

# Year-End Accounting and Financial Reporting Issues for Commercial Entities

## Closing Out 2015 and Preparing for 2016

This publication discusses accounting and financial reporting topics applicable to companies that are finalizing 2015 and preparing for 2016. Topics that address standards for both public and nonpublic business entities are included.

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## From the FASB: Final Standards

### Definition of “Public Business Entity” (PBE): It’s Not Just for SEC Registrants

Over the decades, the Financial Accounting Standards Board (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 (ASC) 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).

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 Accounting Standards Update (ASU) No. 2013-12, [“Definition of a Public Business Entity: An Addition to the Master Glossary,”](#) to provide a single definition of a “public business entity” (PBE) 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. However, its impact has been significant for those now deemed to be “public” for financial reporting purposes, given that those entities must now adopt some standards more quickly or provide more disclosure than private entities.

The ASC continues to include multiple definitions of the terms “nonpublic entity” and “public entity.” In PCC Issue No. 14-01, [“Definition of a Public Business Entity – Phase II,”](#) the PCC reported its decision not to change the existing definitions of a nonpublic entity and noted that the existing definitions will remain in the ASC until potentially amended by the FASB.

Following is the definition in ASU 2013-12:

#### **Public Business Entity**

“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."

## 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 institution to evaluate carefully whether it is considered "public" for financial reporting purposes.

## Revenue Recognition

In current U.S. generally accepted accounting principles (GAAP), many different methods, as well as various depths of guidance, address revenue recognition, and they are often grounded in industry-specific guidance. In an effort to remedy the situation, the FASB and the International Accounting Standards Board (IASB) took on a joint project to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards (IFRS). On May 28, 2014, the two boards jointly issued their converged standard on the recognition of revenue from contracts with customers. ASU No. 2014-09, "Revenue From Contracts With Customers (Topic 606),"<sup>1</sup> 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 Topic 605. At just more than 700 pages, the new standard is the longest the FASB has ever issued and a major undertaking by the boards. Given the magnitude of the standard and the fact that it is not industry-specific, it is taking some time to digest.



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 1:** Identify the contract with a customer.
- **Step 2:** Identify the performance obligations (promises) in the contract.
- **Step 3:** Determine the transaction price.
- **Step 4:** Allocate the transaction price to the performance obligations in the contract.
- **Step 5:** Recognize revenue when (or as) the reporting organization satisfies a performance obligation.

The challenge will be 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 that will provide helpful hints and illustrative examples for how to apply the new standard.

In addition, the FASB and the IASB have formed a joint [Transition Resource Group](#) (TRG), which includes preparers, auditors, regulators, users, and other stakeholders. The TRG's objective is to promote effective implementation and transition.

The implementation of this standard is expected to be significant, and all areas of an entity's business will need to be evaluated.

## Proposed Clarifications

At this point, the FASB has the following three projects that address issues identified by the TRG.

### 1. Identifying Performance Obligations and Licensing

On May 12, 2015, the FASB issued a proposed ASU, "[Revenue From Contracts With Customers \(Topic 606\): Identifying Performance Obligations and Licensing](#)." The proposed amendments would add guidance for identifying performance obligations by clarifying that identification in a contract of goods and services that are immaterial would not be required. It also would provide additional guidance for evaluating the criterion of "separately identifiable" when determining if promised goods and services are distinct.

This proposal would also clarify that under the new revenue recognition guidance of Topic 606, shipping and handling that occur before the customer obtains control of the related good would be fulfillment activities. In addition, an entity could make an accounting policy election to similarly account for the costs of the shipping and handling that occur as fulfillment activities after the customer has obtained control of a good. This proposed ASU would address concerns some constituents have about the new revenue recognition rules requiring shipping and handling activities to be treated as a separate performance obligation. Under current guidance, revenue generally is not allocated to shipping and handling activities, and, accordingly, this proposed ASU, if adopted, would reduce the potential impact of the new revenue recognition rules on shipping and handling activities. Furthermore, if revenue is recognized before contractually agreed-upon shipping and handling activities occur, the costs of those activities would be accrued to match the timing of the revenue recognition. In effect, shipping and handling activities would not be a separate performance obligation under typical free-on-board (FOB) shipping point terms.

In addition, the proposed amendments are intended to clarify the licensing implementation guidance by discussing whether an entity's licensing obligations are satisfied over time or at a point in time.

At the Oct. 5, 2015, meeting, the FASB decided to proceed with issuing a final ASU based on the proposal.

## 2. Principal Versus Agent (Reporting Gross Versus Net)

On Aug. 31, 2015, the FASB issued a proposed ASU, "[Revenue From Contracts With Customers \(Topic 606\): Principal Versus Agent Considerations \(Reporting Revenue Gross Versus Net\)](#)," to improve understanding of the implementation guidance for the principal versus agent considerations in the new revenue recognition standard. The proposed amendments clarify the following:

- The determination of whether an entity is principal or agent for each specified good or service, which is a distinct good or service or distinct bundle of goods or services, promised to the customer is made by the entity. A contract with a customer may include more than one specified good or service, and an entity may be a principal for some specified goods or services and an agent for others.
- Whether a specified good or service is a good, a service, or a right to a good or service is determined by the entity.
- When there is another party involved in providing a customer with goods or services, an entity that is a principal controls: (a) a good or another asset from the other party that it then transfers to the customer, (b) a right to a service that another party will perform, which allows the entity 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.
- Indicators in ASC 606-10-55-39 are designed to support or assist in the assessment of control. The proposed amendments in ASC 606-10-55-39A provide guidance that facts and circumstances affect whether the indicators may be more or less relevant to the control assessment and that one or more indicator may be more or less persuasive to the control assessment.

Comments were due Oct. 15, 2015.

## 3. Narrow-Scope Improvements and Practical Expedients

On Sept. 30, 2015, the FASB issued a proposed ASU, "[Revenue From Contracts With Customers \(Topic 606\): Narrow-Scope Improvements and Practical Expedients](#)," to address implementation issues related to collectibility, presentation of sales taxes, noncash consideration, contract modifications, and completed contracts at transition.

Comments were due Nov. 16, 2015.

## Effective Dates and Transition

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."

Prior to the effective date deferral discussed below, for public entities as defined above, the ASU was going to be effective for annual reporting periods beginning after Dec. 15, 2016, including interim reporting periods within that reporting period. For other entities, the ASU would have been effective for annual reporting periods beginning after Dec. 15, 2017, and interim and annual reporting periods beginning after Dec. 15, 2018.

On Aug. 12, 2015, the FASB issued ASU No. 2015-14, “[Revenue From Contracts With Customers \(Topic 606\): Deferral of the Effective Date](#),” to defer the effective date of ASU 2014-09, “[Revenue From Contracts With Customers \(Topic 606\)](#),” by one year. Following are the revised effective dates, which are based on the definition of a PBE rather than a public entity (as defined above):

- **Public entities** (as defined above) – 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** – 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 as follows:
  - An annual reporting period beginning after Dec. 15, 2016, including interim reporting periods within that reporting period; or
  - An annual reporting period beginning after Dec. 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which an entity first applies the guidance

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

1. 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 the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that remaining revenue.
2. Retrospective application with a cumulative effect adjustment to the opening retained earnings balance. 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

The FASB published, in May 2014 and revised in January 2016, a “[FASB in Focus](#)” article and a [three-part video series](#) that recap the new standard.

As a reminder, for SEC registrants, 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. The objectives should be to (1) notify readers of the issuance of a standard that the registrant will be required to adopt in the future and (2) assist readers in assessing the significance of the impact the standard will have, when adopted, on the financial statements of the registrant.

As the standard is evaluated by stakeholders, including preparers and auditors, industry implementation guidance is expected to emerge, and the impact on registrants will unfold over time. If the impact is unknown or cannot be estimated reasonably, a statement to that effect may be made. The staff expects the level of disclosures to increase as more information becomes available between now and adoption.<sup>2</sup> 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).



## Business Combinations

### Pushdown Accounting

Current GAAP offered limited guidance for determining whether and when a new accounting and reporting basis (pushdown accounting) should be established in an acquired entity's separate financial statements. All of the following previously provided guidance on pushdown accounting for entities registered with the SEC: SEC SAB Topic 5.J, "New Basis of Accounting Required in Certain Circumstances"; Emerging Issues Task Force (EITF) Topic D-97, "[Push-Down Accounting](#)"; and other comments made by the SEC observer at EITF meetings (all of which are included in ASC 805-50-S99-1 through S99-4).

In general, the SEC required pushdown accounting when 95 percent or more of an entity's ownership was acquired, permitted it when 80 percent to 95 percent is acquired, and prohibited it when less than 80 percent is acquired.

Because the SEC staff's guidance was applicable only to SEC registrants, there was diversity in practice among other entities with respect to the application of pushdown accounting. In addition, GAAP (for example, consolidation guidance) had evolved since the previously issued SEC guidance that posed implementation challenges.

To provide authoritative guidance on whether and at what threshold an acquired entity should apply pushdown accounting, the FASB issued ASU No. 2014-17, "[Business Combinations \(Topic 805\): Pushdown Accounting](#)," on Nov. 18, 2014. This ASU provides an acquired entity with the option to apply pushdown accounting in its separate financial statements when an acquirer obtains control of the entity.

The threshold for applying pushdown accounting is consistent with the threshold for change-in-control events in ASC Topic 805, "Business Combinations," and ASC Topic 810, "Consolidation." An acquired entity may elect to apply pushdown accounting for each individual change-in-control event. If pushdown accounting is elected for an individual change-in-control event, that election is irrevocable. If pushdown accounting is not applied during the period in which the change-in-control event occurs, an acquired entity still will have the option to elect to apply pushdown accounting in a subsequent period to the most recent change-in-control event.

An acquired entity electing to apply pushdown accounting will reflect in separate financial statements the new basis of accounting established by the acquirer for the individual assets and liabilities of the acquired entity. Any goodwill resulting from the acquisition is recognized in the separate financial statements of the acquired entity, but it will not recognize a bargain purchase gain in its separate income statement.

Any acquisition-related debt incurred by the acquirer should be recognized by the acquired entity only if other standards (for example, the guidance on obligations from joint and several liability arrangements) require the debt to be recognized by the acquired entity. Disclosures are required for acquirees that elect to apply pushdown accounting to allow financial statement users to evaluate the effect of pushdown accounting on the current reporting period.

### Effective Date and Transition

ASU 2014-17 was effective as of its issuance date, Nov. 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event.

On the same day ASU 2014-17 was issued, the SEC's Office of the Chief Accountant and Division of Corporation Finance released [SAB No. 115](#), which rescinds SAB Topic 5.J and brings SEC guidance into conformity with ASU 2014-17.

On May 8, 2015, the FASB issued ASU No. 2015-08, "[Business Combinations \(Topic 805\): Pushdown Accounting – Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115](#)." This ASU updates various SEC paragraphs of Topic 805 based on [SEC SAB No. 115](#), which was effective Nov. 21, 2014.

## 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 No. 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.

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 effects, if any, that were 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. At transition, only disclosure of the nature of and reason for the change in accounting principle is required in the first annual period after the entity’s adoption date and in the interim periods within that annual period if there is a measurement-period adjustment during that annual period.

