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Insurance

Accounting and Financial Reporting Update

January 18, 2019

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Earnings per Share

Environmental Obligations and Asset Retirement Obligations

Equity Method Investments and Joint Ventures

Equity Method Investees — SEC Reporting Considerations

Foreign Currency Transactions and Translations

Income Taxes

Initial Public Offerings

Leases

Noncontrolling Interests

Non-GAAP Financial Measures

Revenue Recognition

SEC Comment Letter Considerations, Including Industry Insights

Segment Reporting

Share-Based Payment Awards

Statement of Cash Flows

Coming soon:

Convertible Debt

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Preface

January 18, 2019

To our clients and colleagues in the insurance sector:

We are pleased to provide you with the 2019 edition of Deloitte's *Insurance — Accounting and Financial Reporting Update*. The topics discussed in this publication were selected because they may be of particular interest to insurance entities.

The most notable standard-setting development that occurred since the last edition of the publication was the issuance of FASB Accounting Standards Update (ASU) No. 2018-12, *Targeted Improvements to the Accounting for Long-Duration Contracts*.

This publication highlights changes to accounting and reporting standards that insurance entities should start preparing for now. The 2019 edition also includes the following appendixes: (1) Appendix A, which lists selected ASUs that became effective for calendar year 2018; (2) Appendix B, which summarizes the current status of, and next steps for, selected active standard-setting projects of the FASB; (3) Appendix C, which lists the titles of standards and other literature referred to in this publication; and (4) Appendix D, which defines the abbreviations we used.

The annual accounting and financial reporting updates for the banking and capital markets, investment management, and real estate sectors are available (or will be available soon) on US GAAP *Plus* and the Deloitte Accounting Research Tool (DART).

As always, we encourage you to contact your local Deloitte office for additional information and assistance.

Sincerely,

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Introduction

The financial markets performed strongly through the middle of 2018, but increased volatility had an impact toward the end of the year. However, the overall strength of the markets allowed insurers to keep focusing on innovation in both products and delivery streams. Increased geopolitical instability and significant weather events also affected the earnings of many insurers. Further, regulators continue to focus on the insurance industry with a drive to increase transparency of companies' operations to help both investors and the regulatory community make informed choices in the insurance sector.

Economic Growth

The U.S. economy saw strong growth in early 2018. The Federal Reserve continued to increase interest rates. The higher interest rates had a negative impact on the valuation of equities and led to a greater expectation of higher borrowing costs for companies. Unemployment rates hit record lows in 2018, but given increased automation and innovation, some of these gains may be short lived. Further, insurance companies are focused on enhancing their products and the delivery of those products to be more appealing to younger generations of customers and to compete with the abundance of InsurTech companies that are disrupting the traditional insurance distribution model. With changes in both the insurance marketplace and in the industry, being nimble is more important than ever.

Accounting Changes

In December 2017, the Tax Cuts and Jobs Act (the "Act") was passed by Congress and signed into law by President Trump. In 2018, the Base Erosion Anti-Abuse Tax, global intangible low-taxed income reporting requirements, and other provisions of the Act became effective. In addition, any related tax provision estimates made as of December 31, 2017, will need to be updated and finalized as of December 31, 2018.

In August 2018, the FASB issued ASU 2018-12, which significantly changes the accounting for certain long-duration insurance contracts and the amortization of deferred acquisition costs (DAC) related to long-duration contracts by amending both the accounting and disclosure requirements under U.S. GAAP. The Board believes that the new guidance will provide additional transparency to users of the financial statements.

The International Accounting Standards Board (IASB®) voted to defer the effective date of IFRS 17, issued in 2017, by one year, to January 1, 2022. The IASB also voted to amend IFRS 9 to allow insurance companies to defer the effective date by one year as well to coincide with the adoption of IFRS 17. These deferrals are not effective until the final IASB vote that will be held after the exposure-draft-and-comment-period process is complete. The IASB's decision and official IFRS® Standards changes to the effective dates are expected to be issued in the first quarter of 2019. In addition, the IFRS 17 Transition Resource Group (TRG) has been active in addressing questions throughout 2018.

Additional Information

For additional information about industry issues and trends, see Deloitte's 2019 Financial Services Industry Outlooks.

Long-Duration Contracts

Background

In August 2018, the FASB issued ASU 2018-12, which amends the accounting and disclosure model for certain long-duration insurance contracts under U.S. GAAP. The Board believes that the ASU's amendments improve the following aspects of financial reporting related to long-duration insurance contracts:

- Measurement of the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts.
- Measurement and presentation of market risk benefits.
- Amortization of DAC.
- Presentation and disclosures.

Key Provisions

Liability for Future Policy Benefits Related to Certain Insurance Contracts

For nonparticipating traditional and limited-payment long-duration contracts, ASU 2018-12 retains certain aspects of the net premium reserving model applied under current U.S. GAAP, including the principle that the liability for future policy benefits should be accrued as premium revenue is recognized. However, the ASU's amendments change several aspects of how an insurer will measure the liability for future policy benefits, including how frequently the insurer will update its cash flow and discount rate assumptions, the nature of those assumptions, the discount rate used for measurement, and how the insurer will account for its updated cash flow and discount rate assumptions.

Initial Measurement

Under the revised measurement model for nonparticipating traditional and limited-payment insurance contracts, an insurer's measurement of the liability for future benefits incorporates various assumptions, including (1) discount rate, (2) mortality/morbidity, (3) terminations/lapses, and (4) expenses (excluding acquisition costs and costs required to be charged to expense as incurred).

The insurer is prohibited from adding a provision for the risk of adverse deviation to its assumptions.

Discount Rate

Under ASU 2018-12, an insurer will measure the liability for future policy benefits by using a discount rate that (1) is based on the yield of an "upper-medium-grade (low-credit-risk) fixed-income instrument" (which would be the equivalent of an A-rated security in today's market) and (2) reflects the duration characteristics of the liability.

Frequency of Assumption Updates

Discount Rate

Under ASU 2018-12, an insurer will update its discount rate assumptions on each reporting date. Therefore, such updates are required in both annual and interim reporting periods (i.e., quarterly for PBEs). However, as noted below, the impact of the change in discount rate will be reflected in other comprehensive income (OCI).

Cash Flow Assumptions

An insurer will review the cash flow assumptions it uses to measure the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts at least annually (at the same time each year) and update them as necessary. The updated assumptions will reflect the insurer's revised estimate of cash flows expected over the contract group's entire life by using (1) actual historical experience and (2) updated future cash flow assumptions. In addition, more frequent updates to the cash flow assumptions (i.e., in interim periods) will be required when evidence suggests that earlier revision to the cash flow assumptions is warranted. Therefore, the insurer need not update the liability for future policy benefits more often than annually unless it determines that an interim cash flow assumption update is warranted. An insurer may also make an entity-wide election to lock in its expense assumption(s) at contract inception.

Accounting for Assumption Updates

Under ASU 2018-12, when an insurer measures the liability for future policy benefits related to nonparticipating traditional and limited-payment contracts, it cannot "group contracts . . . from different issue years but [must] group contracts into quarterly or annual groups" when it determines the level of aggregation to use for the measurement. When the insurer determines the impact of the change in cash flow assumptions for the contract group being measured, it will first recalculate a revised net premium ratio as of contract inception. The insurer will then (1) calculate revised estimates of net premiums by applying the new net premium ratio, (2) compute an updated liability for future policy benefits as of the beginning of the reporting period by using the original (i.e., at contract issuance) discount rate, and (3) compare that updated liability with the liability's previous carrying amount (excluding the effect of previous discount rate changes) at the beginning of the current reporting period and recognize a cumulative catch-up adjustment in current-period earnings. The catch-up adjustment will be presented separately from the current reporting period's benefit expense in the insurer's statement of operations. The insurer also will compute the current reporting period's benefit expense by using the revised net premium ratio that was computed as of the beginning of the reporting period. Experience adjustments will be recognized in the same reporting period in which they arise. Thereafter, the insurer will measure the liability for future policy benefits by using the revised net premium ratio (until the next assumption update).

If the revised cash flow assumptions indicate that the present value of future benefits and expenses will exceed the present value of future gross premiums, the insurer must recognize an immediate charge to net income for the period so that net premiums will equal gross premiums (i.e., the net premium ratio cannot exceed 100 percent). Because the new accounting model requires periodic assumption updates and requires the shortfall to be recorded when the net premiums exceed the gross premiums, the premium deficiency test required under current U.S. GAAP is eliminated for nonparticipating traditional and limited-payment insurance contracts after adoption of the ASU.

If the insurer recognizes a loss because the net premium ratio exceeds 100 percent, it must continue to accrue the liability for future policy benefits in subsequent periods (i.e., until assumptions are

subsequently updated) with net premiums set equal to gross premiums. The balance of the liability for future policy benefits for a contract group can never be less than zero.

For updates to the discount rate, the insurer recognizes any changes in the liability for future policy benefits arising from changes in the discount rate as an adjustment to OCI at the time the discount rate is updated (i.e., in the current period). However, the liability's interest accretion rate will remain the discount rate that was in effect at contract issuance.

For long-duration contracts other than traditional and limited-payment contracts (e.g., participating or universal life–type contracts), the ASU retains loss recognition testing (although DAC are not considered in the analysis) as well as the concept of accruing an additional liability for contracts that result in profits followed by losses (see discussion in next section). Moreover, the present value of future profits associated with acquired insurance and reinsurance contracts will remain subject to premium deficiency testing.

Contracts or Contract Features That Provide for Potential Benefits in Addition to the Account Balance

ASU 2018-12 amends the accounting model for certain universal life–type contracts or contracts that contain features that could provide nontraditional contract benefits in addition to the insured's account balance. An insurer that writes such contracts first will assess whether those benefit features meet the definition of market risk benefits (a new concept under the ASU); if so, it will apply the market risk benefit guidance described below. If the benefit features do not satisfy the market risk benefit criteria, the insurer next will assess whether those features should be accounted for as derivatives or embedded derivatives under ASC 815.

If the benefits do not meet the criteria to be accounted for as derivatives or embedded derivatives, the insurer will then determine whether the potential additional benefits are payable only upon annuitization (e.g., annuity purchase guarantees or two-tier annuities). If so, the insurer will record an additional liability for the contract feature if the present value of the expected annuitization payments on the expected annuitization date exceeds the expected account balance on the expected annuitization date. Further, the insurer will assess whether "amounts assessed against the contract holder each period for the insurance benefit feature . . . are assessed in a manner that is expected to result in profits in earlier years and losses in subsequent years from the insurance benefit function." If so, in addition to the account balance, the insurer will record an additional liability for the death or other insurance benefits.

The accounting models for annuitization and death or other insurance benefits generally have not changed; however, certain aspects of those models have been revised to align with other aspects of the ASU. Those changes are discussed below.

Market Risk Benefits

ASU 2018-12 establishes new accounting requirements for certain market risk benefits. Examples include features commonly known as GMxBs, or guaranteed minimum benefit features (e.g., guaranteed minimum death benefits or guaranteed minimum income benefits), but market risk benefits may include other contract features.

Under the ASU, insurers will apply the new market risk benefit accounting model to contracts or contract features contained in both separate account and general account nontraditional products. Under that accounting model, a "contract or contract feature that both provides protection to the contract holder

from other-than-nominal capital market risk and exposes the insurance entity to other-than-nominal capital market risk shall be recognized as a market risk benefit."

When a long-duration contract has multiple market risk benefits, an insurer must bundle those benefits together into a single, compound market risk benefit.

Under the ASU, an insurer must also:

- Initially measure a market risk benefit at fair value.[1] The insurer will recognize subsequent changes in fair value in current earnings; however, any changes in the fair value of a market risk benefit in a liability position that are attributable to changes in the instrument-specific credit risk will be recognized in OCI.
- Separately present (1) market risk benefits in the statement of financial position and (2) the change in fair value related to market risk benefits in net income (other than that portion of the fair value change attributable to changes in the instrument-specific credit risk, which would be reported in OCI).

