Entities will have to make new disclosures for financial instruments with down round features and other terms that change conversion or exercise prices

FALL 2017 TECHNICAL UPDATE (cont.)

ASU 2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

- Effective in 2019 for calendar-year public entities and in 2020 for all other calendar-year companies. Early adoption is permitted, including adoption in any interim period.
- The guidance amends the hedge accounting model to enable entities to better portray their risk management activities in the financial statements.
- The amendments expand an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest rate risk.
- Eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item.
- Eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness.

FALL 2017 TECHNICAL UPDATE (cont.)

ASU 2017-13 – Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs

- ASU amends SEC paragraphs in the codification pursuant to the July 20, 2017 SEC staff announcement made at the Emerging Issues Task Force (EITF) meeting.
- Certain Public Entities are allowed to use the non-public business entity effective dates for the sole purpose of adopting the FASB's new standards on revenue and leases.
- The subset of public business entities is limited to those that would otherwise not meet the definition of a public business entity, except for a requirement to include or inclusion of its financial statements or financial information in another entity's filings with the SEC.

What's on the Horizon

WHAT'S ON THE HORIZON

Final Guidance Expected Soon

Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent)

- Entities would determine whether to classify debt arrangements (and other instruments within the scope of the guidance) as current or noncurrent on the balance sheet using a principles-based approach. Debt would be classified as noncurrent only when it is contractually due to be settled more than one year (or operating cycle, if longer) after the balance sheet date or when the entity has a contractual right to defer settlement for at least one year (or operating cycle, if longer) after the balance sheet date. While this approach would require entities to classify debt based on legal rights existing at the balance sheet date, an exception would be provided for waivers of debt covenant violations received after the balance sheet date but before the financial statements are issued. In addition, entities would no longer be able to consider their intent and ability to refinance short-term obligations after the balance sheet date on a long-term basis to support noncurrent classification.

WHAT'S ON THE HORIZON (cont.)

FASB Exposure Documents

Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842

- The proposal would permit an entity to elect a transition practical expedient to not assess whether existing or expired land easements that were not assessed under today's leases guidance are or contain a lease under ASC 842: *Leases*. An entity would continue to apply its current accounting policy for those land easements. An entity that previously assessed its land easements under today's leases guidance would not be permitted to use the practical expedient for those arrangements. An entity that elects the practical expedient would be required to apply it consistently to all existing and expired land easements that were not previously assessed under today's leases guidance.

Consolidation (Topic 812), Reorganization

- The consolidation guidance would be reorganized in a new topic, ASC 812, which would separately address variable interest entities and voting interest entities in response to stakeholders' concerns that today's guidance is difficult to navigate. The guidance on the consolidation of entities controlled by contract would be moved to ASC 958: *Not-for-Profit Entities*, and certain aspects of the consolidation guidance would be clarified.

WHAT'S ON THE HORIZON (cont.)

FASB Exposure Documents

Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made

- The proposal would clarify the guidance on how entities determine whether to account for a transfer of assets as a contribution or an exchange transaction. This distinction is important: Contributions are accounted for under the not-for-profit (NFP) guidance, and exchange transactions are subject to other guidance. The proposal also would clarify the guidance on how to distinguish between conditional and unconditional contributions, which can affect the timing of revenue recognition. Although the accounting for contributions primarily affects NFPs, the proposed amendments would apply to all entities (including business entities) that receive or make contributions.

PCAOB Standards, SEC Final Rules, and Rule Proposals

PCAOB STANDARDS ADOPTED BY THE PCAOB, SUBJECT TO SEC APPROVAL

AS 3101: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses and Unqualified Opinion

- Adopted by the PCAOB on June 1, 2017
- Pending approval by the SEC

Objective:

- To make the auditor's report more relevant and informative for investors and other financial statement users.

Key Changes:

- Disclose audit tenure.
- Statement that the auditor is required to be independent.
- The phrase "whether due to error of fraud" in the description of the auditor's responsibilities to obtain reasonable assurance about whether the financial statements are free of material misstatement.
- Discussion of critical audit matters ("CAMs").

PCAOB STANDARDS ADOPTED BY THE PCAOB, SUBJECT TO SEC APPROVAL (cont.)

AS 3101: The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses and Unqualified Opinion

Effective Dates: Subject to SEC approval, the requirements under the new standards, except for the requirement to communicate CAMs, will be effective for audits of financial statements for annual reporting periods ending on or after December 15, 2017. The requirement to communicate CAMs will be effective for annual periods ending on or after June 30, 2019 for large accelerated filers and December 15, 2020 for all other filers.