### Effective Dates and Transition

For PBEs, the amendments are effective for annual periods beginning after Dec. 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2016, and interim periods within fiscal years beginning after Dec. 15, 2017.

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

### 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, collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), and mortgage-backed security (MBS) transactions), the FASB issued ASU No. 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. There are currently two models (formerly FASB Interpretation No. (FIN) 46R and Financial Accounting Standard (FAS) 167) for VIE consolidation and two models 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 emphasizes loss risk when determining a controlling financial interest. When certain criteria are met, an entity may no longer have to consolidate a legal entity 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 and Transition

The amendments are effective as follows:

- **PBEs** – Fiscal years, and for interim periods within those fiscal years, beginning after Dec. 15, 2015.
- **Non-PBEs** – 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. 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. The amendments also may be applied retrospectively.

## Financial Instruments

### Classification and Measurement

#### Background

What began as a convergence project of the FASB and the IASB to address accounting for financial instruments became two separate projects, one for each board. The FASB's financial instruments project was divided into three components, and one of the components, classification and measurement, culminated in the issuance of a final standard, ASU No. 2016-01, "[Financial Instruments – Overall \(Subtopic 825-10\): Recognition and Measurement of Financial Assets and Financial Liabilities](#)," on Jan. 5, 2016. Refer to the "In the Pipeline: Major Projects on the FASB's Agenda" section later in this publication for a discussion of credit and hedging, the other two components of the FASB's financial instruments project.

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.

Subsequently, the board issued a re-proposal on Feb. 14, 2013, intended to improve reporting for financial instruments by developing a consistent, comprehensive framework for classifying those instruments. The proposed ASU, "[Financial Instruments – Overall \(Subtopic 825-10\): Recognition and Measurement of Financial Assets and Financial Liabilities](#)," also offered the possibility of closer convergence with the IASB.

On April 12, 2013, the FASB issued an additional proposed ASU, “[Financial Instruments – Overall \(Subtopic 825-10\): Recognition and Measurement of Financial Assets and Financial Liabilities – Proposed Amendments to the FASB Accounting Standards Codification](#).” This 345-page companion proposal provided a marked version of the FASB ASC changes proposed in the recognition and measurement exposure draft.

The board began formal re-deliberations in late 2013 and continued them through 2015. The deliberations moved the project from what would have been a significant change in practice to only targeted improvements to the existing security and loan accounting models.

## Final Standard

The final standard reflects a meaningful change from the board’s February 2013 proposal by choosing to retain the existing accounting models for securities and loans and making only targeted improvements to the models. However, the final standard includes substantive changes for equity securities, deferred-tax assets (DTAs) on available-for-sale (AFS) securities, and disclosures.

- **Classification and measurement of financial instruments** – Retains the current GAAP classification and measurement models for financial instruments (both assets and liabilities), except for certain equity investments as discussed in the next item. The guidance also retains the separate models in existing GAAP for determining classification of loans (held for investment (HFI) and held for sale (HFS)) and securities (held to maturity (HTM), AFS, and trading). During deliberations, the board directed the staff to analyze the current GAAP definition of a security to determine whether changes are needed to more clearly distinguish the instruments to be evaluated using the securities classification model.
- **Equity Investments** – Requires equity investments to be measured at fair value with changes in fair value recognized in net income (FV/NII), 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. This eliminates the current AFS option for equity investments.
  - 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 (NAV) practical expedient).
- **Fair value option** – Retains the unconditional fair value option in existing GAAP under ASC Topic 825, “Financial Instruments.”
  - However, 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 other comprehensive income (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” below, 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). For calendar year-end entities, early adoption of this provision is allowed within financial statements for the year ended Dec. 31, 2015, that have not yet been issued (by PBEs) or 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.

- **Disclosure** – The board distinguished between PBEs and non-PBEs for certain disclosures. In addition, consistent with existing GAAP, trade receivables and payables under 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** – For the fair value disclosure of financial instruments measured at amortized cost in accordance with ASC 825, “Financial Instruments” (formerly known as FASB Statement No. 107, “Disclosures About Fair Value of Financial Instruments”), the board decided the following:
  - For non-PBEs, the FASB is removing the table completely. As noted under “Effective Dates and Transition” below, 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 is allowed for Dec. 31, 2015, annual financial statements that have not yet been made available for issuance.
  - For PBEs, fair values of all financial instruments in this table must be 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.The disclosure of methods and assumptions used to estimate the fair value amounts in this table is eliminated.

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 No. 2011-04, “[Fair Value Measurement \(Topic 820\): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.](#)”
- **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 and 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 within 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

Making the transition to ASU 2016-01 compliance will require an entity 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). The practical expedient for equity securities without readily determinable fair values will be applied prospectively.

## Resource

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.



## Hybrid Financial Instruments Issued in the Form of a Share

On Nov. 3, 2014, the FASB issued ASU No. 2014-16, “[Derivatives and Hedging \(Topic 815\): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity \(a Consensus of the FASB Emerging Issues Task Force\)](#).” The ASU applies to all entities that are issuers of, or investors in, hybrid financial instruments that are issued in the form of a share. It does not change the existing guidance for determining when certain embedded derivative features in a hybrid financial instrument must be separated, but is intended to clarify the requirements and reduce existing diversity with respect to the consideration of redemption features in relation to other features when determining the nature of the host for purposes of the clearly and closely related criteria for bifurcation of embedded derivatives.

The amendments in the ASU clarify that an entity should evaluate the nature of the host contract by assessing the substance of all relevant terms and features (that is, the relative strength of the debt-like or equity-like terms and features given the facts and circumstances), including the embedded derivative feature being evaluated for bifurcation, when considering how to weight those terms and features. Specifically, according to the standard, the assessment should take into account all of the following:

“(1) the characteristics of the terms and features themselves (for example, contingent versus noncontingent, in-the-money versus out-of-the-money), (2) the circumstances under which the hybrid financial instrument was issued or acquired (for example, issuer-specific characteristics, such as whether the issuer is thinly capitalized or profitable and well-capitalized), and (3) the potential outcomes of the hybrid financial instrument (for example, the instrument may be settled by the issuer issuing a fixed number of shares, the instrument may be settled by the issuer transferring a specified amount of cash, or the instrument may remain legal-form equity), as well as the likelihood of those potential outcomes.”

### Effective Dates and Transition

The amendments in ASU 2014-16 are effective for PBEs for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2015. For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2015, and interim periods within fiscal years beginning after Dec. 15, 2016. Early adoption, including adoption in an interim period, is permitted.

The effects of initial adoption should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods.

## Presentation and Disclosure Matters

### Presentation of an Unrecognized Tax Benefit

The practices for presenting unrecognized tax benefits have been diverging. Some entities present unrecognized tax benefits as a liability, while others present unrecognized tax benefits as a reduction of a DTA.

The EITF concluded that an unrecognized tax benefit, or a portion of one, must be presented in the statement of financial position as a reduction of a DTA for a net operating loss (NOL) carryforward or a tax credit carryforward with two exceptions: if either (1) an NOL or tax credit carryforward at the reporting date is not available in the applicable tax jurisdiction to settle additional taxes resulting from the disallowance of a tax position, or (2) the applicable tax jurisdiction does not require and the entity does not intend to use the DTA to settle additional taxes resulting from the disallowance of a tax position. In these exceptional situations, the unrecognized tax benefit is presented as a liability and not combined with DTAs.

The consensus was issued on July 18, 2013, in ASU No. 2013-11, “[Income Taxes \(Topic 740\): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists \(A Consensus of the FASB Emerging Issues Task Force\)](#).”

## Effective Dates and Transition

This ASU is applied prospectively for public entities for fiscal years, and interim reporting periods within those years, beginning after Dec. 15, 2013. For nonpublic entities, the guidance is effective for fiscal years, and interim periods within those years, beginning after Dec. 15, 2014. Early adoption and adoption on a retrospective basis are permitted. No additional disclosures are required.

## Going Concern

On Aug. 27, 2014, the FASB issued ASU No. 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 Dates

The amendments in ASU 2014-15 are effective for the annual period ending after Dec. 15, 2016, and for interim and annual periods thereafter. 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 No. 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, presents them as an asset, and subsequently amortizes the deferred debt issuance costs 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 No. 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 and Transition

For PBEs, the amendments are effective for financial statements issued for fiscal years beginning after Dec. 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments 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 issued previously.

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. Upon transition, the applicable disclosures for a change in an accounting principle should be followed, including disclosing the nature of and reason for the change and describing the method of transition, the retrospectively adjusted prior-period information, and the effect of the change on the financial statement line items.

## Eliminating Extraordinary Items From the Income Statement

On Jan. 5, 2015, the FASB issued ASU No. 2015-01 to simplify financial reporting by no longer requiring an entity to determine whether certain events and transactions are extraordinary. This standard, “[Income Statement – Extraordinary and Unusual Items \(Subtopic 225-20\): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items](#),” removes the extraordinary items concept from GAAP, but the presentation and disclosure requirements in ASC 225-20 for items that are unusual in nature or occur infrequently are retained and expanded to include those items that are both unusual *and* infrequent. Items that are unusual or infrequent will continue to be reported as a separate component of income from continuing operations or in the notes to the financial statements. Once this standard is adopted, items that are both unusual and infrequent will be reported in the same manner. Given the disclosure requirement for unusual and infrequent events or transactions, this standard should not result in a loss of information for users.

### Effective Dates and Transition

For all entities, the guidance is effective for interim and annual periods beginning after Dec. 15, 2015, with early adoption permitted provided the guidance is applied from the beginning of the fiscal year of adoption.

Entities will be permitted to elect either prospective or retrospective application. If prospective application is elected, an entity is required to disclose the nature and the amount of an item included in income from continuing operations after adoption that adjusts an extraordinary item previously classified and presented before the date of adoption. If retrospective application is elected, all disclosures required by ASC 250-10-50-1 through ASC 250-10-50-2 must be provided.

## Development Stage Entities – Eliminating Inception-to-Date Information

A development stage entity is an entity devoting substantially all of its efforts to establishing a new business and for which either the planned principal operations have not commenced, or the planned principal operations have commenced but there have been no significant revenues from those operations. Entities determined to be in the development stage were required to be identified as such and to provide inception-to-date information and certain other disclosures. Feedback to the FASB from users of financial statements indicated this information had limited relevance, was generally not decision-useful, and that it was costly and sometimes complex to prepare.

After consideration of the feedback, the FASB has removed all incremental financial reporting guidance specific to development stage entities from GAAP. ASU No. 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](#),” issued in June 2014, is intended to reduce the cost and complexity associated with the previous requirements to provide information about development stage entities. The guidance eliminates the requirements for development stage entities to “(1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage.” In addition to removing the reporting requirements, the ASU:

- Adds to ASC Topic 275, “Risks and Uncertainties,” an example disclosure about the risks and uncertainties related to current activities of an entity that has not begun planned principal operations
- Removes from ASC Topic 810, “Consolidation,” an exception provided to development stage entities for determining whether the entity is a variable-interest entity

### Effective Dates and Transition

Amendments in the ASU related to the elimination of inception-to-date information and other disclosure requirements in ASC Topic 915 should be applied retrospectively. The addition to ASC 275 should be applied prospectively. For PBEs, these amendments are effective for interim and annual reporting periods beginning after Dec. 15, 2014. For other entities, the amendments are effective for annual reporting periods beginning after Dec. 15, 2014, and interim reporting periods beginning after Dec. 15, 2015. Early adoption is permitted.