Under ASC 815-10-15-13(c) as amended by the ASU, qualifying market risk benefits are excluded from the scope of ASC 815-10, which addresses derivative accounting.

Contracts With Annuitization or Death or Other Insurance Benefits

ASU 2018-12 modifies certain aspects of how the additional liability for annuitization or death or other insurance benefits is computed to align with other changes made by the ASU. Under the ASU:

- For death or other insurance benefits, the amounts in the numerator and denominator of the benefit ratio used to compute the additional liability are discounted at the contract rate, defined as either the rate in effect at the inception of the book of contracts or the latest revised rate applied to the remaining benefit period. In subsequent revisions to the benefit ratio computation, an insurer will need to consistently apply its chosen method of computing the present value of the revised estimates.
- For annuitization benefits, an insurer computes the numerator of the benefit ratio used to determine the additional liability as the "present value of expected annuitization payments to be made and related incremental claim adjustment expenses discounted at an upper-medium grade (low-credit-risk) fixed-income instrument yield applicable to the payout phase of the contract, minus the expected accrued account balance at the expected annuitization date (the excess payments). The excess of the present value payments to be made during the payout phase of the contract over the expected accrued account balance at the expected annuitization date shall be discounted at the contract rate." To calculate the denominator of the benefit ratio, the insurer would also discount the present value of total expected assessments during the accumulation phase of the contract by using the contract rate.
- In accordance with the guidance on accounting for annuitization and death or other insurance benefits, a reinsurer or issuer of a contract's insurance benefit features must "calculate a liability for the portion of premiums collected each period that represents compensation . . . for benefits that are assessed in a manner that is expected to result in current profits and future losses from the insurance benefit function."

For both (1) annuitization benefits and (2) death or other insurance benefits, an insurer will present the gain or loss that results from application of the revised benefit ratio to remeasure the related liability

[1] ASC 944-40-30-19C further states that "[t]otal attributed fees used to calculate the fair value of the market risk benefit shall not be negative or exceed total contract fees and assessments collectible from the contract holder."

as of the beginning of the current reporting period as a separate component of total benefit expense in its statement of operations (either parenthetically or as a separate line). The components of benefit expense related to the gains or losses on liability remeasurement related to traditional and limited-payment contacts, death or other insurance benefits, and annuitization benefits may be reported together.

Deferred Acquisition Costs

Although ASU 2018-12 does not change the types of acquisition costs that qualify for capitalization, it does change the manner and timing of DAC amortization for all long-duration contracts, including participating contracts. These amendments also apply to other capitalized balances (e.g., unearned revenue liability for universal life–type contracts) that were previously amortized in proportion to premiums, gross profits, or gross margins.

Under the existing guidance in ASC 944, insurers may use different methods to amortize DAC, depending on the product type. The ASU establishes a principle that DAC (and the other capitalized costs referred to above) should be amortized to expense "on a constant level basis — either on an individual contract basis or on a grouped contract basis — over the expected term of the related contract(s)."[2] No interest would accrue on the balance of unamortized DAC.

The ASU does not specify the level of aggregation at which an insurer should apply DAC accounting; however, it does state that an entity that groups contracts should use groupings that are consistent with those used to determine the liability for future policy benefits (or any other related balance) related to the corresponding insurance contracts. To satisfy the amortization principle established by the ASU, an insurer should amortize DAC associated with an individual contract on a straight-line basis. For a contract group, the insurer would amortize DAC "on a constant-level basis that approximates straight-line amortization on an individual contract basis." The selected amortization method should be applied consistently over the expected term of the contract or contract group.

An insurer will amortize DAC by using assumptions that are consistent with those used to determine the liability for future policy benefits or related balances for the associated contracts (e.g., terminations). The insurer will also (1) reduce the DAC balance to reflect actual experience that exceeds expected experience (e.g., an unexpected contract termination) and (2) prospectively treat the effects of any changes in future estimates (e.g., a change in lapse or mortality assumptions) as a revision of future amortization amounts. However, changes in a contract's profitability will not trigger an adjustment to DAC. Under the ASU, an insurer does not assess DAC for impairment.

Insurers that write certain investment contracts with specified features will continue to amortize DAC for those contracts by "using an accounting method that recognizes costs as expenses at a constant rate applied to net policy liabilities and that is consistent with the interest method."

Revenue Recognition for Limited-Payment Contracts

Under ASC 944, insurers defer the amount of any gross premium received over net premiums for limited-payment contracts. An insurer recognizes these amounts deferred (the "deferred profit liability" or DPL) in income either (1) in a constant relationship with the discounted amount of insurance in force (for life insurance contracts) or (2) with the amount of expected future benefit payments (for annuity contracts) and accrues interest on the unamortized balance. Under ASU 2018-12, insurers will:

- Use an upper-medium-grade fixed-income instrument yield as the discount rate.

[2] When an insurance contract has accumulation and payout phases, the insurer would treat the payout phase as a separate contract. Accordingly, the insurer would amortize DAC related to the contract over the duration of the accumulation phase.

- Accrete interest by using the original discount rate at the date of contract issuance.
- Review and, if necessary, update the cash flow assumptions used to determine changes in the DPL annually, at the same time each year, or more frequently if warranted by actual experience or other evidence.
- Recalculate the DPL on the basis of (1) actual historical experience and (2) the updated future cash flow assumptions (i.e., on a retrospective basis) as of the contract issue date.
- Recompute the unamortized basis of the DPL as of the beginning of the current reporting period by determining the amount of amortization that would have been recognized by applying the selected amortization method from the contract issue date up to the beginning of the current period.
- Compare the recomputed amount of the DPL with its current carrying amount as of the beginning of the reporting period and recognize a cumulative catch-up adjustment in current-period net income. This adjustment must be presented separately in net income (either as a separate line in the statement of operations or parenthetically); however, the adjustment may be combined with "catch-up" liability remeasurement amounts reported for other liabilities (such as for annuitization or death or other insurance benefits).

Disclosures

ASU 2018-12 enhances the disclosures that an insurer must provide in both interim and annual financial statements to allow "users to understand the amount, timing, and uncertainty of future cash flows arising from the [insurance] liabilities." An insurer should aggregate or disaggregate the disclosures "so that useful information is not obscured by the inclusion of a large amount of insignificant detail or by the aggregation of items that have significantly different characteristics."[3] Disclosures need not be provided for insignificant categories; however, amounts for those insignificant categories still must be included in the reconciliations.

The ASU imposes significant additional disclosure requirements, including requirements to provide, in interim and annual periods, disaggregated rollforwards and reconciliations of those rollforwards to the aggregate carrying amounts in the statement of financial position for the following balances:

- Liability for future policy benefits for traditional and limited-payment contracts.
- Liability for policyholders' account balances.
- Market risk benefits.
- Unamortized DAC (and balances amortized on a basis consistent with DAC).
- Separate account liabilities.

Effective Date and Transition

Effective Date

ASU 2018-12 is effective for PBEs for fiscal years beginning after December 15, 2020, including interim periods therein. Other entities must adopt the ASU in fiscal years beginning after December 15, 2021, and in interim periods within fiscal years beginning after December 15, 2022.

All entities may early adopt the ASU.

[3] The ASU's implementation guidance (1) discusses additional factors an insurer should consider when it determines the appropriate level of disaggregation for disclosures and (2) provides examples of aggregation categories that may be appropriate in certain circumstances (e.g., disaggregation by type of coverage or geography). The implementation guidance also notes that an insurer should not aggregate amounts from different reportable segments in its disclosures.

Transition

ASU 2018-12 provides account-specific transition guidance, as summarized below.

Liability for Future Policy Benefits Related to Nonparticipating Traditional and Limited-Payment Insurance Contracts and DAC

Upon adoption under the ASU's modified retrospective approach, an insurer will apply the amendments related to the accounting for the liability for future policy benefits and DAC (including balances amortized on a basis consistent with the amortization of DAC) to all contracts in force on the transition date (i.e., at the beginning of the earliest period presented) by using the future policy benefits' and DAC's carrying amounts on the transition date and updated future cash flow assumptions, as adjusted to remove any related amounts in accumulated other comprehensive income (AOCI). Under this approach, the insurer would compare the present value of future benefits and related expenses less the transition date carrying amount with the present value of future gross premiums to calculate the net premium ratio. The insurer would retain the discount rate assumptions it used before adoption to calculate the net premiums and interest accretion. Opening retained earnings would be adjusted only to the extent that net premiums exceed gross premiums.

Alternatively, an insurer may elect to apply these amendments on a full retrospective basis by using actual historical experience (and not estimates of such experience) as of contract inception (or contract acquisition date, if applicable) and recording a cumulative catch-up adjustment to opening retained earnings (or opening AOCI, as applicable).

The ASU requires an insurer to apply the same transition method to both its DAC (including balances amortized on a basis consistent with the amortization of DAC) and its liability for future policy benefits. Further, the insurer must (1) make its retrospective transition election "at the same contract issue-year level for both the liability for future policy benefits and [DAC] . . . for that contract issue year and all subsequent contract issue years" and (2) apply that election entity-wide (i.e., to all products and contracts). An insurer must apply the modified retrospective method (described above) to contracts issued (or acquired) "before the earliest issue-year level elected for retrospective application."

Market Risk Benefits

On the transition date, the insurer will apply the market risk benefit amendments retrospectively to all prior periods. The insurer is allowed to use hindsight to determine the measurement assumptions needed for the retrospective application in a prior period if those assumptions "are unobservable or otherwise unavailable and cannot be independently substantiated."

The insurer's retrospective application will result in a transition adjustment to opening retained earnings in the amount of the difference between the fair value and carrying value of the market risk benefits on the transition date, reduced by "[t]he cumulative effect of changes in the instrument-specific credit risk between [the] contract issue date and [the] transition date," which will be recognized in AOCI.

Transition Disclosures

In the year of adoption, an entity must disclose information about the following:

- Liability for future policy benefits and DAC (including balances amortized on a basis consistent with the amortization of DAC).
- Market risk benefits.

Comparison With IFRS Standards

Under IFRS Standards, certain aspects of the accounting and disclosure model for insurance contracts in IFRS 17 differ significantly from those in ASU 2018-12. Under IFRS 17, a single accounting model applies to all insurance contracts. By contrast, the ASU affects only the accounting for certain long-duration contracts; therefore, U.S. GAAP will continue to have different accounting models for short-duration and long-duration contracts after adoption of the ASU.

Additional information about IFRS 17 is available on Deloitte's IASPlus Web site.

Financial Instruments

Credit Losses

Background

In June 2016, the FASB issued ASU 2016-13,[4] which amends the Board's guidance on the impairment of financial instruments by adding to U.S. GAAP an impairment model (known as the CECL model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes its estimate of expected credit losses as an allowance, which is presented as either (1) an offset to the amortized cost basis of the related asset (for on-balance-sheet exposures) or (2) a separate liability (for off-balance-sheet exposures). That is, the expected credit losses estimated over the lifetime of a financial instrument are recognized at inception (i.e., on day 1).

Effective Date and Transition

Public business entities (PBEs) that are SEC filers are required to adopt ASU 2016-13 for annual and interim periods in fiscal years beginning after December 15, 2019 (e.g., January 1, 2020, for calendar-year-end entities). PBEs that are not SEC filers are required to adopt the ASU for annual and interim periods in fiscal years beginning after December 15, 2020 (e.g., January 1, 2021, for calendar-year-end entities).

Non-PBEs were originally required to adopt ASU 2016-13 for annual periods in fiscal years beginning after December 15, 2020 (e.g., January 1, 2021, for calendar-year-end entities), and in interim periods beginning after December 15, 2021 (e.g., January 1, 2022, for calendar-year-end entities). However, as discussed in the Other Developments section below, the FASB released an ASU in November 2018 that included amendments that defer the adoption date for non-PBEs until fiscal years beginning after December 15, 2021, including interim periods within those fiscal years (e.g., January 1, 2022, for calendar-year-end entities).