Period covered: Current period only, although can include prior periods at auditor's option

Communication of CAMs is not required for audits of:

- Brokers and dealers
- 11-Ks
- Emerging growth companies

SEC FINAL RULES AND RULE PROPOSALS

SEC Final Rules

Inflation Adjustments and Other Technical Amendments under Titles I and III of the JOBS Act (Release No. 33-10332)

- The SEC amended the definition of an emerging growth company (EGC) to increase the annual gross revenue threshold for new or existing EGCs to $1.07 billion from $1 billion to reflect inflation as required by the Jumpstart Our Business Startups (JOBS) Act every five years.
- The final rule also makes inflation adjustments in the thresholds specified under the crowdfunding rules for the maximum offering amount allowed in a 12-month period by a company, the investment limits for individual investors, and the financial statement requirements for offerings.
- The final rule also amends the cover pages of various SEC forms (e.g., Forms S-1, S-3, 10-K, 10-Q, 20-F) to add check boxes for issuers to indicate whether, at the time of the filing, they are EGCs and whether they have elected not to use the extended transition period relief available to EGCs under the JOBS Act for complying with any new or revised financial accounting standards.
- The rule is effective April12, 2017.

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SEC FINAL RULES AND RULE PROPOSALS (cont.)

SEC Final Rules

Exhibit Hyperlinks and HTML Format (Release No. 33-10322)

- The rule will require registrants to include a hyperlink to each exhibit listed in the exhibit index of nearly all filings subject to Item 601 of Regulation S-K, as well as in Form F-10 and Form 20-F filings. To enable the inclusion of such hyperlinks, the rule also will require registrants to submit such filings in HTML.
- The rule is effective September 1, 2017 for accelerated filers and large accelerated filers and September 1, 2018 for smaller reporting companies and non-accelerated filers.

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SEC FINAL RULES AND RULE PROPOSALS (cont.)

SEC Final Rules

Adoption of Updated EDGAR Filer Manual (Release No. 33-10385 and 33-10413)

- The SEC is adopting revisions to the Electronic Data Gathering Analysis, and Retrieval System ("EDGAR") Filer Manual and related rules to reflect updates to the EDGAR system. The EDGAR system was scheduled to be upgraded on September 11, 2017.

Covered Securities Pursuant to Section 18 of the Securities Act of 1933

- The SEC adopted an amendment to Rule 146 under Section 18 of the Securities Act of 1933 to designate certain securities listed, or authorized for listing on Investors Exchange LLC as covered securities for purposes of Section 18(b) of the Securities Act.

SEC FINAL RULES AND RULE PROPOSALS (cont.)

SEC Rule Proposals

Inline XBRL Filing of Tagged Data (Release No. 33-10323)

- The proposed rule would require operating companies and mutual funds to use Inline XBRL and embed tags in their financial statements and their risk/return summaries, respectively, rather than provide this data in separate XBRL exhibits. The requirement would be phased in over three years for operating companies based on their filing status and over two years for mutual funds based on their net assets. Officers would not have to certify the Inline XBRL information and companies would not need to involve their auditors with the Inline XBRL information.

Universal Proxy (Release No. 34-79164)

- The proposed rule would require the use of a universal proxy ballot listing the names of all board of director nominees, regardless of whether they are nominated by the company or a dissident shareholder. The proposed rule would allow shareholders voting by proxy to use a single ballot to vote for any combination of candidates nominated by either the company or dissident shareholders.

STANDARDS EFFECTIVE IN 2017 FOR CALENDAR YEAR-END NONPUBLIC COMPANIES

ASU No.	Standard Name
ASU 2014-10	Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation
ASU 2014-18	Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination
ASU 2015-02	Consolidation (Topic 810): Amendments to the Consolidation Analysis
ASU 2015-04	Compensation-Retirement Benefits (Topic 715) Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets
ASU 2015-07	Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)
ASU 2015-09	Disclosures about Short-Duration Contracts

STANDARDS EFFECTIVE IN 2017 FOR CALENDAR YEAR-END NONPUBLIC COMPANIES (cont.)

ASU No.	Standard Name
ASU 2015-11	Simplifying the Measurement of Inventory
ASU 2015-16	Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments
ASU 2016-07	Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting
ASU 2016-17	Consolidation (Topic 810): Interests Held Through Related Parties That are Under Common Control
ASU 2017-02	Not-for-Profit Entities-Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That is a GP or LP Should Consolidate a For-Profit LP or Similar Entity
ASU 2017-03	Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and JV's (Topic 323)

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