The amendments to ASC 810 should be applied retrospectively. For PBEs, this amendment is effective for interim and annual reporting periods beginning after Dec. 15, 2015. For all other entities, the amendments to ASC 810 are effective for annual reporting periods beginning after Dec. 15, 2016, and interim reporting periods beginning after Dec. 15, 2017.

## Changing Discontinued Operations Criteria and Disclosure for Certain Disposals

Existing GAAP required an entity to report in discontinued operations the results of operations of a component of the entity that either has been disposed or was classified as HFS if both of the following conditions are met:

- The operations and cash flows of the component have been, or will be, eliminated from the ongoing operations of the entity as a result of the disposal transaction.
- The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

Stakeholders reported to the FASB that under this guidance too many recurring routine disposals of small groups of assets were being presented in financial statements as discontinued operations. In April 2014, the FASB responded by issuing ASU No. 2014-08, "[Presentation of Financial Statements \(Topic 205\) and Property, Plant, and Equipment \(Topic 360\): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity](#)." The new guidance changes the requirements for reporting a discontinued operation. Only a disposal representing a strategic shift that has a major effect on the entity's operations and financial results will have to be reported as a discontinued operation.

Examples of strategic shifts meeting the new criteria include a disposal of a major geographic area, a major line of business, or a major equity-method investment. Under this new guidance, many disposals that might be routine and not a change in an entity's strategy no longer will be reported as discontinued operations. The new guidance also reduces complexity in GAAP by removing the complex and extensive implementation guidance and illustrations that were necessary to apply the previous definition of a discontinued operation.

The new guidance requires that, for each comparative period, an entity's statement of financial position must present separately the assets and liabilities of a disposal group qualifying as a discontinued operation. The ASU requires additional disclosures about the assets, liabilities, revenues, expenses, and cash flows of a discontinued operation. An entity also will be required to disclose the pretax income or loss attributable to a disposal of a significant component that does not qualify for discontinued operations presentation.

## Effective Dates and Transition

PBEs and not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market should apply the amendments prospectively to both of the following:

- All disposals (or classifications as HFS) of components of an entity that occur within interim and annual periods beginning on or after Dec. 15, 2014
- All businesses or not-for-profit activities that, on acquisition, are classified as HFS and occur within interim and annual periods beginning on or after Dec. 15, 2014

All other entities should apply the amendments prospectively to both of the following:

- All disposals (or classifications as HFS) of components of an entity that occur within annual periods beginning on or after Dec. 15, 2014, and interim periods beginning on or after Dec. 15, 2015
- All businesses or not-for-profit activities that, on acquisition, are classified as HFS and occur within annual periods beginning on or after Dec. 15, 2014, and interim periods beginning on or after Dec. 15, 2015

An entity should not apply the amendments to a component of an entity, or a business or not-for-profit activity, that is classified as HFS before the effective date, even if the component of an entity, or a business or not-for-profit activity, is disposed of after the effective date.

Early adoption is permitted only for disposals (or classifications as HFS) that have not been reported in financial statements previously issued or available for issuance.

## Balance Sheet Classification of Deferred Taxes

As part of the FASB's simplification initiative to reduce complexity in accounting standards, the board issued ["Two Proposed Accounting Standards Updates, Income Taxes \(Topic 740\): I. Intra-Entity Asset Transfers and II. Balance Sheet Classification of Deferred Taxes"](#) on Jan. 22, 2015. On Oct. 5, 2015, the board re-deliberated the two proposed updates and asked the staff to draft a final standard on the balance sheet classification of deferred taxes. In November 2015, the FASB issued ASU No. 2015-17, ["Income Taxes \(Topic 740\): Balance Sheet Classification of Deferred Taxes."](#)

For the classification of deferred taxes, current GAAP requires an entity to separate deferred-income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The board received feedback that such classification does not result in useful information because the classification does not always align with the time frame for settling the deferred-tax amounts.

The board issued guidance that deferred-tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The guidance does not amend the current requirement that deferred-tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount.

### Effective Dates and Transition

For PBEs, the amendments are effective for annual periods beginning after Dec. 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after Dec. 15, 2017, and interim periods within annual periods beginning after Dec. 15, 2018.

Early application is permitted, and either prospective or retrospective application is permitted for all entities.

## Other

### Simplifying Subsequent Measurement of Inventory

In July 2015, the FASB issued ASU No. 2015-11, ["Inventory \(Topic 330\): Simplifying the Measurement of Inventory,"](#) to amend inventory measurement guidance and require that inventory measured using first-in, first-out (FIFO) or average cost be measured at the lower of cost and net realizable value. The current definition of net realizable value – the estimated selling prices in the ordinary course of business, less reasonably predictable completion, disposal, and transportation costs – is retained.

This standard eliminates the existing requirements in GAAP to consider market value when measuring inventory using either FIFO or average cost. Market value in this context includes three values: (1) replacement cost, (2) net realizable value less a normal profit margin, and (3) net realizable value.

Inventory measured using either last-in, first-out (LIFO) or the retail inventory method were excluded from the scope of this guidance because the transition for those methods could have resulted in significant costs and not in simplification.

Although these amendments result in the introduction of an additional impairment model for measuring inventory under U.S. GAAP, they are expected to result in simplification for a subset of entities that measure inventory using FIFO or average cost, as well as substantial convergence of U.S. GAAP and IFRS for those entities.

### Effective Dates and Transition

For PBEs, the amendments are effective for interim and annual periods beginning after Dec. 15, 2016. For all other entities, the amendments are effective for annual periods beginning after Dec. 15, 2016, and interim periods beginning after Dec. 15, 2017. Early application is permitted as of the beginning of an interim or annual period.

The amendments should be applied prospectively. If, before the adoption of the amendments, an entity has written down inventory measured using FIFO or average cost below its cost, that reduced amount is considered the cost upon adoption. Disclosure of the nature of and reason for the change in accounting principle in the first interim and annual period of adoption is required.



## Defined Benefit Plan Measurement Date as of Month-End – A Practical Expedient for Certain Entities

In April 2015, the FASB issued ASU No. 2015-04, “[Update 2015-04—Compensation—Retirement Benefits \(Topic 715\): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets](#),” to simplify the measurement of plan assets for defined benefit plans at entities (except for employee benefit plan entities) with fiscal year-ends that do not fall on a month-end. The amendments eliminate the need for those entities to adjust the fair value of plan assets obtained from a third-party service provider reported as of month-end to reflect the fair value as of fiscal year-end. As an example, under existing GAAP, an entity with a fiscal year-end of December 15 needs to adjust the fair value provided by a third-party service provider as of month-end (November 30) to reflect the fair value as of December 15.

Typically, information about the fair value and classes of plan assets of a defined benefit pension or other post-retirement benefit plan obtained from third-party service providers is reported as of a month-end. The standard provides a practical expedient for those entities, permitting them to measure defined benefit plan assets and obligations as of the month-end that is closest to its fiscal year-end and to follow that measurement methodology consistently from year to year for all plans.

If a contribution or significant event (such as a plan amendment, settlement, or curtailment that requires remeasurement) occurs between the month-end measurement date and an entity’s fiscal year-end, an entity that applies this practical expedient should adjust the measurement of defined benefit plan assets and obligations to reflect those contributions or significant events. Adjustments should not be made for other events that occur between the month-end measurement date and fiscal year-end that are not a result of the entity’s actions, such as changes in market prices and interest rates. In addition, if a significant event occurs during an interim period and remeasurement is required, the standard provides a similar practical expedient to remeasure the plan assets and obligations using the month-end that is closest to the date of the significant event.

An entity is required to disclose its election to use this practical expedient as well as the alternative date used for measuring defined benefit plan assets and obligations.

### Effective Dates and Transition

For PBEs, the amendments are effective for interim and annual periods beginning after Dec. 15, 2015. For all other entities, the amendments are effective for annual periods beginning after Dec. 15, 2016, and interim periods in fiscal years beginning after Dec. 15, 2017. Early application is permitted.

Prospective application is required.

## Service Concession Arrangements for Companies Operating Public-Sector Infrastructure

An EITF consensus, ASU No. 2014-05, “[Service Concession Arrangements \(Topic 853\) \(a consensus of the FASB Emerging Issues Task Force\)](#),” specifies that an operating entity should not account for a service concession arrangement that is within the scope of the ASU as a lease in accordance with ASC 840. Rather, it should refer to other ASC guidance, as applicable, to account for various aspects of a service concession arrangement. Under a service concession arrangement between a public-sector entity grantor and an operating entity, the operating entity operates the grantor’s infrastructure (airports, roads, and bridges, for example) and also may provide services such as construction, upgrading, or maintenance of the grantor’s infrastructure. This ASU also specifies that the infrastructure used in a service concession arrangement should not be recognized as property, plant, and equipment of the operating entity.

The amendments are effective for PBEs for annual periods, and interim periods within those annual periods, beginning after Dec. 15, 2014. For entities other than PBEs, the amendments are effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early adoption is permitted, and the amendments should be applied on a modified retrospective basis to service concession arrangements that exist at the beginning of an entity’s fiscal year of adoption.

## Stock Compensation With Performance Targets After the Requisite Service Period

In June 2014, the FASB issued ASU No. 2014-12, “[Compensation – Stock Compensation \(Topic 718\): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period \(a consensus of the FASB Emerging Issues Task Force\)](#).” The new guidance addresses situations in which an employee would be eligible to vest in a share-based payment award regardless of whether the employee is still rendering service on the date the performance target is achieved.

The ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. The amount to be recognized should represent the compensation cost attributable to the period or periods for which the requisite service already has been rendered. If it becomes probable that the performance target will be achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period.

### Effective Dates and Transition

The amendments in this update are effective for annual periods and interim periods within those annual periods beginning after Dec. 15, 2015. Earlier adoption is permitted.

Entities may apply the amendments in the ASU either retrospectively or prospectively only to awards granted or modified after the effective date.

## Internal-Use Software – Customer in Cloud Computing Arrangement

The FASB issued ASU No. 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 on whether a cloud computing arrangement or other hosting arrangement includes a software license, because currently no explicit guidance is available to customers for such arrangements. Specifically, the standard addresses whether a software license is purchased by the customer in such an arrangement, and it indicates that cloud computing arrangements include hosting arrangements such as software as a service (SaaS) as well as platforms and infrastructure as services.

If a cloud computing 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 other software licenses, *by capitalizing the software license as an intangible asset license*. The criteria for recognizing an 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. If a cloud computing arrangement does not include a software license for internal use, it should be accounted for as a service contract *expense*, pursuant to guidance within ASC 720.

Some entities may be required to change their historical accounting methodology for these contracts given that, under the current guidance, entities were analogizing to operating lease guidance to determine whether such arrangements included a software license asset. These entities must consider the previously noted criteria.

### Effective Dates and Transition

For PBEs, the amendments are effective for interim and annual periods beginning after Dec. 15, 2015. 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. Early adoption is permitted, and entities can elect to adopt the amendments either retrospectively or prospectively.

## Checklist of Recently Issued and Effective FASB Pronouncements

This table summarizes recently issued and effective pronouncements that Crowe believes are most relevant for companies. 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. On its website, the FASB provides a [recap of effective dates](#) for its recent pronouncements.