Upon adoption of ASU 2016-13, all entities record a cumulative effect adjustment in retained earnings in the balance sheet as of the beginning of the year of adoption (i.e., retrospective application is prohibited).

Transition Resource Group

In late 2015, the FASB established a credit losses TRG. Like the TRG established to discuss the new revenue recognition standard, the credit losses TRG does not issue guidance but provides feedback to the FASB on potential implementation issues. By analyzing and discussing such issues, the credit losses TRG helps the FASB determine whether it needs to take further action (e.g., by providing clarification or issuing additional guidance).

[4] See Deloitte's June 17, 2016, *Heads Up* for additional information about ASU 2016-13.

The FASB's credit losses TRG met on June 11, 2018, and discussed the following topics related to ASU 2016-13:

- Capitalized interest:
  - *Implementation issues* — Stakeholders have questioned whether an entity should consider interest income that will be capitalized when estimating expected credit losses.
  - *Outcome* — The TRG generally agreed that the allowance for credit losses would be calculated on the basis of the current amortized cost basis. Therefore, the allowance would not consider unearned interest income that will be capitalized.
  - *Next steps* — After the TRG meeting, the FASB decided at its August 29, 2018, meeting not to draft targeted improvements to ASU 2016-13 related to this issue.
- Accrued interest:
  - *Implementation issues* — Because ASU 2016-13 includes accrued interest in the definition of "amortized cost basis," stakeholders have questioned whether entities are required to (1) measure the allowance for credit losses on accrued interest receivables separately from the amortized cost basis of the associated financial assets, (2) present accrued interest receivable and the related allowance together with associated financial assets on the balance sheet, (3) trace accrued interest amounts in amortized cost basis to each origination year and class of financing receivable for vintage disclosures, and (4) record the reversal of accrued interest as a write-off and deduct from the allowance (as opposed to reversal through interest income).
  - *Outcome* — While the TRG generally agreed that accrued interest should continue to be included in the definition of "amortized cost basis," the TRG recommended that entities should be given the options to measure, present, and disclose the allowance for credit losses on accrued interest receivables separately from the amortized cost basis of the associated financial assets.

    In addition, regarding the reversal of accrued interest, the TRG generally agreed that (1) for regulated entities that apply a nonaccrual policy and nonregulated entities that apply a nonaccrual policy similar to that for regulated entities, accrued interest on nonaccrual loans should be reversed through interest income, and an allowance for credit losses should not be recognized on accrued interest; and (2) when an entity does not apply a nonaccrual policy, it should consider accrued interest when estimating the allowance for credit losses, and any reversal of accrued interest should be treated as a write-off and deducted from the allowance.
  - *Next steps* — The FASB decided at its August 29, 2018, meeting to draft targeted improvements to ASU 2016-13 to (1) provide relief for the measurement, presentation, and disclosure requirements for the accrued interest receivable balances; (2) provide an accounting policy election so an entity can reverse accrued interest either by an adjustment to interest income or by writing off accrued interest amounts by deducting from the allowance for credit losses; and (3) provide an accounting policy election so an entity can exclude interest receivable balances from the calculation of the allowance for credit losses (which would be contingent on the entity's having an accounting policy in place that results in the timely write-off of any uncollectible accrued interest). The accounting policy elections in items (2) and (3) would be made according to the class of financing receivable or major security type. The proposed ASU of Codification improvements was issued on November 19, 2018.

- Transfer of loans and debt securities:
  - *Implementation issues* — Stakeholders have questioned whether, upon a transfer of a loan between held for sale (HFS) and held for investment (HFI) or a transfer of a credit-impaired debt security between available for sale (AFS) and held to maturity (HTM), an allowance for credit losses should be recorded if a valuation allowance (loans) or allowance for credit losses (debt securities) had been recognized before the transfer.
  - *Outcome* — The TRG generally agreed that upon a transfer of a loan between HFS and HFI or a transfer of a credit-impaired debt security between AFS and HTM, an entity would (1) reverse any outstanding allowance or allowances for credit losses and (2) establish a new allowance for credit losses on the basis of the applicable measurement guidance in accordance with the new classification category. The TRG also generally agreed that such transfers should be presented on a gross basis in the statement of earnings.
  - *Next steps* — The FASB decided at its August 29, 2018, meeting to draft targeted improvements to ASU 2016-13 that align with the TRG's recommendations. The proposed ASU was issued on November 19, 2018.
- Timing of recognition of recoveries:
  - *Implementation issues* — Stakeholders questioned whether expected recoveries from assets that have been written off should be considered when estimating the allowance for credit losses. Stakeholders also questioned whether a negative allowance, if present, should be presented separately as an asset.
  - *Outcome* — The TRG generally agreed that entities could consider expected recoveries when measuring the allowance for credit losses. However, TRG members raised additional points of consideration for the FASB, including (1) whether entities should be required to include expected recoveries when measuring the allowance for credit losses and (2) whether entities should present such recoveries as an asset (rather than as an offset to the allowance for credit losses).
  - *Next steps* — The FASB decided at its August 29, 2018, meeting to draft targeted improvements to ASU 2016-13 to (1) require entities to consider expected recoveries when estimating the allowance for credit losses, (2) limit the scope of expected recoveries to include only amounts collected from the borrower (including collateral), and (3) clarify that entities should not include fair value amounts greater than the amortized cost basis of financial assets when measuring the allowance for credit losses on the reporting date. However, the Board directed the FASB staff to include a question in a proposed ASU focused on extending recoverable amounts to include recoveries from other sources. This issue was discussed again at the November 1, 2018, TRG meeting (see further discussion below).
- Refinancing:
  - *Implementation issues* — ASU 2016-13 requires an entity to estimate expected credit losses over a financial asset's contractual term, adjusted for prepayments. Because the amendments in ASU 2016-13 do not define "prepayments," stakeholders questioned whether an entity is required to use the guidance in ASC 310-20 (which relates to determining whether a refinancing between the same debtor and creditor is a modification of the original loan or a new loan) to assess whether a prepayment exists when estimating expected credit losses.

  - *Outcome* — The TRG generally agreed that ASU 2016-13 should not provide specific guidance on how an entity should consider prepayments when estimating expected credit losses and that it should be permitted, but not required, to use the guidance in ASC 310-20 to assess whether a prepayment exists when estimating expected credit losses.
  - *Next steps* — The FASB decided at its August 29, 2018, meeting not to draft targeted improvements to ASU 2016-13 related to this issue.

For more information about the topics discussed at the TRG's June 11, 2018, meeting, see TRG Memo 13 and Deloitte's June 2018 *TRG Snapshot*.

The FASB's credit losses TRG met again on November 1, 2018, and discussed the following topics related to ASU 2016-13:

- Gross write-offs and gross recoveries:
  - *Implementation issues* — Stakeholders questioned whether gross write-offs and recoveries must be included in the credit quality disclosures.
  - *Outcome* — The TRG generally agreed that the examples in ASC 326-20 are not authoritative and recommended that the FASB amend the guidance in ASU 2016-13 to require an entity to disclose gross write-offs and recoveries.
  - *Next steps* — The FASB decided at its November 7, 2018, meeting to draft targeted improvements to ASU 2016-13 to require vintage disclosures to include disclosures of gross write-offs and gross recoveries. These targeted improvements were not included in the proposed ASU that was issued on November 19, 2018; rather, they will be included in a separate proposed ASU of Codification improvements.
- Discounting inputs:
  - *Implementation issues* — As indicated in TRG Memo 14, stakeholders questioned "whether discounting certain inputs in estimating credit losses would be permitted when an entity uses a method other than a [discounted cash flow (DCF)] method, such as a probability-of-default credit loss method. These stakeholders questioned whether discounting certain inputs to a date other than the reporting date also would be permitted."
  - *Outcome* — The TRG generally agreed that the guidance is not clear and asked the FASB staff to explain whether an entity would be permitted to discount inputs in estimating credit losses when it uses a method other than a DCF method.
  - *Next steps* — The FASB decided at its November 7, 2018, meeting that no further clarification in ASU 2016-13 is needed with respect to discounting when an entity is using a method other than a DCF method.
- Contractual term:
  - *Implementation issues* — Stakeholders questioned whether it is appropriate for an entity to consider expected extensions in determining the contractual term when estimating expected credit losses in accordance with ASC 326-20. Stakeholders also questioned whether an entity is precluded from considering future economic and other conditions (referred to as "measurement inputs") beyond the contractual term of a financial asset for short-term lending arrangements under ASC 326-20.
  - *Outcome* — The TRG generally agreed that the contractual term of an arrangement would include the period covered by a contractual extension option that is not unconditionally cancelable by the lender.

- ◦ *Next steps* — The proposed ASU states, "[i]n determining the contractual term, the entity shall evaluate the likelihood that the contractual extension or renewal option will be exercised." The FASB decided at its November 7, 2018, meeting to draft targeted improvements to ASU 2016-13 to require entities to evaluate extension or renewal options that are not unconditionally cancelable by the entity in determining the contractual term of financial assets. The proposed ASU of Codification improvements was issued on November 19, 2018.

- Vintage disclosures:
  - *Implementation issues* — Stakeholders questioned how an entity would present, in its vintage disclosures, revolving loans that convert to term loans.
  - *Outcome* — The TRG generally agreed that if an entity made a new credit decision and considered the loan to be a "new loan" under ASC 310-20-35-9 as a result of a related modification, the entity should reflect the loan in the origination year it made the credit decision when converting it from a revolving loan to a term loan. However, if the conversion from a revolving to a term loan was contractually specified in the original loan, or if, as a result of the conversion, the loan was not considered a "new loan" (e.g., it was a troubled debt restructuring), the loan should be reflected in a new column in the vintage disclosure table that shows loans that were converted from revolving to term loans.
  - *Next steps* — The FASB decided at its November 7, 2018, meeting to draft targeted improvements to ASU 2016-13 related to this issue. The proposed ASU of Codification improvements was issued on November 19, 2018.

- Recoveries:
  - *Implementation issues* — At the June 11, 2018, TRG meeting, the FASB staff stated its belief that the Board's intention when developing the CECL model was for companies to estimate and include expected financial asset recoveries in the CECL calculation because they represent "amount[s] expected to be collected." After the June 11, 2018, TRG meeting, the staff received feedback from several stakeholders that entities were interpreting the term "recoveries" differently. Also, stakeholders questioned whether an entity could recognize increases in the fair value of collateral related to collateral-dependent financial assets as a negative allowance that is added to the amortized cost basis, limited to amounts previously written off.
  - *Outcome* — The TRG generally agreed that recoveries should include cash flows from borrowers (i.e., principal and interest), collateral, or the sale proceeds of a financial asset to a third party. The TRG also agreed that an entity could recognize increases in the fair value of collateral related to collateral-dependent financial assets as a negative allowance that is added to the amortized cost basis, limited to amounts previously written off.
  - *Next steps* — The FASB decided at its November 7, 2018, meeting to draft targeted improvements to ASU 2016-13. The goal of the improvements is to reaffirm its decision at the August 29, 2018, meeting to require entities to consider expected recoveries when estimating the allowance for credit losses. However, the FASB decided to reverse its decision at the August 29, 2018, meeting to limit the scope of expected recoveries to include only amounts collected from the borrowers. The FASB also agreed with the TRG's recommendation for collateral-dependent financial assets. The proposed ASU of Codification improvements was issued on November 19, 2018.

For more information about the topics discussed at the TRG's November 1, 2018, meeting, see Deloitte's November 2018 *TRG Snapshot*.

Other Developments

Final ASU

In November 2018, the FASB issued ASU 2018-19, whose purpose is to "mitigate transition complexity" and improve the clarity of the guidance in ASU 2016-13. Specifically, ASU 2018-19 includes the following amendments:

- *Operating lease receivables* — "The amendment clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases."
- *Transition and effective date for non-PBEs* — "The amendments in this Update mitigate transition complexity by requiring that for nonpublic business entities the amendments in Update 2016-13 are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years."