For the majority of the standards issued in 2014 and 2015, the FASB uses the definition of “PBE” (found in ASU No. 2013-12) and “non-PBE” to distinguish between effective dates; however, there are some exceptions, so we encourage paying careful attention when determining an appropriate effective date. In some cases, the FASB has chosen to use different terminology (“public entity,” for example), and for standards issued prior to the issuance of ASU 2013-12, the terms “public business entity” and “PBE” did not exist. Because the majority of the standards use “PBE” and “non-PBE,” we have organized the table using those terms but have identified differences in the individual PBE column on the applicable pronouncements.

Pronouncement	Public Business Entities	Nonpublic Entities
<b>Revenue Recognition</b>		
<b>ASU No. 2014-09, “Revenue From Contracts With Customers (Topic 606)”</b>	For public entities (which include PBEs and certain not-for-profit entities and certain employee benefit plans): effective for annual reporting periods beginning after Dec. 15, 2016, including interim periods within that reporting period. Early application is not permitted. A public entity is an entity that is any one of the following: (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, or (3) an employee benefit plan that files or furnishes financial statements to the SEC.	For all other entities (nonpublic entities): effective for annual reporting periods beginning after Dec. 15, 2017, and interim periods within annual periods beginning after Dec. 15, 2018. A nonpublic entity may elect to apply this guidance earlier, however, only as of the following: (1) an annual reporting period beginning after Dec. 15, 2016, including interim periods within that reporting period (public entity effective date), (2) an annual reporting period beginning after Dec. 15, 2016, and interim periods within annual periods beginning after Dec. 15, 2017, or (3) an annual reporting period beginning after Dec. 15, 2017, including interim periods within that reporting period.
<b>ASU No. 2015-14, “Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date”</b>	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. All other entities may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after Dec. 15, 2016, including interim reporting periods within that reporting period. All other entities may also apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after Dec. 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU 2014-09.

Pronouncement	Public Business Entities	Nonpublic Entities
<b>Business Combinations</b>		
<b>ASU No. 2014-02, “Intangibles – Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council)”</b>	Not applicable.	<p>The accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early application is permitted, including application to any period for which the entity's annual or interim financial statements have not yet been made available for issuance.</p> <p><i>Important note: The FASB has issued a proposal to remove the effective dates for the PCC alternatives, including this ASU.</i></p>
<b>ASU No. 2014-17, “Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)”</b>	Effective Nov. 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle.	Effective Nov. 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle.
<b>ASU No. 2014-18, “Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council)”</b>	Not applicable.	<p>Effective for the first transaction within the scope of the accounting alternative that occurs in fiscal years beginning after Dec. 15, 2015, and for interim and annual periods thereafter. If the first transaction occurs in a fiscal year beginning after Dec. 15, 2016, then this is effective for the interim period that includes the date of the transaction and for interim and annual periods thereafter.</p> <p>Existing customer-related intangible assets and noncompetition agreements shall continue to be measured in accordance with Topic 350 and should not be subsumed into goodwill upon adoption of this guidance.</p> <p>Early application is permitted for any interim and annual period before which an entity's financial statements are available to be issued.</p> <p><i>Important note: The FASB has issued a proposal to remove the effective dates for the PCC alternatives, including this ASU.</i></p>
<b>ASU No. 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments”</b>	<p>Effective for PBEs for fiscal years beginning after Dec. 15, 2015, including interim periods within those fiscal years.</p> <p>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.</p>	<p>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.</p> <p>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.</p>

Pronouncement	Public Business Entities	Nonpublic Entities
<b>Transfers and Consolidations</b>		
<b>ASU No. 2014-07, “Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements (a consensus of the Private Company Council)”</b>	Not applicable.	The accounting alternative, if elected, will be effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Private companies may elect to apply the alternative earlier than the stated effective date, including for any period for which the entity’s annual or interim financial statements have not yet been made available for issuance. Private companies electing the alternative are required to apply it retrospectively to all periods presented.  <i>Important note: The FASB has issued a proposal to remove the effective dates for the PCC alternatives, including this ASU.</i>
<b>ASU No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis”</b>	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 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.
<b>Financial Instruments</b>		
<b>ASU No. 2014-03, “Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach (a consensus of the Private Company Council)”</b>	Not applicable.	The accounting alternative, if elected, is effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early implementation is permitted, including application to any period for which annual or interim financial statements have not yet been made available for issuance.  <i>Important note: The FASB has issued a proposal to remove the effective dates for the PCC alternatives, including this ASU.</i>
<b>ASU No. 2014-16, “Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity”</b>	Effective for PBEs for fiscal years, and interim periods within those fiscal years, beginning after Dec. 15, 2015. Early adoption, including adoption in an interim period, is permitted.	For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2015, and interim periods within fiscal years beginning after Dec. 15, 2016. Early adoption, including adoption in an interim period, is permitted.
<b>ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”</b>	Effective for PBEs for fiscal years, and for interim periods within those fiscal years, beginning after Dec. 15, 2017. Early adoption is permitted upon issuance only for the fair value change resulting from own credit risk for financial liabilities.	For all other entities, the amendments are effective for fiscal years beginning after Dec. 15, 2018, and interim periods beginning after Dec. 15, 2019. Early adoption is permitted upon issuance for the fair value change resulting from own credit risk for financial liabilities and the elimination of fair value disclosures for financial instruments that are not recognized at fair value by non-PBEs.



Pronouncement	Public Business Entities	Nonpublic Entities
<b>Presentation and Disclosure Matters</b>		
<b>ASU No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force)"</b>	For public entities, effective for fiscal years, and interim periods within those years, beginning after Dec. 15, 2013. Early adoption is permitted.	For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after Dec. 15, 2014. Early adoption is permitted.
<b>ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity"</b>	For PBEs and certain not-for-profit entities, the update is effective for interim and annual periods beginning on or after Dec. 15, 2014.  Adoption is not permitted for a component classified as HFS before the effective date, even if it is disposed of after the effective date.  Early adoption is permitted only for disposals (or classifications as HFS) that have not been reported in financial statements previously issued or available for issuance.	For all other entities, the update is effective within annual periods beginning on or after Dec. 15, 2014, and interim periods beginning on or after Dec. 15, 2015.  Adoption is not permitted for a component classified as HFS for sale before the effective date, even if it is disposed of after the effective date.  Early adoption is permitted only for disposals (or classifications as HFS) that have not been reported in financial statements previously issued or available for issuance.
<b>ASU No. 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"</b>	The amendments to eliminate inception-to-date information and other disclosure requirements in ASC 915 for PBEs are effective for interim and annual periods beginning after Dec. 15, 2014. Early adoption is permitted.  The amendment to ASC 810 for PBEs is effective for interim and annual periods beginning after Dec. 15, 2015.	The amendments to eliminate inception-to-date information and other disclosure requirements in ASC 915 for other entities are effective for annual periods beginning after Dec. 15, 2014, and interim periods beginning after Dec. 15, 2015. Early adoption is permitted.  The amendments to ASC 810 for all other entities are effective for annual periods beginning after Dec. 15, 2016, and interim periods beginning after Dec. 15, 2017.
<b>ASU No. 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"</b>	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.
<b>ASU No. 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items"</b>	For all entities, the guidance is effective for interim and annual periods beginning after Dec. 15, 2015, with early adoption permitted provided the guidance is applied from the beginning of the fiscal year of adoption.	For all entities, the guidance is effective for interim and annual periods beginning after Dec. 15, 2015, with early adoption permitted provided the guidance is applied from the beginning of the fiscal year of adoption.

Pronouncement	Public Business Entities	Nonpublic Entities
<b>Presentation and Disclosure Matters (continued)</b>		
<b>ASU No. 2015-03, “Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”</b>	For PBEs, the amendments 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.
<b>ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes”</b>	For PBEs, the amendments are effective for interim and annual periods beginning after Dec. 15, 2016.	For all other entities, the amendments are effective for annual periods beginning after Dec. 15, 2017, and interim periods within annual periods beginning after Dec. 15, 2018.
<b>Other</b>		
<b>ASU No. 2015-04, “Compensation – Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets”</b>	For PBEs, the amendments are effective for interim and annual periods beginning after Dec. 15, 2015. Early application is permitted.	For all other entities, the amendments are effective for annual periods beginning after Dec. 15, 2016, and interim periods in fiscal years beginning after Dec. 15, 2017. Early application is permitted.
<b>ASU No. 2014-05, “Service Concession Arrangements (Topic 853)”</b>	For PBEs, the amendments are effective for interim and annual periods beginning after Dec. 15, 2014. Early adoption is permitted.	For entities other than PBEs, the amendments are effective for annual periods beginning after Dec. 15, 2014, and interim periods beginning after Dec. 15, 2015. Early adoption is permitted.
<b>ASU No. 2014-12, “Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period”</b>	The amendments are effective for interim and annual periods beginning after Dec. 15, 2015. Early adoption is permitted.	The amendments are effective for interim and annual periods beginning after Dec. 15, 2015. Early adoption is permitted.
<b>ASU No. 2015-05, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement”</b>	For PBEs, the amendments are effective for interim and annual periods beginning after Dec. 15, 2015. Early adoption is permitted.	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. Early adoption is permitted.
<b>ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory”</b>	For PBEs, the amendments are effective for interim and annual periods beginning after Dec. 15, 2016. Early application is permitted as of the beginning of an interim or annual period.	For all other entities, the amendments are effective for annual periods beginning after Dec. 15, 2016, and interim periods beginning after Dec. 15, 2017. Early application is permitted as of the beginning of an interim or annual period.

## For Private Entities: The Private Company Council

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” (PBE), as discussed earlier in this publication, and this includes an entity that is registered or registering with the SEC as an emerging growth company.<sup>3</sup> Although 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. For example, the PCC has determined that financial institutions may not use the alternative provided for certain interest-rate swaps, which is discussed below.

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

### Goodwill

On Jan. 16, 2014, the FASB issued ASU No. 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”).

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 and new goodwill recognized in annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early application is permitted, including application to any period for which the entity’s annual or interim financial statements have not yet been made available for issuance.

On July 21, 2015, the PCC reached a [consensus-for-exposure](#), on PCC Issue No. 15-01, to allow private companies an unconditional one-time option to elect a PCC alternative without having to conduct an initial preferability assessment. Concurrently, the PCC reached a consensus-for-exposure to extend the transition guidance beyond the effective date to allow private companies to apply this alternative prospectively.

On Sept. 30, 2015, the FASB issued a proposed ASU, “[Intangibles – Goodwill and Other \(Topic 350\), Business Combinations \(Topic 805\), Consolidation \(Topic 810\), and Derivatives and Hedging \(Topic 815\): Effective Date and Transition Guidance \(a proposal of the Private Company Council\)](#),” to seek input on removing the effective dates and forgoing a preferability assessment the first time an accounting alternative is elected.

## Interest-Rate Swaps

The second PCC consensus endorsed by the FASB, ASU No. 2014-03, “[Derivatives and Hedging \(Topic 815\): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – Simplified Hedge Accounting Approach](#) (a consensus of the Private Company Council),” provides non-PBEs that are not not-for-profit entities, employee benefit plans, or financial institutions with an option to use a simplified hedge accounting approach to account for swaps entered into for the purpose of economically converting variable-rate interest payments to fixed-rate payments. Under this optional approach, the income statement charge for interest expense will be similar to the amount that would have resulted if the entity had entered directly into a fixed-rate borrowing.

Under existing GAAP, a swap is a derivative instrument. ASC Topic 815, “Derivatives and Hedging,” requires that an entity recognize all interest-rate swaps on its balance sheet as either assets or liabilities and measure them at fair value. To mitigate the income statement volatility of recording a swap’s change in fair value, ASC 815 permits an entity to elect hedge accounting if certain requirements are met. Some private company stakeholders noted that because of limited resources and the fact that hedge accounting is difficult to understand and apply, many private companies lack the expertise to comply with the requirements to qualify for hedge accounting and, therefore, they do not elect to apply hedge accounting – resulting in income statement volatility. In addition, some stakeholders questioned the relevance and cost associated with determining and presenting the fair value of a swap that is entered into for the purpose of economically converting a variable-rate borrowing to a fixed-rate borrowing.

The simplified hedge accounting approach provided by ASU 2014-03 allows a practical expedient to qualify for cash flow hedge accounting under ASC 815. Under this simplified approach, an entity may assume no ineffectiveness for qualifying swaps designated in a hedging relationship. This approach can be applied to a cash flow hedge of a variable-rate borrowing with a receive-variable, pay-fixed interest-rate swap provided certain criteria are met. The simplified approach also provides a practical expedient allowing the measurement of the fair value of the swap agreement using its settlement value. The documentation required to qualify for hedge accounting must be completed by the date on which the first annual financial statements are available to be issued after hedge inception rather than concurrently at hedge inception.

Because ASC 815 permits election of hedge accounting on a swap-by-swap basis, a private company can elect to apply this approach to any qualifying swap, whether existing at the date of adoption of ASU 2014-03 or entered into after that date. In determining whether an existing swap otherwise meets all of the requirements for applying this approach at adoption, the criterion that the swap’s fair value at the time of the application of this approach is at or near zero does not need to be considered as long as the swap’s fair value was at or near zero at the time the swap was entered into by the private company.

## Effective Dates and Transition

ASU 2014-03 is effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early implementation is permitted, including application to any period for which an entity’s annual or interim financial statements have not yet been made available for issuance.

## 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 ASU No. 2014-18, “[Business Combinations \(Topic 805\): Accounting for Identifiable Intangible Assets in a Business Combination \(a consensus of the Private Company Council\)](#).”

The ASU allows a private company to elect this accounting alternative not to 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 ASC 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 is (a) required to apply the acquisition method under ASC 805, “Business Combinations”; (b) is adopting fresh-start reporting under ASC 852 on reorganizations; or (c) 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 adopted upon the occurrence of the first business combination in fiscal years beginning after Dec. 15, 2015, and the effective date of adoption depends on the timing of that first business combination.

Specifically, if the business combination occurs in the first fiscal year beginning after Dec. 15, 2015, the elective adoption will be effective for that fiscal year’s annual financial reporting and interim and annual periods thereafter. If the business combination occurs in fiscal years beginning after Dec. 15, 2016, the elective adoption will be effective in the interim period that includes the date of that first business combination and subsequent interim and annual periods.

Early application is permitted for interim and annual financial statements that have not yet been made available. There is no option for retrospective application.

As previously noted, the FASB issued a proposal to seek input on removing the effective dates and forgoing a preferability assessment the first time an accounting alternative is elected. The proposed ASU covers the four alternatives the PCC has issued to date.



## 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 No. 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

Guidance in ASU 2014-07 is effective for annual periods beginning after Dec. 15, 2014, and interim periods within annual periods beginning after Dec. 15, 2015. Early application is permitted for all entities that have not yet issued their financial statements. When the option is elected, it should be applied retrospectively to all presented periods and applied to all leasing arrangements meeting the conditions.

As previously noted, the FASB issued a proposal to seek input on removing the effective dates and forgoing a preferability assessment the first time an accounting alternative is elected. The proposed ASU covers the four PCC alternatives issued to date.

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

### Leases

In July 2006, the FASB and the IASB added to their agendas a long-term project to reconsider the current lease accounting guidance. This project's objective was to comprehensively reconsider the guidance in FASB Statement No. 13, "Accounting for Leases (Topic 840)," and International Accounting Standard (IAS) No. 17, "Leases" – together with their subsequent amendments and interpretations – to provide users with useful, transparent, and complete information about leasing transactions. The result of this project would affect nearly every entity that engages in lease contracts.

The FASB issued its first proposed ASU on the topic, "[Leases \(Topic 840\)](#)," in August 2010. Since issuing the initial proposal, the boards held roundtables and re-deliberated their initial conclusions. Based on the number of changes in the original proposal, the boards announced, on July 21, 2011, their intention to revise and re-expose the proposals.

On May 16, 2013, the boards issued for comment a revised proposal, "[Leases \(Topic 842\): A Revision of the 2010 Proposed FASB ASU, 'Leases \(Topic 840\)'](#)," which would change the standards for lease accounting for both lessees and lessors. The revised proposal takes into account comment letters and other feedback the FASB and IASB received on their original proposals. The exposure draft did not include a proposed effective date.

Comments were due Sept. 13, 2013, and 528 comment letters were received. Crowe expressed its views on the proposal in a comment letter to the FASB, in [comment letter number 397](#).

### Lessees

Most leases today are operating leases and are accounted for off balance sheet. Under the proposal, most leases for lessees would be accounted for on balance sheet. An asset would be recorded to represent the right to use the leased asset, and a liability would be recorded to represent the obligation arising from lease contracts.

Two of the concerns stakeholders expressed about the first proposal were the front-loading of expense and the classification in the income statement. Under the revised proposal, some leases would be accounted for using an approach similar to that proposed in the 2010 exposure draft, which would result in a front-loading of expense and other leases being accounted for using an approach resulting in a straight-line lease expense.

The FASB has incorporated a dividing line in an effort to alleviate some of these concerns. Under this approach, a lessee would account for most existing capital/finance leases as Type A (finance) leases (that is, recognizing amortization of the right-of-use (ROU) asset separately from interest on the lease liability) and most existing operating leases as Type B (operating) leases (that is, recognizing a single total lease expense). Both Type A and Type B leases result in the lessee recognizing an ROU asset and a lease liability. Under the revised approach, a lessee would evaluate whether the risks and rewards have been passed (that is, determine whether a lease is effectively an installment purchase by the lessee) as follows:

	Type A – Finance	Type B – Operating
Have risks and rewards passed to 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 ■ Amortization 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

The IASB decided on a single approach for lessee accounting. Under that approach, a lessee would account for all leases as Type A leases (that is, recognizing amortization of the ROU asset separately from interest on the lease liability).

## Lessors

Similarly for lessors, the proposed rules would change the criteria for recognizing lease assets, which may affect the timing and nature of revenues and expenses. Following are some of the significant aspects of the exposure draft for lessors:

- The boards decided that a lessor should determine lease classification (Type A – Direct Finance/Sales-Type versus Type B – Operating) on the basis of whether the lease is effectively a financing or a sale rather than an operating lease (that is, on the concept underlying existing GAAP and on IFRS lessor accounting). A lessor would make that determination by assessing whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset.
- A lessor would be required to apply an approach substantially equivalent to existing IFRS finance lease accounting (and GAAP sales type/direct financing lease accounting) to all Type A leases. The boards decided to eliminate the receivable and residual approach proposed in the May 2013 exposure draft. In addition, the FASB decided that a lessor should be precluded from recognizing selling profit and revenue for any Type A lease that does not transfer control of the underlying asset to the lessee. This requirement aligns the notion of what constitutes a sale in the lessor accounting guidance with that in the revenue recognition standard, which evaluates whether a sale has occurred from the customer's perspective.

Type B leases would be treated similarly to operating leases for lessors; that is, the lessor would retain the underlying asset and recognize lease payments into income or loss over the lease term on a straight-line or other systematic basis:

	Type A – Direct Finance/Sales-Type	Type B – Operating
Lease type	■ Financing or sale	■ Operating
Balance sheet	■ Net investment in the lease	■ Continue to recognize underlying asset
Income statement	■ Interest income and any profit on the lease	■ Lease income, typically straight-line
Cash flow statement	■ Operating – cash received for lease payments	■ Operating – cash received for lease payments

## Next Steps

The FASB concluded its deliberations, and at its Nov. 11, 2015, meeting the board gave the staff permission to proceed with finalizing a standard.

## Effective Dates and Transition

- **PBEs, certain not-for-profit entities, and certain employee benefit plans** – Fiscal years beginning after Dec. 15, 2018, including interim periods within those fiscal years.
- **All other entities** – Fiscal years beginning after Dec. 15, 2019, and interim periods within the fiscal years beginning after Dec. 15, 2020.

Early adoption will be permitted upon issuance.

- **Lessee** – modified retrospective transition for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented. There will be no transition for leases that expired before application of the new standard.
- **Lessor** – modified retrospective transition for sales-type, direct financing, and operating leases existing at, or entered into after, the date of initial application. There will be no transition for leases that expired before application of the new standard.

## IASB Developments

On Jan. 13, 2016, the IASB released [IFRS 16, “Leases.”](#) This standard addresses the recognition, measurement, presentation and disclosure of leases for both lessors and lessees and represents a standard that is substantially converged with the FASB’s lease project. Specifically, the FASB and the IASB both agreed to bring leases on the balance sheets and also agreed on the definition of a lease and the measurement of lease liabilities.

IFRS 16 is effective beginning Jan. 1, 2019, and early application is permitted for companies that also apply IFRS 15, [“Revenue From Contracts With Customers,”](#) on Jan. 1, 2019.

## Financial Instruments

The FASB had a convergence project with the 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 recognition and measurement, impairment, and hedging. Since the original proposal, the FASB has split the project into three: (1) classification and measurement, (2) credit losses, and (3) hedging. For the first two, the FASB issued re-proposals in late 2012 and early 2013. Since then, the FASB has been re-deliberating the proposed decisions.

For classification and measurement, the board took a meaningful departure from its most recent proposal and made only targeted improvements to existing GAAP with the release of [ASU 2016-01](#) in January 2016. See “Financial Instruments” in the section titled “From the FASB: Final Standards” for a discussion of the final standard on classification and measurement.

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. The CECL model will be applicable to the measurement of credit losses on financial assets measured at amortized cost, which primarily includes loan portfolios. The credit loss standard anticipated in the first quarter of 2016 would exclude debt securities classified as AFS.

Finally, the FASB started re-deliberating the hedging component in late 2014.

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

## Hedging

Initial actions by the FASB to improve hedge accounting date back to June 6, 2008, when the board issued its first document on the hedging project, an exposure draft, “[Accounting for Hedging Activities](#).” Then, on May 26, 2010, the board issued a comprehensive 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 \(Topic 815\)](#),” which addressed all three components of the financial instruments project (credit losses, classification and measurement, and hedging). On Feb. 9, 2011, the FASB issued a discussion paper, “[Selected Issues About Hedge Accounting](#),” to obtain comments on the IASB’s exposure draft titled “[Hedge Accounting](#).” Since then, the board has released no proposals about hedge accounting.