Other FASB Updates

At its September 5, 2018, meeting, the FASB decided to further amend the guidance in ASU 2016-13 for each of the following issues:

- *Effective interest rate (EIR) for variable rate loans* — The proposed amendments would clarify the FASB's decision at its December 13, 2017, meeting to "allow entities to determine the EIR and expected cash flows (including expected prepayments and defaults) using their own expectations (projections) of future interest rate environments when estimating credit losses on variable-rate financial assets using a DCF method if those expectations are in accordance with [ASU 2016-13]."
- *Adjusting the EIR for prepayment expectations* — The proposed amendments would clarify the FASB's intent regarding the use of an EIR adjusted for prepayment expectations when an entity is discounting the expected cash flows under a DCF method for both financial instruments within the scope of ASC 326-20 and AFS debt securities within the scope of ASC 326-30 (i.e., "entities should determine whether they are going to use an EIR adjusted for prepayment expectations through an accounting policy election (which would be applied at the major security type level))."
- *Consideration of costs to sell when foreclosure becomes probable* — ASU 2016-13 describes "two situations in which an entity would use the fair value of the collateral securing a financial asset to subsequently determine and measure expected credit losses on that asset" (i.e., (1) "the entity determines that foreclosure on the collateral is probable" or (2) "the entity elects the collateral-dependent practical expedient"). "Stakeholders asked whether it was the FASB's intent through the amendments in [ASU] 2016-13 to require that estimated costs to sell be considered in the measurement of fair value of the collateral when an entity elects the practical expedient but not to require the same consideration when an entity determines that foreclosure is probable."

  The proposed amendments would clarify that the FASB's original intent was not to "make a distinction between the two measurements [on the basis of] whether an entity elected the collateral-dependent practical expedient or whether the entity is required to measure expected credit losses using the fair value of the collateral because foreclosure is probable" but rather to require "the consideration of estimated costs to sell when foreclosure is probable if the entity intends to sell the collateral."

- *Reinsurance recoverables* — The proposed amendments would clarify the FASB's intent "to include all reinsurance recoverables accounted for under Topic 944 within the scope of Subtopic 326-20, regardless of the measurement basis of those recoverables" (i.e., measured at amortized cost or on a discounted basis).
- *Reference error* — "Stakeholders noted that there is an incorrect reference in paragraph 310-40-55-14 to paragraph 326-20-35-2. . . . The proposed amendments would clarify the [*FASB Accounting Standards Codification*] by replacing the incorrect reference with the correct reference to paragraph 326-20-35-4, which requires that an entity measure the expected credit losses [on the basis of] the fair value of the collateral when the entity determines that foreclosure is probable."
- *Cross-references in the guidance for equity method losses* — "The proposed amendments would clarify that an entity should apply the requirements of Subtopics 326-20 and 326-30 to financial assets and AFS debt securities, respectively, after applying the guidance in paragraph 323-10-35-26 for allocating equity method losses."

The Board directed the FASB staff to draft proposed ASUs to include (1) the six proposed amendments summarized above; (2) the proposed amendments discussed at the August 29, 2018, FASB meeting related to the June 11, 2018, credit losses TRG meeting; and (3) the proposed amendments discussed at the November 7, 2018, FASB meeting related to the November 1, 2018, credit losses TRG meeting (see Transition Resource Group above).

At its November 14, 2018, meeting, the FASB decided to further amend the guidance in ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that were previously recorded at amortized cost and that are within the scope of ASC 326-20 if the instruments are eligible for the fair value option under ASC 825-10. The entity would make this election on an instrument-by-instrument basis. The FASB directed its staff to draft the proposed ASU.

Classification and Measurement

Background

ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. The amendments contain changes related to the following:

- Accounting for equity investments (apart from those that are accounted for under the equity method or those that are consolidated).
- Recognition of changes in fair value attributable to changes in instrument-specific credit risk for financial liabilities for which the fair value option has been elected.
- Determining the valuation allowance for deferred tax assets (DTAs) related to AFS debt securities.
- Disclosure requirements for financial assets and financial liabilities.

For PBEs, the new standard is effective for fiscal years beginning after December 15, 2017, including interim periods therein. For all other entities, the standard is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption of certain of the standard's provisions is permitted for all entities. Non-PBEs are permitted to adopt the standard in accordance with the effective date for PBEs. For more information about ASU 2016-01, see Deloitte's January 12, 2016, ***Heads Up***.

Classification and Measurement of Equity Investments

The amendments require entities to carry all investments in equity securities at fair value, with changes in fair value recorded through earnings, unless the equity investments are accounted for under the equity method or are consolidated. For equity investments that do not have a readily determinable fair value, the guidance permits a measurement alternative under which the equity investments can be measured at cost less impairment, if any, plus or minus observable price changes in orderly transactions. The measurement alternative is not available to reporting entities that are investment companies, broker-dealers, or postretirement benefit plans.

An entity that has elected the measurement alternative for equity investments that do not have a readily determinable fair value is required to assess whether the equity investment is impaired by qualitatively considering the indicators described in ASC 321-10-35-3. If, on the basis of the qualitative assessment, the equity investment is impaired, the entity is required to record an impairment equal to the amount by which the carrying value exceeds fair value. The entity should no longer evaluate whether such impairment is other than temporary.

Connecting the Dots

Before the adoption of ASU 2016-01, marketable equity securities that are not accounted for as equity method investments are classified as either (1) held for trading, with changes in fair value recognized in earnings, or (2) AFS, with changes in fair value recognized in OCI. For AFS investments, changes in fair value are accumulated in OCI and not recognized in earnings until the investment is sold or has an other-than-temporary impairment. Investments in nonmarketable equity securities other than equity method investments are measured at cost (less impairment) unless the fair value option is elected. Further, before the adoption of ASU 2016-01, insurance entities recognize in OCI changes in the fair value of nonmarketable equity securities. After the adoption of ASU 2016-01, since equity securities can no longer be accounted for as AFS or, in accordance with the insurance-specific guidance, through OCI and will instead be recorded at fair value with changes in fair value recognized in earnings (unless the measurement alternative is elected for nonmarketable securities), entities holding such investments could see more volatility in earnings.

In February 2018, the FASB issued ASU 2018-03, which clarifies certain aspects of ASU 2016-01 (see Technical Corrections below). ASU 2018-03 specifically clarifies that insurance entities applying the guidance in ASC 944-325-35-1, which is superseded by ASU 2016-01, would apply a prospective transition approach to recognize amounts currently in AOCI and that the method chosen should be applied to the entire population of equity securities without a readily determinable fair value (accounted for under ASC 944-325-35-1). For examples of prospective transition methods, see 321-10-35 (Q&A 05), *Transition Guidance for Insurance Entities With Equity Securities Without a Readily Determinable Fair Value*, in Deloitte's *FASB Accounting Standards Codification Manual*.

Changes in Fair Value of a Liability Attributed to Changes in Instrument-Specific Credit Risk

For financial liabilities (excluding derivative instruments) for which the fair value option has been elected, the amendments require an entity to separately recognize in OCI any changes in fair value associated with instrument-specific credit risk. The guidance indicates that the portion of the total change in fair value that exceeds the amount resulting from a change in a base market risk (such as a risk-free interest rate) may be attributable to instrument-specific credit risk, but it also acknowledges that there may be other methods an entity may use to determine instrument-specific credit risk.

Valuation Allowance on a DTA Related to an AFS Debt Security

The new guidance eliminates the diversity in practice related to the evaluation of the need for a valuation allowance for DTAs related to debt securities that are classified as AFS. Before the adoption of ASU 2016-01, entities may perform this evaluation either separately from their other DTAs or in combination with them. ASU 2016-01 clarifies that an entity should "evaluate the need for a valuation allowance on a [DTA] related to [AFS] securities in combination with the entity's other [DTAs]."

Changes to Disclosure Requirements

For non-PBEs, the amendments eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost. In addition, for such financial instruments, PBEs are not required to disclose (1) the information related to the methods and significant assumptions used to estimate fair value or (2) a description of the changes in the methods and significant assumptions used to estimate fair value. The guidance also clarifies U.S. GAAP by eliminating the provisions in ASC 825 that had been interpreted to permit an "entry" price notion for estimating the fair value of loans for disclosure purposes. The amendments require a PBE to disclose the fair value in accordance with the exit price notion in ASC 820. In addition, all entities are required to separately present in the statement of financial position or separately disclose in the notes to the financial statements all financial assets and financial liabilities grouped by (1) measurement category (i.e., amortized cost or fair value — net income or OCI) and (2) form of financial asset (i.e., securities and loans/receivables).

Technical Corrections

In February 2018, the FASB issued ASU 2018-03, which clarifies certain aspects of ASU 2016-01. The amendments in ASU 2018-03 are summarized below.

- *Equity securities without readily determinable fair values* — ASU 2018-03 clarifies that an entity that elects to use the measurement alternative to measure equity securities without a readily determinable fair value may reverse that election and choose instead to measure those securities at fair value in accordance with ASC 820 through an irrevocable election that would apply to that security and all identical or similar securities of the same issuer. Once the entity makes this election, it should measure all future purchases of identical or similar securities of the same issuer by using a fair value method in accordance with ASC 820.

  In addition, ASU 2018-03 states that when applying the measurement alternative to securities without a readily determinable fair value, an entity should make adjustments from observable transactions to reflect the fair value of the security as of the date on which the observable transaction took place rather than as of the current reporting date.

- *Forward contracts and purchased options* — ASU 2018-03 clarifies that a change in observable price or impairment of underlying securities for forward contracts and purchased options on equity securities should result in the remeasurement of the entire fair value of the forward contracts and purchased options.

- *Presentation requirements for certain liabilities measured under the fair value option* — ASU 2018-03 states that an entity is required to separately recognize in OCI any changes in fair value associated with instrument-specific credit risk for financial liabilities (excluding derivative instruments) for which the fair value option has been elected (see Changes in Fair Value of a Liability Attributed to Changes in Instrument-Specific Credit Risk above) under either ASC 815-15 or ASC 825-10.

- *Election of fair value option to measure liabilities denominated in a foreign currency* — ASU 2018-03 clarifies that when an entity elects to use the fair value option to measure a financial liability denominated in a currency other than the entity's functional currency, the entity should first (1) measure the change in fair value of the liability that results from changes in instrument-specific credit risk in the currency of denomination when that change is presented separately from the total change in fair value of the financial liability and then (2) remeasure into its functional currency both components of the change in fair value of the liability by using end-of-period spot rates.
- *Transition guidance for equity securities without readily determinable fair values* — ASU 2016-01 states that the amendments related to equity securities without readily determinable fair values should be applied prospectively. ASU 2018-03 clarifies that the prospective approach in ASU 2016-01 should be applied only to equity securities without readily determinable fair values for which the measurement alternative has been elected. ASU 2018-03 also states that an insurance entity subject to the guidance in ASC 944 should use a prospective transition method when applying ASU 2016-01 to equity securities without readily determinable fair values. The entity should apply that method consistently to its entire population of equity securities for which the measurement alternative is elected.

In addition, a proposed ASU was issued in November 2018 that would make clarifications to the amendments made by ASU 2016-01 for the following items: (1) the applicability of ASC 320-10 and ASC 321-10 to health and welfare plans, (2) the disclosure requirements for HTM debt securities for entities other than PBEs, (3) the applicability of ASC 820 to the ASC 321 measurement alternative, and (4) the remeasurement of equity securities at historical exchange rates.

For PBEs, the amendments in ASU 2018-03 are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. PBEs with fiscal years beginning between December 15, 2017, and June 15, 2018, are not required to adopt the amendments until the interim period beginning after June 15, 2018. PBEs with fiscal years beginning between June 15, 2018, and December 15, 2018, are not required to adopt these amendments before adopting the amendments in ASU 2016-01.

For all other entities, the effective date is the same as the effective date in ASU 2016-01. Early adoption of ASU 2018-03 is permitted for all entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, if they have adopted ASU 2016-01.