The FASB began re-deliberations on the hedge accounting project for financial instruments in 2014 and decided to move forward with 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.

The board made a number of tentative decisions during the 2015 re-deliberations, and they are outlined in the following summary.

### 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.
- 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 tentative decisions, 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 tentative decisions 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 change in fair value of the hedged item using either the entire coupon or the portion of the contractual cash flows related to the benchmark interest rate. 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, and this change would allow components of the total change. For example, if an entity entered a contract to purchase brass and the contract price were specifically tied to copper prices, the entity could designate the copper price component with a copper futures contract.
- Cash flow hedges of nonfinancial items also would be allowed to be designated with exposure limits for purposes of assessing effectiveness, which would allow for hedge designation when using a cap or floor.

### 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. However, the portion of the derivative's gain/loss that was excluded from the effectiveness assessment would not be recorded in OCI and would continue to be reported immediately in the same income statement line as the hedged item.
- The tentative decisions also include 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 would also be required.

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

The board anticipates issuing during the second quarter of 2016 a proposed ASU that includes these tentative decisions.

### IASB Developments

In mid-December 2011, the IASB amended IFRS 9, "[Financial Instruments](#)," to defer the mandatory effective date from Jan. 1, 2013, to Jan. 1, 2015, so that all phases of the project could have the same mandatory effective date. Subsequently, the IASB and the FASB worked together in an attempt to achieve a converged solution.



On Nov. 28, 2012, the IASB issued its classification and measurement proposal, "[Classification and Measurement: Limited Amendments to IFRS 9](#)." It sought to reduce significant differences with the FASB's tentative classification and measurement model, with the goal of achieving greater international comparability in the accounting for financial instruments. The IASB followed up, on March 7, 2013, with its exposure draft, "[Financial Instruments: Expected Credit Losses](#)." The proposal retained the three-bucket approach that was developed jointly by the IASB and the FASB but later was rejected by the FASB, which cited operational concerns.

On July 24, 2014, the IASB announced the completion of final amendments to IFRS 9, "Financial Instruments." The amendments complete a three-phase project to replace International Accounting Standard (IAS) No. 39, "[Financial Instruments: Recognition and Measurement](#)." Previous versions of IFRS 9 had established classification and measurement requirements (issued in 2009 and 2010) and a new hedge accounting model (issued in 2013). The most recent amendments replace the earlier versions of IFRS 9. Changes include a new expected-loss impairment model that would require more timely recognition of expected credit losses.

IFRS 9 will be effective for annual periods beginning on or after Jan. 1, 2018, with earlier application permitted. The IASB has made available a project summary that provides an overview of the requirements of IFRS 9. An article available on the IASB website, "[IFRS 9: A Complete Package for Investors](#)," discusses the new standard from an investor perspective. A [recording of a July 29, 2014, Web presentation and Q&A session](#) on the final standard is also available on the [IASB website](#).

## Disclosure Framework

Another major project on the FASB's agenda is the disclosure framework project. The objective of this project is to improve disclosure effectiveness in notes to financial statements by communicating what is most important to financial statement users. The project focuses on improving disclosures by providing guidance in two main areas: (1) the FASB's decision process and (2) the reporting entity's decision process.

### Board's Decision Process

On March 4, 2014, the FASB published a proposed chapter of its conceptual framework related to notes to financial statements. The exposure draft, "[Conceptual Framework for Financial Reporting: Chapter 8: Notes to Financial Statements](#)," proposes guidance the FASB would use when creating and evaluating disclosure requirements. It is intended to assist the board with identifying relevant information and establishing limits on information that should be included in notes to financial statements. If approved, it would help improve the FASB's procedures and promote consistent decision-making when establishing disclosure requirements.

The proposal describes the purpose of notes and general limitations. It goes into detail about the nature of appropriate content. The exposure draft states that the notes to financial statements should contain information about the following matters:

- Financial statement line items
- The reporting entity
- Past events and current conditions and circumstances that have not met the criteria for recognition that can affect an entity's cash flows

Information that the FASB generally should *not* require to be disclosed in the notes, according to the proposal, includes:

- Assumptions and expectations about uncertain future events that are not reflected in financial statements
- Information about matters that are not specific to the entity and are common knowledge or readily and cost-effectively available from other sources as long as a knowledgeable resource provider should be aware of the need for the information and its availability

The FASB published a "[FASB in Focus](#)" article describing the proposal. Comments were due July 14, 2014. The board is in process of re-deliberations.

## Reporting Entity's Decision Process

A sister project to the board's decision process project, this project is designed to provide discretion by preparers when evaluating disclosure requirements. The FASB issued an exposure draft of the proposed ASU related to this project, "[Notes to Financial Statements \(Topic 235\): Assessing Whether Disclosures Are Material](#)," on Sept. 24, 2015. The proposal is applicable to all entities and is intended to promote the appropriate use of discretion by organizations when they are deciding which disclosures should be considered material in their particular circumstances.

The proposal explicitly states that materiality is a legal concept; materiality is applied to quantitative and qualitative disclosures individually and in the aggregate in the context of the financial statements (thus some, all, or none of the requirements may be material); and omitting an immaterial disclosure is not an accounting error.

Comments were due Dec. 8, 2015.

## In the Pipeline: Other FASB Projects

### Presentation and Disclosure

#### Cash Flow Statement Classification Issues

On April 8, 2015, the FASB voted to have the EITF consider nine cash flow statement topics due to the diversity that exists in practice related to those topics. The EITF has summarized those topics in "[EITF Issue No. 15-F: Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments](#)."

The EITF considered the following nine cash flow issues and reached the following tentative conclusions:

- **Issue 1 – Debt Prepayment or Debt Extinguishment Costs.** Cash payments for debt prepayment or extinguishment costs should be classified as cash outflows for financing activities
- **Issue 2 – Settlement of Zero-Coupon Bonds.** 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.
- **Issue 3 – Contingent Consideration Payments Made After a Business Combination.** Cash payments made by an acquirer after a business combination for the settlement of a contingent consideration liability should be separated and classified as cash outflows for financing activities (payments at or below fair value) and operating activities (any excess).
- **Issue 4 – Restricted Cash.** No tentative decision was reached.
- **Issue 5 – Proceeds From the Settlement of Insurance Claims.** Classification of the proceeds received from insurance claims settlements 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.
- **Issue 6 – Proceeds From the Settlement of Corporate-Owned Life Insurance (COLI) Policies:**
  - **Aligning the Classification of Premiums and Proceeds for COLI Policies.** This will not require premiums paid and proceeds received related to COLI policies to be classified in the same cash flow category. However, the ASC would include guidance stating that the classification of premiums paid would be permitted, but not required, to be aligned with the classification of proceeds received.
  - **Classification of Proceeds Received From the Settlement of COLI Policies.** Cash proceeds received from the settlement of COLI policies should be classified as cash inflows from investing activities.

- **Issue 7 – Distributions Received From Equity Method Investees.** Distributions received from an equity-method investee should be classified by applying the cumulative earnings approach, which takes into consideration whether the distributions exceed cumulative equity in earnings. If cumulative distributions do not exceed cumulative equity in earnings, classification of the return on investment is considered to be returns on investment (a dividend) and classified as an operating cash flow. If cumulative distributions exceed cumulative equity in earnings, the classification of the return on investment is an investing cash flow. This tentative conclusion does not apply to equity-method investments measured using the fair value option. For SEC registrants, this issue may affect parent company-only financial statements filed with the SEC.
- **Issue 8 – 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.
- **Issue 9 – Predominant Cash Receipts and Cash Payments:**
  - Rather than providing implementation guidance and illustrations, the EITF made clarifications to the predominance principle.

At its Nov. 12, 2015, meeting, the EITF reached consensus for exposure on eight of the nine issues, reaffirming prior tentative conclusions. Issue 4, restricted cash, will be discussed at a future meeting. Retrospective adoption will be required, and it will include an impracticability provision for information not available. The effective date will be discussed at a future meeting.

At its Dec. 11, 2015, meeting, the FASB decided to ratify the EITF consensus and move forward with issuing a proposed standard.

## Fair Value Measurement Disclosures

As previously discussed, in the "In the Pipeline: Major Projects on FASB's Agenda" section of this publication, a disclosure framework project is on the FASB's agenda. The board decided to test-drive its proposed framework on four areas: inventory, income taxes, fair value measurements, and defined benefit pensions and other postretirement plans.

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 propose 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 proposes to use legacy definitions of "public" rather than conform to its newer "PBE" definition. The old terminology of "nonpublic entity" and "private company" do 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."

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		Removed
Reconciliation of the opening balances to the closing balances of recurring Level 3 fair value measurements		Removed
For investments in certain entities that calculate net asset value, require disclosure of 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, communicate 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 other comprehensive income 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	
For Level 3 fair value measurements, the range, weighted average, and time period used to develop significant unobservable inputs	Added	

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

Comments are due Feb. 29, 2016.

## Simplifying the Balance Sheet Classification of Debt

In 2015, the FASB began deliberations on this project, which aims to define an accounting principle that will simplify the current versus noncurrent balance sheet classification of debt. The board has reached tentative decisions about a proposed standard.

Tentative board decisions reached at the Jan. 28, 2015, meeting include the following:

- **Classification principle.** Debt would be classified as noncurrent if one or more of the following conditions are met at the balance sheet date:
  - The liability is due more than 12 months (or an operating cycle, if longer) after the balance sheet date.
  - The entity has a contractual right to defer settlement of the liability for at least 12 months (or an operating cycle, if longer) after the balance sheet date.

Classification of debt would be based on facts and circumstances that exist as of the balance sheet date.

- **Scope.** The proposal would apply to all debt arrangements.

The tentative decisions from the July 29, 2015, meeting include the following:

- **Scope.** The board provided further clarification that convertible debt instruments and liability-classified mandatorily redeemable financial instruments would be included in the proposal's scope.
- **Classification principle.** Subjective acceleration clauses would affect the classification of the debt when triggered.
- **Exception to classification principle.** Debt covenant waivers received after the balance sheet date but before financial statements are issued would be considered when assessing the classification of debt as current or noncurrent. The exception would apply to all waivers, except for those that result in a debt modification or an extinguishment (as defined in ASC 470-50, "Debt – Modifications and Extinguishments"). This exception would retain the probability assessment that is performed under existing GAAP in ASC 470-10-45-1(b). Separate presentation would be required in the balance sheet for debt that is classified as noncurrent as a result of this exception.
- **Disclosure.** Debt covenant violations and significant subjective acceleration clauses and debt covenants would be required disclosures.
- **Transition.** Prospective application would be required in interim and annual periods following the effective date for all debt that exists as of the effective date.
- **Transition disclosures.** Disclosure of the nature of and reason for the change in accounting principle, and the effect of the change on affected financial statement line items in the current period would be required.

The FASB expects to issue an exposure draft in the first quarter of 2016.

## 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 is currently 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
- Unless impracticable, the amount of government assistance received but not recognized

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

Examples of government assistance agreements in scope are provided in the proposal and include grants, loans, and tax incentives.

Comments on the exposure draft are due Feb. 10, 2016.

## Financial Instruments

### Derivative Novations

For derivative contracts, the term “novation” refers to replacing one party to the derivative contract with another. 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. The EITF added a project to its 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.