Hedging

Targeted Improvements to Accounting for Hedging Activities

Background

In August 2017, the FASB issued ASU 2017-12, which amends the hedge accounting recognition and presentation requirements in ASC 815. The Board's objectives in issuing the ASU were to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity, and simplify the application, of hedge accounting by preparers.

For PBEs, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods therein. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Entities are permitted to early adopt the new guidance in any interim or annual period after issuance of the ASU. An entity that early adopts the updated guidance in an interim period should record any transition adjustments as of the beginning of the fiscal year that includes that interim period.

Key Changes to the Hedge Accounting Model

ASU 2017-12 makes various improvements to the hedge accounting model. For example, the ASU:

- Eliminates the concept of separately recognizing periodic hedge ineffectiveness.
- Allows an entity to amortize components excluded from the hedge effectiveness assessment.
- Clarifies recognition and presentation requirements for the hedging instrument and the related hedged item.
- Provides timing relief for initial prospective quantitative hedge effectiveness assessments.
- Permits qualitative assessments of hedge effectiveness for certain hedges.
- Provides additional relief for entities that apply the shortcut method and critical-terms-match method.
- Replaces the benchmark interest rate concept with the contractually specified interest rate for cash flow hedges of variable-rate financial assets or liabilities.
- Expands the list of permissible U.S. benchmark interest rates to include the SIFMA Municipal Swap Rate.
- Allows an entity to measure changes in fair value of the hedged item in a fair value hedge of interest rate risk by using the benchmark interest rate component of contractual cash flows.
- Allows an entity to consider only how changes in the benchmark interest rate affect an obligor's decision to prepay the hedged item when the entity assesses hedge effectiveness and adjusts the carrying amount of the hedged item in a fair value hedge of a prepayable instrument's interest rate risk.
- Allows partial-term hedging for fair value hedges of interest rate risk.
- Permits an entity to hedge a designated "last of layer" in a fair value hedge of a closed portfolio of prepayable assets.
- Enables an entity to designate contractually specified components of nonfinancial assets as hedged items.
- Enhances disclosure requirements.

See Deloitte's August 30, 2017, *Heads Up* for additional information about ASU 2017-12, including detailed discussion of the one-time transition elections provided by ASU 2017-12 and the deadlines for making such elections.

Implementation Developments

Industry groups, accounting firms, standard setters, and regulators continue to discuss issues related to the implementation of ASU 2017-12. The FASB held several meetings in 2018 to discuss these implementation issues. For information about the tentative views expressed by the Board at these meetings, see Deloitte's February 20, April 10, and September 12, 2018, journal entries.

As a result of these meetings, (1) the Board issued a proposed ASU on Codification improvements related to financial instruments and (2) the FASB staff posted certain staff interpretations on the FASB's Web site.

The proposed ASU was issued on November 19, 2018, with comments due by December 19, 2018. Among its proposed amendments to the hedging guidance are those addressing the following:

- Issues related to fair value hedges of interest rate risk, including partial-term fair value hedges, amortization of basis adjustments, and basis adjustment disclosures.
- Scope and accounting clarifications for not-for-profit entities (NFPs) and certain private companies.
- Transition guidance.

The FASB staff interpretations address certain technical inquiries related to the implementation of ASU 2017-12 as follows:

- *"Staff Interpretations of Update 2017-12 for Prepayable Financial Instruments"* — This set of interpretations clarifies what types of instruments would be considered prepayable under ASU 2017-12 (and would qualify for special accounting treatment under its provisions). The interpretations analyze whether the following features would satisfy the conditions to qualify as prepayable:
    - Currently exercisable prepayment features.
    - Time-based contingencies.
    - Event-based contingencies.
    - Interest-rate-related contingencies.
    - Conversion features.
    - Credit-related contingent acceleration clauses.

  The interpretations also clarify the transition guidance related to transfers of HTM securities to the AFS category.
- *"Staff Interpretations of Technical Inquiries Received on Update 2017-12 Discussed at the September 5, 2018 Board Meeting"* — This second set of interpretations, which is further discussed in Deloitte's September 12, 2018, journal entry, addresses the following issues:
    - Switching hedge effectiveness assessment methods for net foreign investment hedges.
    - Timing of the initial quantitative hedge effectiveness assessment.
    - Simultaneous designation of hedged item for fair value and cash flow hedges.
    - Sale or transfer of assets out of a closed portfolio in a last-of-layer hedge.
    - Documentation of fallback long-haul hedge effectiveness assessment method.
    - Change in hedged risk guidance for a cash flow hedge of forecasted issuance of debt.
    - Reclassification of prior period information.

In addition, at the FASB's March 28, 2018, meeting, the Board decided to add to its agenda a narrow-scope project on the last-of-layer method. As indicated on the project update page of the FASB's Web site, the project, which is currently in initial deliberations, is expected to address:

- *Basis adjustments* — Specifically, the project will address how and when an entity is permitted or required to allocate the last-of-layer basis adjustment to the individual assets or sub-pools within the closed pool.

- *Multiple last-of-layer hedges* — Specifically, the project will explore whether an entity may apply a multiple-layer hedging strategy to the closed portfolio.

At the March 28, 2018, FASB meeting, the Board also decided to:

- Support the formation of a project resource group composed of a cross-section of stakeholders to monitor implementation of the Board's guidance on (1) hedging the variability in cash flows attributable to changes in a contractually specified component of a nonfinancial asset and (2) other hedging-related topics as necessary.
- Direct its staff to obtain external feedback on potential Codification improvements related to the "change in hedged risk concept" for cash flow hedges. Potential clarifications on this topic were discussed at the March meeting and are summarized in Deloitte's April 10, 2018, journal entry.

Inclusion of the Secured Overnight Financing Rate Overnight Index Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

In October 2018, the FASB issued ASU 2018-16, which permits entities to use the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) rate as a U.S. benchmark interest rate for hedge accounting purposes under ASC 815. The ASU defines the SOFR OIS rate as the "fixed rate on a U.S. dollar, constant-notional interest rate swap that has its variable-rate leg referenced to the [SOFR] (an overnight rate) with no additional spread over SOFR on that variable-rate leg. That fixed rate is the derived rate that would result in the swap having a zero fair value at inception because the present value of fixed cash flows, based on that rate, equates to the present value of the variable cash flows."

Entities that have not yet adopted ASU 2017-12 must adopt ASU 2018-16 when they adopt ASU 2017-12. If an entity has already adopted ASU 2017-12, the effective date of ASU 2018-16 will be as follows:

- For PBEs, for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years.
- For all other entities, for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.

Early adoption is permitted in any interim period after issuance of the ASU. Entities will adopt the ASU prospectively "for qualifying new or redesignated hedging relationships entered into on or after the date of adoption."

For additional information about ASU 2018-16, see Deloitte's November 7, 2018, journal entry.

As indicated on the FASB's Web site, the Board also decided to add a separate project to its agenda "to broadly consider changes to GAAP necessitated by the market-wide transition away from LIBOR, which includes but is not limited to the transition of existing hedging relationships referencing LIBOR."

Receivables — Nonrefundable Fees and Other Costs

Background and Key Provisions of ASU 2017-08

In March 2017, the FASB issued ASU 2017-08, which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date.

Under the current guidance in ASC 310-20, entities generally amortize the premium on a callable debt security as an adjustment of yield over the contractual life (to maturity date) of the instrument. Accordingly, entities do not consider early payment of principal, and any unamortized premium is recorded as a loss in earnings upon the debtor's exercise of a call on a purchased callable debt security held at a premium.

The amendments will require entities to amortize the premium on certain purchased callable debt securities to the earliest call date regardless of how the premium is generated (e.g., DAC and cumulative fair value hedge adjustments that increase the amortized cost basis of a callable security above par value). Therefore, entities will no longer recognize a loss in earnings upon the debtor's exercise of a call on a purchased callable debt security held at a premium.

Connecting the Dots

Under ASU 2017-08, if an entity amortizes a premium to a call price greater than the par value of the debt security (e.g., because the debt security is callable at a premium to par on the earliest call date) and the debt security is not called on the earliest call date, the entity should reset the yield by using the payment terms of the debt security. If the security contains additional future call dates, the entity should consider whether the amortized cost basis exceeds the amount repayable by the issuer on the next call date. If the entity determines that the amortized cost basis does exceed the amount repayable, it should amortize the excess to the next call date.

Scope

Purchased callable debt securities within the scope of ASU 2017-08 are those that contain explicit, noncontingent call features that are exercisable at fixed prices and on preset dates. Because the ASU does not affect an entity's ability to elect to estimate prepayments under ASC 310-20-35-26, the amended guidance will not affect an entity that (1) applies ASC 310-20-35-26 to purchased callable debt securities and (2) estimates prepayments under the interest method.

Further, the ASU does not apply to any of the following:

- Loans and other financing receivables that do not meet the definition of a debt security.
- Purchased debt securities held at a discount; the discount continues to be amortized as an adjustment of yield over the contractual life (to maturity) of the instrument.
- Purchased debt securities held at a premium and for which the call date or call price is not known in advance, including debt securities with a prepayment feature whose prepayment date is not preset (i.e., immediately prepayable instruments). As a result, the following purchased debt securities held at a premium are not within the ASU's scope:
    - Debt securities callable at fair value.
    - Debt securities callable at an amount that includes a make-whole provision that is based on the present value of future interest payments.
    - Asset-backed debt securities, including mortgage-backed securities, in which early repayment is based on the prepayment of the assets underlying the securitization as opposed to the issuer's decision to prepay the debt security itself.
- Purchased debt securities held at a premium that are contingently callable.

Effective Date and Transition

For PBEs, ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, including interim periods therein. For all other entities, the standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all entities, including adoption in an interim period. If an entity early adopts the ASU in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period.

To apply the ASU, entities must use a modified retrospective approach and recognize the cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Entities are also required to provide disclosures about a change in accounting principle in the period of adoption.

Fair Value Measurement Disclosures

Background

In August 2018, the FASB issued ASU 2018-13,[5] which changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements*, which the Board finalized in August 2018. The Board used the guidance in the Concepts Statement to improve the effectiveness of ASC 820's disclosure requirements.

ASU 2018-13 at a Glance

The table below summarizes the amendments to the fair value measurement disclosure requirements of ASC 820 that will take effect upon adoption of ASU 2018-13. The applicability of the changes the ASU makes to ASC 820 can depend on whether the entity is a nonpublic entity.[6]

	Applicable to:	
Summary of Changes to ASC 820	**Other-Than-Nonpublic Entities**	**Nonpublic Entities**
New Disclosure Requirements:		
Changes in unrealized gains or losses included in OCI for recurring Level 3 fair value measurements held at the end of the reporting period	Yes	No
Explicit requirement to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements	Yes	No[7]

[5] See Deloitte's August 31, 2018, *Heads Up* for additional information about ASU 2018-13.

[6] The ASC master glossary defines a nonpublic entity as "[a]ny 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.
e. It is controlled by an entity covered by criteria (a) through (d)."

[7] Nonpublic entities are still subject to the quantitative requirements in ASC 820-10-50-2(bbb)(2) but are not subject to the requirements in ASC 820-10-50-2(bbb)(2)(i).

(Table continued)

Summary of Changes to ASC 820	Applicable to: Other-Than-Nonpublic Entities	Applicable to: Nonpublic Entities
Eliminated Disclosure Requirements:		
Amount of and reasons for transfers between Level 1 and Level 2	Yes	No[8]
Valuation processes for Level 3 fair value measurements	Yes	Yes
Policy for timing of transfers between levels of the fair value hierarchy	Yes	Yes
Changes in unrealized gains and losses included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period	No	Yes
Modified Disclosure Requirements:		
Deletion of "at a minimum" from the phrase "an entity shall disclose at a minimum" to promote the appropriate exercise of discretion by entities	Yes	Yes
Ability to disclose transfers into and out of Level 3 and purchases and issues of Level 3 assets and liabilities in lieu of reconciling the opening balances to the closing balances of recurring Level 3 fair value measurements	No	Yes
Clarification that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date	Yes	No[9]
For investments in certain entities that calculate net asset value, a requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly	Yes	Yes

Effective Date and Transition

ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted upon issuance of this ASU, including in any interim period for which financial statements have not yet been issued or made available for issuance. Entities making this election are permitted to early adopt the eliminated or modified disclosure requirements[10] and delay the adoption of all the new disclosure requirements[11] until their effective date.

[8] Under current U.S. GAAP, nonpublic entities are exempt from this disclosure requirement. Accordingly, elimination or modification of this disclosure requirement by the ASU does not affect nonpublic entities.

[9] See footnote 8.

[10] See ASC 820-10-65-12(c), which states that "an entity is permitted to early adopt the removed or modified disclosures in paragraph 820-10-50-2(bb), (c)(3), (f), and (g), paragraph 820-10-50-2G, and paragraph 820-10-50-6A(b) and (e)."

[11] See ASC 820-10-65-12(c), which states that an entity may "adopt the additional disclosures in paragraph 820-10-50-2(bbb)(2)(i) and (d) upon their effective date."

The ASU requires application of the prospective method of transition (for only the most recent interim or annual period presented in the initial fiscal year of adoption) to the new disclosure requirements for (1) changes in unrealized gains and losses included in OCI and (2) the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The ASU also requires prospective application to any modifications to disclosures made because of the change to the requirements for the narrative description of measurement uncertainty. The effects of all other amendments made by the ASU must be applied retrospectively to all periods presented.[12]

Leases

Background

In February 2016, the FASB issued ASU 2016-02 (codified in ASC 842), its new standard on accounting for leases. As discussed in last year's publication, the primary objective of issuing the new leases standard was to address the off-balance-sheet treatment of lessees' operating leases. The standard's lessee model requires a lessee to adopt a right-of-use (ROU) asset approach that brings substantially all leases, with the exception of short-term leases[13] (i.e., those with a lease term of less than 12 months), on the balance sheet. Under this approach, the lessee would record an ROU asset representing its right to use the underlying asset during the lease term and a corresponding lease liability (in a manner similar to the current approach for capital leases).

The development of the new leases standard began as a convergence project between the FASB and the IASB. Although the project was a convergence effort and the boards conducted joint deliberations, there are several notable differences between the boards' respective leases standards.[14] One of the more significant differences is related to the classification of a lease. Under the FASB's standard, an entity may classify a lease as either an operating lease or a finance lease. Under the IASB's standard, however, an entity would classify all leases as finance leases.

Connecting the Dots

ASU 2016-02 defines a lease as a "contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration." While this definition may seem straightforward, judgment is crucial to identifying a complete population of leases. At first glance, a contract may not seem to meet a conventional understanding of a lease (e.g., a lease of a specific building).

However, entities should evaluate their contracts and determine whether those contracts in their entirety or in part convey the right to use property, plant, or equipment. Because most leases will be recognized "on balance sheet" under ASU 2016-02, the financial statement implications of erroneously not identifying a lease in, for example, a service contract are far more significant than under ASC 840.

[12] See ASC 820-10-65-12(b), which states that "[a]n entity shall apply the pending content that links to this paragraph retrospectively to all periods presented, except for the changes in unrealized gains and losses required by paragraph 820-10-50-2(d), the range and weighted-average disclosure required by paragraph 820-10-50-2(bbb)(2)(i), and the narrative description of measurement uncertainty in accordance with paragraph 820-10-50-2(g) that are required to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption."

[13] Assuming that the lessee has made an accounting policy election not to account for short-term leases on the balance sheet.

[14] The IASB issued IFRS 16, *Leases*, in January 2016.

Definition of a Lease and Scope of Lease Accounting Guidance

Although the FASB ultimately did not seek to significantly change the definition of a lease or the scope of its lease accounting guidance when it issued ASU 2016-02, issues related to whether certain arrangements qualify as a lease under the new leases standard have been raised. Specifically, stakeholders have questioned whether a land easement meets the definition of a lease (since it typically gives an entity the right to use or access property for a specified purpose) or whether it represents an intangible asset. The FASB staff and a subset of Board members held roundtable discussions with various stakeholders to learn more about the current accounting for land easements and the perceived challenges in applying ASC 842 to these arrangements.

In response to those discussions and stakeholders' inquiries, the FASB issued ASU 2018-01 in January 2018 to clarify the guidance in ASU 2016-02 specifically for land easements. ASU 2018-01 provides transition relief in ASC 842-10-65-1(gg), allowing an entity to elect a practical expedient to not apply ASC 842 to all existing land easements that were not previously accounted for in accordance with ASC 840. The effective date of ASU 2018-01 is aligned with that of ASU 2016-02.

Lease and Nonlease Components

Lessees and lessors are required to separate lease components and nonlease components (e.g., any services provided) in an arrangement and allocate the total transaction price to the individual components. Lessors would perform the allocation in accordance with the guidance in the new revenue recognition standard, and lessees would do so on a relative stand-alone price basis (by using observable stand-alone prices or, if the prices are not observable, estimated stand-alone prices). However, ASU 2016-02 states that as "a practical expedient, a lessee may, as an accounting policy election by class of underlying asset, choose not to separate nonlease components from lease components and instead to account for each separate lease component and the nonlease components associated with that lease component as a single lease component."

Although ASU 2016-02 did not provide a similar practical expedient for lessors, in July 2018, the FASB issued ASU 2018-11, which allows lessors to elect to combine lease and nonlease components as long as certain conditions are met and to account for the single combined component under ASC 842 or ASC 606, depending on whether the lease component or the nonlease component is predominant.

Connecting the Dots

Transfer of a Separate Good or Service

If an amount is identified as a lease component, the amount is included in the measurement of the ROU asset and liability. When evaluating whether an activity should be a separate nonlease component, an entity should consider whether the activity transfers a separate good or service to the lessee. For example, maintenance services (including common area maintenance services) and utilities paid by the lessor but consumed by the lessee would be separate nonlease components because the lessee would have been required to otherwise contract for these services separately. However, payments for property taxes or insurance are not considered components because they do not transfer a separate good or service to the lessee and should be allocated between lease and nonlease components if the practical expedient is not elected.

Initial Direct Costs

A lessee would include in the calculation of the ROU asset any initial direct costs related to a lease. A lessor would continue to account for initial direct costs in a manner consistent with the current requirements. However, the definition of an initial direct cost is more restrictive under the new standard and includes only those costs that are incremental to the arrangement and

that the entity would not have incurred if the lease had not been obtained. The definition is consistent with how incremental costs are defined in the new revenue recognition standard (ASU 2014-09). Thus, costs such as commissions and payments made to existing tenants to obtain the lease would be considered initial direct costs. By contrast, costs such as allocated internal costs and costs to negotiate and arrange the lease agreement (e.g., professional fees such as those paid for legal and tax advice) would be excluded from the definition.

Lessee Accounting

While the FASB and IASB agreed that a lessee should record an ROU asset and a corresponding lease liability when the lease commences, they supported different approaches for the lessee's subsequent accounting. The FASB chose a dual-model approach under which a lessee classifies a lease by using criteria similar to the lease classification criteria currently in IAS 17. Under IAS 17, there are no "bright lines" such as those under current U.S. GAAP (e.g., the 90 percent fair value test in ASC 840). For leases that are considered finance leases (many current capital leases are expected to qualify as finance leases), the lessee would account for the lease in a manner similar to a financed purchase arrangement. That is, the lessee would recognize interest expense and amortization of the ROU asset, which typically would result in a greater expense during the early years of the lease. For leases that are considered operating leases (many current operating leases are expected to continue to qualify as operating leases), the lessee would recognize a straight-line total lease expense. For both types of leases, the lessee would recognize an ROU asset for its interest in the underlying asset and a corresponding lease liability.

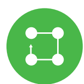
Connecting the Dots

The leasing guidance could significantly affect insurance entities that currently account for their real estate leases as operating leases. Lessees are required to record these arrangements in their statement of financial position. The dual classification model does not drive "on" or "off" balance sheet treatment but rather the characterization of the corresponding expenses and cash flows.

Although historically, many large insurance companies may have considered leases to be immaterial in the context of their financial statements, this could change as a result of the significant differences between the measurement of operating leases under ASC 840 and the measurement of such leases under ASC 842.

Lessor Accounting

The boards considered constituent feedback and decided not to make significant changes to the existing lessor accounting model. Rather, they agreed to adopt an approach that is similar to the existing capital lease and operating lease models in ASC 840 and IAS 17. However, the FASB decided to align the U.S. GAAP classification requirements with the criteria in IAS 17. In addition, the FASB decided that for leases that are similar to current sales-type leases, the lessor would only be permitted to recognize the profit on the transaction if the arrangement would have qualified as a sale under the new revenue recognition guidance (ASC 606).



Connecting the Dots

Insurance companies may invest in leveraged-lease arrangements to generate investment returns. As a result of the FASB's decisions related to such arrangements, insurance companies would no longer be permitted to apply the specialized accounting for new arrangements after the adoption of the final guidance. Rather, they would be required to account for a leveraged lease as two separate arrangements.

Options in a Lease

Under legacy lease accounting guidance, entities are required to evaluate whether they expect to exercise term renewal options, purchase options, and termination options. However, conclusions about the expectation of exercising such options typically do not significantly affect the resulting accounting for the associated leases unless they result in a change in lease classification. Under the new leases standard, by contrast, conclusions about the lease term and any payments associated with the exercise of purchase or termination options can have a more significant impact on the financial statements as a result of the measurement of the lease liability on the balance sheet. If lessees are "reasonably certain" that they will exercise an option, the corresponding impact of that option is included in the measurement of the lease liability.

Connecting the Dots

Implementation of ASU 2016-02 should include thoughtful consideration of internal controls, particularly in areas that require significant judgment and involve identification of the full population of leases (including embedded leases). Entities that may have placed less importance on the review of such conclusions under legacy GAAP should ensure that appropriate processes and controls are established to support appropriate conclusions in these key areas.

Other Technical Improvements Post-Issuance of ASU 2016-02

In 2018, the FASB issued a number of ASUs to clarify the guidance in ASU 2016-02 given that stakeholders raised various implementation issues leading up to that ASU's effective date. The table below summarizes these ASUs. Certain of their amendments are narrow in scope and are not expected to affect entities in the insurance industry.

Issue Date	ASU	Description
January 25, 2018	2018-01	Practical expedient for existing land easements. For additional information, see Deloitte's *A Roadmap to Applying the New Leasing Standard*.
July 19, 2018	2018-10	Sixteen narrow-scope improvements. For additional information, see Deloitte's August 7, 2018, *Heads Up*.
July 30, 2018	2018-11	• Transition relief for comparative periods (further discussed below). • Practical expedient for lessors to not separate lease and nonlease components. For additional information, see Deloitte's August 7, 2018, *Heads Up*.

In addition, in December 2018, the FASB completed deliberations and issued ASU 2018-20, which provides narrow-scope improvements for lessors on sales and other similar taxes and lessor costs paid by a lessee.

Effective Date and Transition

ASU 2016-02 is effective for PBEs for annual periods beginning after December 15, 2018, including interim periods therein. For all other entities, the standard is effective for annual periods beginning after December 15, 2019, and interim periods thereafter. Early adoption is permitted.

However, as indicated above, in July 2018, the FASB issued ASU 2018-11, which provides entities with an additional transition option. Under this new option (the "Comparatives Under 840 Option"), entities may elect not to recast comparative periods in transition. Effectively, ASU 2018-11 allows entities that

have not yet adopted ASC 842 to change their date of initial application to the beginning of the period of adoption. Therefore, a PBE with a calendar year-end that adopts ASU 2016-02 on January 1, 2019, would use that date as its date of initial application rather than January 1, 2017. In doing so, the entity would:

- Apply ASC 840 in the comparative periods.
- Provide the disclosures required by ASC 840 for all periods that continue to be presented in accordance with ASC 840.
- Recognize the effects of applying ASC 842 as a cumulative-effect adjustment to retained earnings as of January 1, 2019.