At its June 18, 2015, meeting, the EITF reached a consensus-for-exposure that a change in one of the parties to a derivative contract that is part of an existing hedge accounting relationship does not, in and of itself, require de-designation of that hedge relationship.

On Aug. 6, 2015, the FASB issued proposed ASU, “[Derivatives and Hedging \(Topic 815\): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships \(a consensus of the FASB EITF\)](#).” Comments were due Oct. 5, 2015.

The EITF reaffirmed its conclusion at its Nov. 12, 2015, meeting. At its Dec. 11, 2015, meeting, the FASB decided to ratify the EITF consensus and move forward with issuing a final standard.

### Effective Dates and Transition

The EITF determined the effective dates as follows:

- PBEs – Financial statements issued for fiscal years beginning after Dec. 15, 2016, and interim periods within those years.
- Non-PBEs – Financial statements issued for fiscal years beginning after Dec. 15, 2017, and interim periods within fiscal years beginning after Dec. 15, 2018.

Early adoption is permitted.

The guidance will be applied prospectively to hedge accounting relationships in which a change in counterparty occurs after the effective date. A modified retrospective adoption will be allowed for all hedge relationships that were due to a novation.

### Premiums and Discounts on Callable Debt Securities

In September 2014, a stakeholder requested that the board address the accounting for the premium or discount (components of interest income) associated with the purchase of callable municipal securities. Under current GAAP, premiums and discounts are amortized and accreted over contractual life, not to call date. It has been observed that there are significant premiums on assets, particularly on instruments issued by municipalities that are likely to be repaid earlier than maturity. The result is over-recognition 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.

The FASB staff is researching the disclosures required for interest income on callable debt securities and loans and considering whether limitations on the scope of instruments are necessary.



## Contingent Puts and Calls on Debt Instruments

Diversity in practice has been observed related to applying the FASB Derivatives Implementation Group (DIG)'s four-step decision sequence for evaluating the clearly and closely related criterion of contingent call and put options on debt instruments. The EITF took up this issue in Issue 15-E, and on Aug. 6, 2015, the FASB issued a proposal, "[Derivatives and Hedging \(Topic 815\): Contingent Put and Call Options in Debt Instruments \(a consensus of the FASB Emerging Issues Task Force\)](#)."

The diversity in practice arises because practitioners are either (1) performing the assessment of the clearly and closely related criterion of such contingent options based only on an analysis of the DIG's four-step decision sequence or (2) performing the DIG's four-step decision sequence and assessing whether the contingency event is indexed only to interest rates or credit risk. The diversity in practice may result in different conclusions about which options should be bifurcated and separately accounted for as derivatives.

The proposal clarifies that only the four-step decision sequence is required.

The amendments would be applied on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year, and interim periods within that fiscal year, for which the amendments are effective.

If an entity is no longer required to bifurcate a previously bifurcated embedded derivative as a result of applying the amendments, the combined carrying amount of the debt host contract and the fair value of the previously bifurcated embedded derivative would become the carrying amount of the debt instrument upon adoption. Such entities would have a one-time option, as of the beginning of the fiscal year for which the proposed amendments are effective, to irrevocably elect to measure that debt instrument in its entirety at fair value with changes in fair value recognized in earnings.

For instruments that are elected to be carried at fair value, a cumulative-effect adjustment directly to retained earnings as of the beginning of the fiscal year of adoption would be recorded for the effects. The fair value election would be made on an instrument-by-instrument basis.

The final consensus was ratified by the FASB at its Dec. 11, 2015, meeting, and a final ASU is expected to be issued in the first quarter of 2016.

## Liabilities and Equity – Targeted Improvements

The FASB staff is drafting a proposal to address tentative decisions by the board to make changes to the accounting for an equity-linked financial instrument with a down-round feature and to replace the current indefinite deferral with a scope exception in ASC 480.

The proposal is expected to include instruments with down-round features in its scope – that is, instruments that give the holder the option to purchase equity shares at a strike price (the exercise price) that would be reduced when the entity sells shares of its equity shares for an amount less than the initial strike price or the entity issues an equity-linked financial instrument with a strike price below the initial strike price of the instrument.

The proposal is expected to change the accounting for an equity-linked financial instrument with a down-round feature such that an entity would no longer consider the down-round feature when assessing whether the instrument is indexed to its own stock. However, the down-round feature would be recognized when triggered, as follows:

1. For an equity-classified instrument, the fair value of the down-round feature would be recorded in equity as a deemed dividend.
2. For a liability-classified financial instrument, the fair value of the down-round feature would be recognized in earnings when triggered (that is, when the exercise price of the instrument is reduced due to an event defined in the relevant contract).

When a down-round feature is triggered in a reporting period, the proposal is expected to require disclosure that the feature has been triggered and whether the impact of the feature is recorded in retained earnings or earnings.

The proposal is expected to be applied on a cumulative-effect basis to outstanding instruments as of the effective date with no adjustments to prior periods. The cumulative effect of the change would be recognized as an adjustment to opening retained earnings in the annual or interim period of adoption. Entities would not be required to provide transition disclosures.

The proposal also is expected to add a scope exception to replace the indefinite deferral in ASC 480 for mandatorily redeemable financial instruments of nonpublic entities that are not SEC registrants.

The FASB is expected to issue an exposure draft in the first quarter of 2016. More information on this project can be found on [the FASB's project page](#).

## Business Combinations

### Goodwill

Based on the PCC's recommendation to permit private entities to amortize goodwill (see "Goodwill" in the section titled "For Private Entities: The Private Company Council"), on Dec. 10, 2013, the FASB added a project to its agenda on the accounting for goodwill for PBEs and not-for-profit entities. The board directed the staff to perform additional outreach and research on the following four alternatives:

1. The PCC alternative – the amortization of goodwill over 10 years or less than 10 years if an entity demonstrates that another useful life is more appropriate. Goodwill would be tested for impairment upon the occurrence of a triggering event. An entity would make an accounting policy election to test goodwill for impairment at the entity level or at the reporting-unit level. The amount of impairment would be the difference in the carrying value of the entity and its fair value (or the carrying value of the reporting unit and its fair value).
2. Amortization of goodwill over its useful life not to exceed a maximum number of years
3. Direct write-off of goodwill
4. Simplified impairment test

At its Feb. 12, 2014, meeting, the board discussed the four alternatives but made no decision. The board directed the staff to perform additional research and outreach with PBE stakeholders about the alternatives.

The FASB discussed the issue at its Oct. 28, 2015, meeting and decided to proceed with a phased approach. In the first phase, the FASB plans to simplify the impairment test by removing the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value (step 2 of the impairment model in current GAAP). The board decided not to allow an option to perform step 2. In the second phase of the approach, the FASB plans to work concurrently with the IASB to address any additional concerns about the subsequent accounting. The board also decided not to allow not-for-profit entities to apply the PCC accounting alternative (ASU No. 2014-02), which is available only to non-PBEs. Last, the board decided that if the reporting unit has a zero or negative carrying amount and it is more likely than not that goodwill is impaired, an entity would be required to write off the full carrying amount of goodwill allocated to the reporting unit.

### Identifiable Intangible Assets in a Business Combination

Based on the PCC's recommendation to permit private entities not to identify certain intangibles separately from goodwill, on Nov. 5, 2014, the FASB added a project to its agenda for PBEs and not-for-profit entities. In the initial deliberations stage, the board held meetings in 2015, including one with the IASB, to discuss both of the board's business combination projects. The FASB discussed the staff research on Oct. 28, 2015. Given that the feedback from constituents consistently has been mixed, the FASB decided to continue to engage with the international community to determine a path forward.

## Equity Method Accounting

In an effort to simplify equity method accounting, the FASB issued a proposed ASU, “[Investments—Equity Method and Joint Ventures \(Topic 323\): Simplifying the Equity Method of Accounting](#),” on June 5, 2015. The proposal addressed two primary issues: (1) the accounting for the difference between the cost of an equity method investment and the amount of the underlying equity in net assets of an investee (that is, the basis difference), and (2) the retroactive adoption of the equity method if an investment that previously was accounted for differently qualifies for the equity method due to an increase in the level of ownership.

At the Nov. 19, 2015, board meeting, the FASB split the project into two issues and proceeded with each separately.

### 1. Accounting for the Basis Difference

Currently, an equity method investor must account for the basis difference, which is the difference between the cost of an investment and the investor’s proportionate share of the net assets of the investee.

Under the proposed amendments, an entity would recognize its equity method investment at its cost, would not be required to determine the fair value of the investee’s identifiable assets and liabilities assumed at the acquisition date, and would no longer be required to account for the basis difference.

The proposed amendments would be applied on a modified prospective basis, and comments were due Aug. 4, 2015.

At the Nov. 19, 2015, board meeting the FASB decided to perform additional research in a separate project (the “Improving the Equity Method of Accounting” project), which will include considerations of basis difference.

### 2. Simplifying the Transition to the Equity Method of Accounting

Under current GAAP, entities must apply the equity method on a retroactive basis if the entities have not previously accounted for the investment under the equity method and, subsequently, have experienced increases in ownership that qualify the investment for the equity method of accounting.

Under the proposal, the retroactive application requirement would be removed for those specific circumstances.

At the Nov. 19, 2015 meeting, the board decided to move forward with removing the retroactive requirement and directed the staff to draft a final ASU for a board vote.

## Consolidation

### Not-for-Profit General Partners – Clarification on Consolidation of For-Profit Limited Partnerships (or Similar Entities)

Based on stakeholder feedback received subsequent to the issuance of ASU 2015-02, the FASB added a project to its agenda at its meeting on Dec. 16, 2015. The objective of the project is to clarify when a not-for-profit entity that is a general partner should consolidate a for-profit limited partnership. Stakeholders noted that GAAP, subsequent to the issuance of ASU 2015-02, needs additional clarification about when a not-for-profit entity that is a general partner should consolidate a for-profit limited partnership or similar entity.

To clarify GAAP, the staff presented the following alternatives to the board for amending the consolidation guidance:

1. Maintain current practice such that a presumption exists that a not-for-profit general partner controls a limited partnership unless the limited partners are able to exercise substantive kick-out or participating rights.

2. Align the concept of a controlling financial interest for a not-for-profit general partner of a for-profit limited partnership with the concept of a controlling financial interest in the variable-interest model (see ASC 810-10-25). This alternative would require consolidation when the not-for-profit general partner has both (1) the power to direct the activities of a limited partnership that have the most significant impact on the limited partnership's economic performance and (2) the obligation to absorb losses of the limited partnership that potentially could be significant to the limited partnership or the right to receive benefits from the limited partnership that potentially could be significant to the limited partnership.

The board directed the staff to perform additional research on both alternatives.

## Stock Compensation

### Employee Share-Based Payment Accounting and Classification Improvements

The FASB issued a proposed ASU, "[Compensation – Stock Compensation \(Topic 718\): Improvements to Employee Share-Based Payment Accounting](#)," on June 8, 2015. The proposed guidance addresses, among other topics, income tax consequences, awards classification, and classification on the statement of cash flows. The proposed amendments also would eliminate the guidance in ASC Topic 718, "Compensation – Stock Compensation," which had been indefinitely deferred.