If the Comparatives Under 840 Option is elected, the entity would not:

- Recast 2017 and 2018 for the effects of applying ASC 842.
- Provide the disclosures required by ASC 842 for 2017 and 2018.
- Change *how* the transition requirements apply, only *when* the transition requirements apply.

ASU 2016-02 also provided entities with a transition relief package that limits the reevaluation of historical conclusions about:

- Whether any expired or existing contracts are leases or contain leases.
- The lease classification for any expired or existing leases.
- Initial direct costs for any existing leases.

An entity is permitted to elect and apply the transition relief package only if all of the package's provisions are adopted (e.g., an entity cannot revisit the lease classification of expired or existing leases but avoid evaluating the initial direct costs for existing leases). In addition, an entity cannot elect to apply the package of practical expedients only to contracts in which the entity is a lessee and not a lessor (i.e., the package is a single, entity-wide election). The transition practical expedient provided in ASU 2018-11 can be elected irrespective of an entity's decision to elect the transition relief package.

Revenue Recognition

Standard Setting

Aside from the FASB's issuance of ASU 2017-14 (discussed below) in November 2017, recent standard-setting activities related to the FASB's new revenue standard (ASC 606) have been limited since calendar-year-end PBEs adopted ASC 606 in the first quarter of 2018.

ASU 2017-14 supersedes, amends, and adds SEC paragraphs to the Codification to reflect the August 2017 issuance of SEC Staff Accounting Bulletin (SAB) 116 and SEC Release No. 33-10403. The amendments include one that supersedes ASC 605-10-S25-1 (SAB Topic 13) as a result of SAB 116 and one that adds ASC 606-10-S25-1 as a result of SEC Release No. 33-10403, related to vaccine stockpiles.

Connecting the Dots

Insurance

In the 2017 edition of this publication, we addressed implementation topics related to insurance, including various considerations for applying the scope exception in ASC 606-10-15-2 to contracts within the scope of ASC 944.

These and other implementation issues were identified and addressed by the AICPA's Insurance Entities Revenue Recognition Task Force and have in some cases been finalized in Chapter 14 of the AICPA Audit and Accounting Guide *Revenue Recognition* (the "AICPA Guide"). The following is an additional implementation topic that was evaluated in 2018 by the task force (and was finalized in Chapter 14 of the AICPA Guide):

- *"Accounting for Third Party Extended Service Warranty Contracts (Applicable to Non-Insurance Entities) — Revenue Recognition Implementation Issue"* — When an entity provides an extended warranty service, the task force believes that either of the following views would be acceptable depending on an entity's facts and circumstances:
  - *View A* — An entity "could view the nature of its performance obligation under an extended warranty contract that provides an unknown quantity of services for a fixed fee as standing ready to provide protection against damage to, loss or malfunction of the warrantied item caused by various perils for the specified [contract] period. As such, [the entity] provides assurance of use for the covered product for the [contract] period." Under this view, "revenue should be recognized as the performance obligation is satisfied over the [contract] period."
  - *View B* — An entity "could also view the nature of its performance obligation as standing ready to fix, arrange to fix, or replace the covered product under an extended warranty contract that provides an unknown quantity of services for a fixed fee." Under this view, "revenue should be recognized as the performance obligation is satisfied over the period in which the entity is expected to repair or replace the item under warranty. . . . Although the claim is required to be incurred during the [contract] period, services to repair or replace may be provided after the end of the [contract] period. A portion of the transaction price would be" unearned revenue as of the end of the contract term and would be earned in subsequent periods.

Disclosure Themes Upon Adoption

While some companies made wholesale changes to their financial statements upon the adoption of ASU 2014-09, others experienced less significant effects from the new requirements.

Deloitte's September 26, 2018, ***Heads Up*** (1) provides a brief overview of the disclosure requirements for PBEs under the new revenue standard, (2) highlights some key themes regarding the application of ASC 606 (related to accounting and disclosure requirements) that we noted in our review of approximately 100 SEC staff comments issued to date, and (3) presents examples of those comments. As entities navigate the disclosure requirements of ASC 606, they may benefit from evaluating the trends we have observed in our review.

Income Taxes

Tax Cuts and Jobs Act

Background

On December 22, 2017, President Trump signed into law the tax legislation commonly known as the Tax Cuts and Jobs Act (the "Act"). Under ASC 740, the effects of new legislation are recognized upon enactment, which (for federal legislation) is the date the president signs a bill into law. Accordingly, recognition of the tax effects of the Act is required in the interim and annual periods that include December 22, 2017. The information below represents our current views, which are subject to change on the basis of additional input received or further developments as they occur.

SAB 118

Shortly after enactment, the SEC staff issued SAB 118, which provides guidance on accounting for the Act's impact. In March 2018, the FASB issued ASU 2018-05.

Under SAB 118, an entity would use something similar to the measurement period in a business combination. That is, an entity would recognize those matters for which the accounting can be completed ("Bucket 1"), as might be the case for the effect of rate changes on DTAs and deferred tax liabilities (DTLs). For matters that have not been completed, the entity would either (1) recognize provisional amounts to the extent that they are reasonably estimable and adjust them over time as more information becomes available ("Bucket 2") or (2) for any specific income tax effects of the Act for which a reasonable estimate cannot be determined, continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the Act was signed into law — that is, the entity would not adjust current or deferred taxes for those tax effects of the Act until a reasonable estimate can be determined ("Bucket 3"). SAB 118 specifically defines the measurement period to not exceed one year. It is expected that one year is a reasonable amount of time for companies to interpret, analyze, and draw conclusions about the impacts the Act will have on their financial statements.

SAB 118 addresses certain practical problems created by the enactment of a vast amount of new and complex legislation only nine days before December 31, 2017 — the end of a reporting period for many entities. The Act was developed over a very condensed time frame, and preparers and practitioners had little time to analyze its preliminary or final versions. As a consequence, there may be tax technical matters with respect to the Act for which it is not feasible to prepare a complete "more-likely-than-not" assessment during the enactment period or potentially even in subsequent quarters within the measurement period. Determining whether a tax technical matter is within the scope of SAB 118 during the one-year measurement period will, of course, depend on the specific facts and circumstances of each individual entity and will require considerable judgment.

In addition to the disclosures required by ASC 740, SAB 118 requires companies to disclose "information about the material financial reporting impacts of the Act for which the accounting under [ASC 740 as of the reporting date] is incomplete." These disclosures include:

(a) Qualitative disclosures of the income tax effects of the Act for which the accounting is incomplete;

(b) Disclosures of items reported as provisional amounts;

(c) Disclosures of existing current or deferred tax amounts for which the income tax effects of the Act have not been completed;

(d) The reason why the initial accounting is incomplete;

(e) The additional information that is needed to be obtained, prepared, or analyzed in order to complete the accounting requirements under ASC Topic 740;

(f) The nature and amount of any measurement period adjustments recognized during the reporting period;

(g) The effect of measurement period adjustments on the effective tax rate; and

(h) When the accounting for the income tax effects of the Act has been completed.

Companies should have provided the disclosures required by items (a) through (e), as well as item (h), in the first financial statements issued that include the period in which the Act was enacted (e.g., financial statements for the year ended December 31, 2017, for calendar-year companies). Items (f) and (g) will be relevant in subsequent periods to the extent that a company records adjustments during the measurement period, and items (a) through (e) and (h) should be updated in each reporting period until the company has completed its accounting for the income tax effects of the Act.

ASU 2018-05 is effective upon issuance. In the ASU, the Board agreed with the FASB staff that private companies and NFPs may apply SAB 118 despite the fact that SABs are not a source of authoritative guidance for such entities.

See Deloitte's January 3, 2018 (last updated August 30, 2018), *Financial Reporting Alert* for additional information and examples regarding SAB 118.

ASU 2018-02

In February 2018, the FASB issued ASU 2018-02 to address industry concerns related to the application of ASC 740 to certain provisions of the Act. Specifically, some constituents in the banking and insurance industries had expressed concerns about the requirement in ASC 740 that the effect of a change in tax laws or rates on DTAs and DTLs be included in income from continuing operations. That guidance applies even in situations in which the tax effects were initially recognized directly in OCI at the previous rate, resulting in "stranded" amounts in AOCI related to the income tax rate differential.

The adjustment for the tax effects of changes in tax laws or rates is still allocated to income from continuing operations, even after the issuance of ASU 2018-02. However, the ASU allows an entity to elect a one-time reclassification from AOCI to retained earnings of "stranded" tax effects resulting from the Act. The effects of the change in the U.S. federal corporate income tax rate on gross valuation allowances that were originally charged to income from continuing operations are not included. The reclassification entry would be recorded directly in the statement of changes in stockholders' equity and is not included in the statement of changes in OCI.

All companies are required to adopt ASU 2018-02. However, upon the adoption of the ASU, certain of its provisions are required and others are elective. For example, a company can elect to reclassify the income tax effects of the Act on items in AOCI to retained earnings. Under ASC 220-10-45-12A, if an entity elects to reclassify the income tax effects of the Act, the amount of the reclassification includes:

a. The effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of enactment of the Tax Cuts and Jobs Act related to items remaining in accumulated other comprehensive income. . . .

b. Other income tax effects of the Tax Cuts and Jobs Act on items remaining in accumulated other comprehensive income that an entity elects to reclassify, subject to the disclosures in [ASC] 220-10-50-2(b).

Accordingly, if a company elects to make a reclassification entry, it would be required to reclassify amounts prescribed in (a) but would not be required to reclassify amounts prescribed in (b).

Regardless of whether an election is made to reclassify income tax effects of the Act, all companies are required to disclose the following upon adoption of the ASU:

- The company's accounting policy related to releasing income tax effects from AOCI (e.g., the portfolio approach or the security-by-security approach).[15]
- Whether the company has elected to reclassify, to retained earnings in the statement of stockholders' equity, the stranded tax effects in AOCI related to the Act.
- If the company has elected to reclassify to retained earnings the stranded tax effects in AOCI related to the Act, what the reclassification encompasses (whether it includes only the change in the federal corporate tax rate or whether it also includes other changes resulting from the Act that affect AOCI).

ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018, including interim periods therein. Earlier application is permitted in financial statements that have not yet been issued or made available for issuance. Upon adoption, an entity would apply this guidance to each period in which the effect of the Act (or portion thereof) is recorded and may apply it either (1) retrospectively as of the date of enactment or (2) as of the beginning of the period of adoption.

Subsequent changes to provisional amounts previously recorded under SAB 118 will not affect the entity's initial-adoption entries; rather, the entity would need to record additional adjustments to the reclassification in subsequent periods. The FASB acknowledged in paragraph BC23 of ASU 2018-02 that if an entity recorded provisional estimates for an item under SAB 118, and additional information related to facts or circumstances that existed as of the date of enactment is obtained during the measurement period, adjustments to those provisional estimates could result in the recording of the reclassification adjustment contemplated by ASU 2018-02 in multiple reporting periods.

The adoptions of ASU 2018-02 and ASU 2016-01 affect each other. ASU 2016-01 requires entities to remeasure equity securities with readily determinable fair values (and those without readily determinable fair values upon the occurrence of certain events) to fair value each period and is effective for PBEs for fiscal years beginning after December 15, 2017, and interim periods therein. Upon adoption, an entity is required to record a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. Consequently, entities with equity securities that were classified as AFS before adoption will reclassify amounts from AOCI to retained earnings by means of the cumulative-effect adjustment recorded upon adoption.

Because both ASU 2018-02 and ASU 2016-01 may affect amounts previously recorded in AOCI, the impact that the adoption of one ASU has on the adoption of the other will depend on (1) the order in which the ASUs are adopted, (2) the entity's existing policies for releasing stranded tax effects, and (3) the entity's choice of adoption with respect to ASU 2018-02.