Proposed changes to the recognition and measurement of share-based payment transactions generally would transition to the new guidance through a cumulative-effect adjustment to equity as of the beginning of the annual period in which the guidance is effective. The amendments for the accounting for excess tax benefits, tax deficiencies, and the practical expedient for estimating the expected term would be applied prospectively. The proposed changes to the classification on the statement of cash flows would be applied retrospectively. Transition disclosures, including the nature and reason for the change in accounting principle, also would be required. Certain of the proposals would apply only to nonpublic entities.

Comments were due Aug. 14, 2015. The board is processing [the comment feedback](#) and will re-deliberate the proposal.

### Nonemployee Share-Based Payment Accounting Improvements

As part of its simplification effort, the FASB focused on making improvements to the existing model for share-based payments to employees, and stakeholders suggested improvements to the nonemployee share-based payment model. The board then made the nonemployee share-based payment topic its own separate research project.

After the staff presented its research to the board, at its Dec. 16, 2015, meeting, the board added a project to its agenda to improve the accounting model for nonemployee share-based payments. In addition, the board asked the staff to perform additional research on the alternatives presented at the meeting, including:

- Alternative A: Aligning nonemployee and employee accounting for unresolved performance conditions
- Alternative B: Expanding the scope of ASC Topic 718 to include share-based-payment transactions with nonemployees providing similar services as that of employees
- Alternative C: Expanding the scope of ASC Topic 718 to include all share-based-payment transactions for acquiring goods and/or services with nonemployees

The board will continue deliberating at a future meeting.

## Definition of a Business

### Phase 1: Clarifying the Definition of a Business

On Nov. 23, 2015, the board issued an exposure draft related to phase 1 of the broader project to define a business, "[Business Combinations \(Topic 805\): Clarifying the Definition of a Business](#)."

The exposure draft seeks to clarify the definition of a business in order to help companies evaluate whether acquisitions or dispositions are transactions involving assets or businesses. The clarifications are as follows:

- A screening process is proposed to reduce the quantity of transactions that need to be evaluated under the proposed 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 business would include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs.
- A framework is proposed to assist in evaluating whether both an input and a substantive process are present.
- A narrower definition of outputs is proposed, to align with the description in ASC Topic 606.
- Language would be removed that states that a business need not include all of the inputs and processes that the seller used in operating a business if market participants are capable of acquiring the business and continuing to produce outputs.

Comments on the exposure draft were due Jan. 22, 2016, and there is no proposed effective date.

### Phase 2: Clarifying the Scope of Subtopic 610-20 and Accounting for partial Sales of Nonfinancial Assets

The second phase of the board's project on defining a business is titled, "Definition of a Business (Phase 2): Clarifying the Scope of Subtopic 610-20 and Accounting for Partial Sales of Nonfinancial Assets." This phase relates to accounting for partial sales and related retained interests and defining or eliminating the in-substance nonfinancial assets concept in ASC Topic 610.

In the future, the board will complete deliberations on phase 2, and the outcome of phase 1 could affect decisions about in-substance nonfinancial assets.

### Phase 3: Alignment of Accounting Differences in Acquisitions and De-recognition of Assets and Businesses

When this third phase in the broader project on the definition of a business begins, the initial focus will be on de-recognition differences, a topic that overlaps with phase 2.

## Other Accounting Matters

### Breakage for Certain Prepaid Cards

On April 30, 2015, the FASB issued a proposed ASU, "[Liabilities – Extinguishments of Liabilities \(Subtopic 405-20\): Recognition of Breakage for Certain Prepaid Stored-Value Cards \(a consensus of the FASB Emerging Issues Task Force\)](#)." The proposal relates to prepaid cards issued to cardholders with dollar amounts redeemable for goods, services, or cash at a third-party merchant.

Specifically, the proposal addresses the prepaid card issuer's liability of the portion that is never redeemed by the customer (otherwise referred to as "breakage"). GAAP currently does not contain specific guidance for liabilities resulting from the sale of prepaid stored-value cards, and there has been diversity in how prepaid stored-value card liabilities are de-recognized. The issue was added to the EITF's agenda as issue 15-B.

Under current GAAP (ASC 405-20), the prepaid card issuer does not de-recognize the liability before the customer redeems the card or the card expires or becomes subject to unclaimed property laws. Pending guidance in ASC 606 would require prepaid card issuers to determine the related liability as a nonfinancial liability (rather than a financial liability) and apply less restrictive guidance.

The proposal would require prepaid card issuers to recognize breakage consistent with the guidance in ASC 606-10-55-48. That breakage guidance indicates that, if the prepaid card issuer expects to have the right to unredeemed prepaid amounts (which is revenue), the issuer would recognize that amount in proportion to the pattern of rights exercised by the customer (cardholder). If the entity does not expect any breakage, the revenue would be recognized when the likelihood becomes remote that the cardholder will use the remaining prepaid amount.

Comments were due June 29, 2015.

The proposal applies only to prepaid cards that may be redeemed only for goods and services at a third-party merchant and not to arrangements in which a prepaid card issuer directly provides (a) goods or services to a cardholder or (b) prepaid cards that are refundable or redeemable for cash. At its Sept. 17, 2015, meeting, the EITF reached a tentative conclusion to broaden the scope to other prepaid stored-value cards and instruments similar to prepaid stored-value cards such as travelers' checks.

At its Nov. 12, 2015, meeting, the EITF reached a final consensus, reaffirming that the scope issue includes prepaid stored value products that are redeemable for goods and services as well as cash. However, prepaid cards redeemable only for cash are not in the scope. The EITF also clarified that customer loyalty programs are not within the scope.

At its Dec. 11, 2015, meeting, the FASB decided to ratify the EITF consensus and move forward with issuing a final standard.

### **Effective Dates and Transition**

The EITF decided to align the effective dates with the revenue recognition standard as follows:

- PBEs, certain not-for-profit entities, and employee benefit plans – Annual reporting periods beginning after Dec. 15, 2017, including interim reporting periods within that reporting period.
- All other entities – Annual reporting periods beginning after Dec. 15, 2018, and interim reporting periods within annual reporting periods beginning after Dec. 15, 2019.

Early adoption, including early adoption prior to the adoption of Topic 606, is permitted.

For transition, either a modified retrospective transition with a cumulative-effect adjustment as of the beginning of the period of adoption or a full retrospective transition will be used.

### **Accounting for Income Taxes: Intra-Entity Asset Transfers**

As part of the FASB's simplification initiative, aimed at reducing the complexity of accounting standards, the board issued [“Two Proposed Accounting Standards Updates, Income Taxes \(Topic 740\): I. Intra-Entity Asset Transfers and II. Balance Sheet Classification of Deferred Taxes”](#) on Jan. 22, 2015.

For the intra-entity asset transfers, the proposal would eliminate the exception prohibiting the recognition of current and deferred-income tax consequences for intra-entity asset transfers until the asset or assets have been sold to an outside party. An entity would be required to recognize the current and deferred tax consequences of such asset transfers when the transfers occur, and the proposed standard would be applied on a modified retrospective basis.

On Oct. 5, 2015, the board re-deliberated the proposed updates and asked the staff to research and perform outreach to stakeholders about the intra-entity asset transfers topic. See the “Balance Sheet Classification of Deferred Taxes” discussion of the final standard on that topic in the “From the FASB: Final Standards” section of this article.



## Key Abbreviations and Acronyms

<b>AFS</b>	available for sale	<b>IASC</b>	International Accounting Standards Committee (accounting standard-setter, predecessor of IASB)
<b>AICPA</b>	American Institute of Certified Public Accountants	<b>IFRS</b>	International Financial Reporting Standard (issued by IASB)
<b>ALLL</b>	allowance for loan and lease losses	<b>LIFO</b>	last-in, first out
<b>AOCI</b>	accumulated other comprehensive income	<b>MBS</b>	mortgage-backed security
<b>ASC</b>	Accounting Standards Codification (issued by the FASB)	<b>MD&amp;A</b>	management's discussion and analysis (as required by SEC regulation)
<b>ASU</b>	Accounting Standards Update	<b>NAV</b>	net asset value
<b>CAQ</b>	Center for Audit Quality	<b>NCA</b>	noncompetition agreement
<b>CDO</b>	collateralized debt obligation	<b>NI</b>	net income
<b>CECL</b>	current expected credit loss	<b>NOL</b>	net operating loss
<b>CFE</b>	collateralized financing entity	<b>OCI</b>	other comprehensive income
<b>CLO</b>	collateralized loan obligation	<b>OTC</b>	over-the-counter (as in OTC market)
<b>CMO</b>	collateralized mortgage obligation	<b>PBE</b>	public business entity (FASB's definition of "public" for financial reporting purposes)
<b>COLI</b>	corporate-owned life insurance	<b>PCAOB</b>	Public Company Accounting Oversight Board
<b>CRI</b>	customer-related intangible asset	<b>PCC</b>	Private Company Council (which recommends to the FASB alternatives for private companies)
<b>DIG</b>	Derivatives Implementation Group (of the FASB)	<b>PCD</b>	purchased credit deteriorated
<b>DTA</b>	deferred-tax asset	<b>PCI</b>	purchased credit impaired
<b>EITF</b>	Emerging Issues Task Force (a standing FASB task force)	<b>ROU</b>	right of use
<b>FAS</b>	Financial Accounting Standard	<b>SaaS</b>	software as a service
<b>FASB</b>	Financial Accounting Standards Board	<b>SAB</b>	Staff Accounting Bulletin (issued by SEC)
<b>FCAG</b>	Financial Crisis Advisory Group (a task force assembled to advise FASB and IASB)	<b>SEC</b>	U.S. Securities and Exchange Commission
<b>FIFO</b>	first-in, first-out	<b>SFAS</b>	Statement of Financial Accounting Standards (standards issued by FASB prior to the ASC)
<b>FIN</b>	FASB Interpretation Number	<b>SIFMA</b>	Securities Industry and Financial Markets Association
<b>FinREC</b>	Financial Reporting Executive Committee (a senior technical committee of the AICPA)	<b>SPPI</b>	solely payments of principal and interest
<b>FOB</b>	free on board	<b>TDR</b>	troubled debt restructuring
<b>FV</b>	fair value	<b>TPA</b>	Technical Practice Aids (nonauthoritative guidance issued by the AICPA)
<b>GAAP</b>	generally accepted accounting principles	<b>TRG</b>	Joint Transition Resource Group for Revenue Recognition (formed by the FASB and IASB)
<b>HFI</b>	held for investment	<b>VIE</b>	variable-interest entity
<b>HFS</b>	held for sale		
<b>HTM</b>	held to maturity		
<b>IAS</b>	International Accounting Standard (issued by the IASC)		
<b>IASB</b>	International Accounting Standards Board		



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<sup>1</sup> For a more detailed overview of ASU 2014-09, see Scott Lehman and Alex J. Wodka, "Revenue From Contracts With Customers: Understanding and Implementing the New Rules," Crowe Horwath LLP, October 2014, <http://www.crowehorwath.com/ContentDetails.aspx?id=9879>

<sup>2</sup> See SEC Chief Accountant James Schnurr's [Remarks Before the UCI Audit Committee Summit](#) on Oct. 23, 2015

<sup>3</sup> The SEC staff's view that emerging growth companies are public entities and are not able to use the private company alternatives in SEC filings was discussed at the [SEC Regulations Committee meeting on Sept. 25, 2013](#)

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