[15] For more information on the portfolio approach and security-by-security approach, see Section 7.18 of Deloitte's *A Roadmap to Accounting for Income Taxes*.

Consolidation

In October 2018, the FASB issued ASU 2018-17, which amends two aspects of the related-party guidance in ASC 810. The ASU (1) adds an elective private-company scope exception to the variable interest entity (VIE) guidance for entities under common control and (2) removes a sentence in ASC 810-10-55-37D regarding the evaluation of fees paid to decision makers to conform with the amendments in ASU 2016-17 (issued in October 2016).

ASU 2018-17 does not incorporate the changes to the related-party guidance in the VIE primary-beneficiary assessment that were exposed for public comment in the FASB's June 22, 2017, proposed ASU, including amendments to the guidance in ASC 810-10-25-44 (frequently referred to as the "related-party tiebreaker test"). On the basis of feedback received through the comment letter process, the Board decided not to include these changes in the final ASU and added to its research agenda an item to evaluate potential amendments to the related-party guidance in the VIE primary-beneficiary assessment.

Background

The determination of whether a legal entity should be consolidated by a reporting entity begins with an evaluation of whether the legal entity is subject to a general exception to the consolidation requirements in ASC 810-10. If a legal entity is not subject to a general exception, the evaluation should focus on whether the legal entity is subject to an exception to the VIE model.[16] In March 2014, the FASB issued ASU 2014-07, which provided a private-company scope exception to the VIE guidance for certain entities that are under common control and have leasing arrangements that meet certain conditions.

If no general scope exception or VIE scope exception is available, when the reporting entity has a variable interest in a legal entity, it is required to determine whether the legal entity is a VIE. If the legal entity is a VIE, the reporting entity should evaluate whether it is the primary beneficiary of the VIE. Under ASC 810, the primary beneficiary of a VIE is defined as the entity that has both (1) the "power to direct the activities of a VIE that most significantly impact the VIE's economic performance" (the "power criterion") and (2) the "obligation to absorb losses of the VIE . . . or the right to receive benefits from the VIE that could potentially be significant to the VIE" (the "economics criterion"). ASU 2015-02 (issued in February 2015) and ASU 2016-17 amended the economics criterion to require a reporting entity that is a single decision maker to consider, when assessing the effects of related-party relationships, interests held by its related parties (including de facto agents) only if the reporting entity has a direct interest in the related parties.[17] Under ASC 810, as amended by those two ASUs, interests held through related parties under common control are considered (1) in their entirety as direct interests held by the decision maker in the evaluation of whether the decision maker's fee arrangement is a variable interest and (2) proportionately as an indirect interest held by the decision maker in the primary-beneficiary analysis.

[16] See additional discussion in Chapter 3 of Deloitte's *A Roadmap to Consolidation — Identifying a Controlling Financial Interest*.

[17] See also the guidance in ASC 810-10-25-44 through 25-44B on determining the primary beneficiary for certain related-party relationships.

Key Provisions of ASU 2018-17

Private-Company Scope Exception to the VIE Guidance for Certain Entities

ASU 2018-17 broadens the existing accounting alternative available to private companies by allowing all legal entities under common control to elect not to apply the VIE guidance as long as the reporting entity, the common-control parent, and the legal entity being evaluated for consolidation are not PBEs and meet the criteria in ASC 810-10-15-17AD (added by the ASU). ASC 810-10-15-17AD states, in part:

> A legal entity need not be evaluated by a private company (reporting entity) under the guidance in the Variable Interest Entities Subsections if all of the following criteria are met:
>
> a. The reporting entity and the legal entity are under common control.
>
> b. The reporting entity and the legal entity are not under common control of a public business entity.
>
> c. The legal entity under common control is not a public business entity.
>
> d. The reporting entity does not directly or indirectly have a controlling financial interest in the legal entity when considering the General Subsections of this Topic. The Variable Interest Entities Subsections shall not be applied when making this determination.

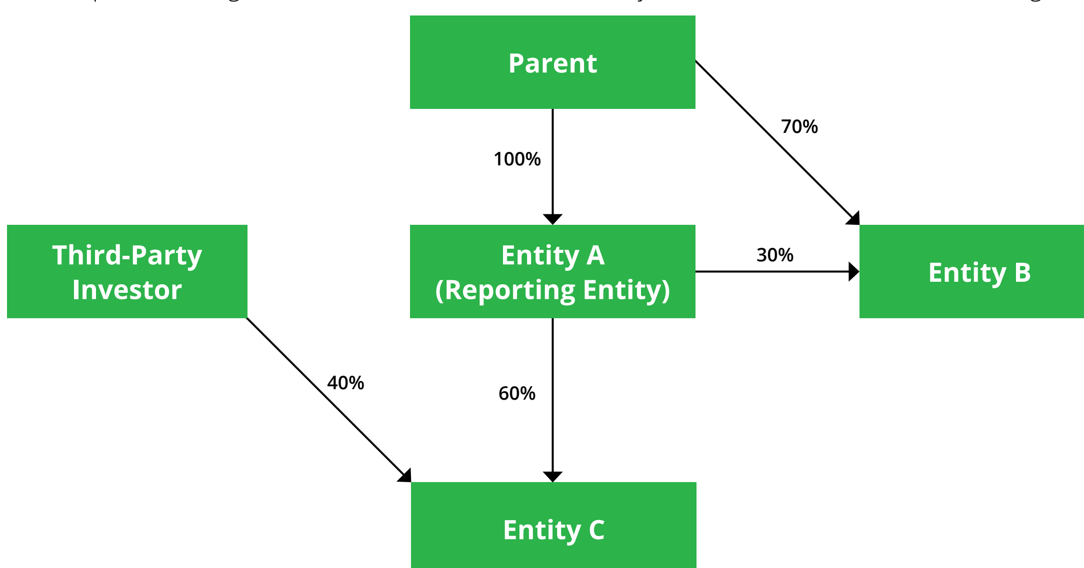
ASC 810-10-15-17AE (added by the ASU) provides guidance on applying criterion (a) above, which requires a determination that the reporting entity and the legal entity are under common control. Specifically, ASC 810-10-15-17AE provides that *solely* for the purpose of applying criterion (a), a private-company reporting entity should consider *only* the voting interest model when making this determination. That is, a private-company reporting entity is not required to consider the VIE guidance when determining whether criterion (a) is met.

The example below illustrates the applicability of ASC 810-10-15-17AD.

Example 1

Parent has a 100 percent direct voting interest in Entity A (the reporting entity) and a 70 percent direct voting interest in Entity B. Entity A has a 30 percent direct voting interest in B and a 60 percent direct voting interest in C. Third-Party Investor has a 40 percent direct voting interest in C.

The respective voting interests of Parent, A, and Third-Party Investor are summarized in the diagram below.



Example 1 (continued)

Further assume the following:

- None of the entities are PBEs; therefore, criteria (b) and (c) are met.
- There are no contractual arrangements through which a third party controls B or C.
- Third-Party Investor does not have substantive participating rights in C.

Parent has a controlling financial interest in A, B, and C through its direct and indirect voting interests. Therefore, A, B, and C are under common control for purposes of applying criterion (a) in ASC 810-10-15-17AD.

Entity A can apply the private-company scope exception of ASC 810-10-15-17AD to B because A does not directly or indirectly have a controlling financial interest in B and therefore also meets criterion (d). However, A *cannot* apply the scope exception to C because A has a controlling financial interest in C and therefore does *not* meet criterion (d).

Connecting the Dots

Common-Control Considerations

The Codification does not specifically define common control. However, additional clarification of the FASB's views on common control is provided in the Background Information and Basis for Conclusions of both ASU 2014-07 and ASU 2015-02.

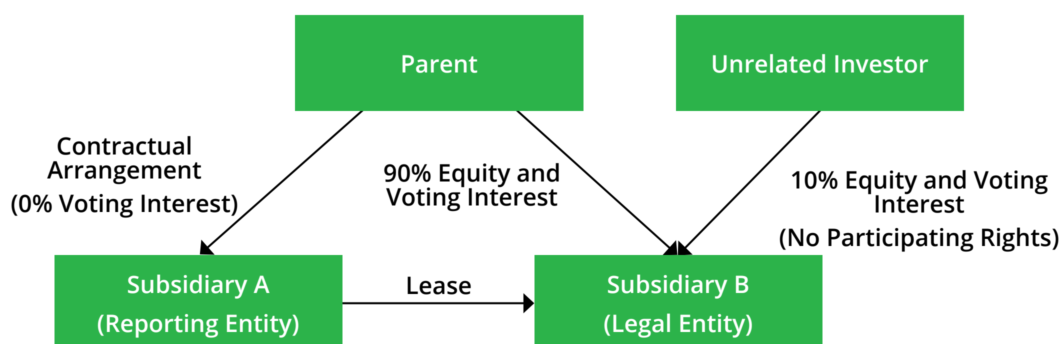
For example, paragraph BC15 of ASU 2014-07 explains that the Board acknowledged that common control is broader than the SEC observations on EITF Issue 02-5.[18] Paragraph BC15 further states that "[b]ecause common control is not an entirely new concept within U.S. GAAP, stakeholders in current practice should be able to assess whether common control exists."

Paragraphs BC19 through BC21 of ASU 2018-17 align with ASU 2014-07 as outlined above, with one key exception. ASU 2018-17 permits a reporting entity to apply the new private-company scope exception *only* if the reporting entity and legal entity are under common control on the basis of a common-control parent's voting interest. Paragraph BC21 of ASU 2018-17 highlights the Board's conclusion that *solely* for the purpose of applying this scope exception, a private-company reporting entity should consider *only* the voting interest model when determining whether the reporting entity and legal entity are under common control. Paragraph BC20 of ASU 2018-17 states that the ASU is not intended to change how entities determine whether an arrangement is under common control when applying other guidance in U.S. GAAP.

Since ASU 2014-07 did not define common control or limit how to determine whether entities that intend to apply the scope exception in that ASU are under common control, it is possible that a reporting entity applying ASU 2014-07 would not meet the criteria to apply the scope exception in ASU 2018-17. In the illustration below, we would not expect Subsidiary A (the reporting entity) to be eligible to apply the scope exception in ASU 2018-17 because Parent is the primary beneficiary of A through a contractual arrangement and does not hold a voting interest in A. Therefore, A (the reporting entity) and Subsidiary B (the legal entity) are not under common control of Parent *solely* on the basis of voting interest.

[18] Paragraph 3 of EITF Issue 02-5 states that "the SEC staff has indicated that common control exists between (or among) separate entities only in the following situations:

a. An individual or enterprise holds more than 50 percent of the voting ownership interest of each entity.
b. Immediate family members hold more than 50 percent of the voting ownership interest of each entity (with no evidence that those family members will vote their shares in any way other than in concert).
   (1) Immediate family members include a married couple and their children, but not the married couple's grandchildren.
   (2) Entities might be owned in varying combinations among living siblings and their children. Those situations would require careful consideration regarding the substance of the ownership and voting relationships.
c. A group of shareholders holds more than 50 percent of the voting ownership interest of each entity, and contemporaneous written evidence of an agreement to vote a majority of the entities' shares in concert exists."



Applicability of the Private-Company Scope Exception to Parent-Subsidiary Relationships

In paragraph BC69 of ASU 2015-02, the FASB explains that under the VIE model, entities under common control would include "subsidiaries controlled (directly or indirectly) by a common parent, or a subsidiary and its parent."

Although paragraph BC69 of ASU 2015-02 highlights that a parent and its subsidiary are entities under common control, we do not believe that the private-company scope exception in ASU 2018-17 can be applied to parent-subsidiary common-control relationships when the parent is the reporting entity. To be under common control for the purpose of applying criterion (a) in ASC 810-10-15-17AD, a parent must have a controlling financial interest through its voting interest in both the reporting entity and the legal entity. If the parent is also the reporting entity, criterion (d) in ASC 810-10-15-17AD would not be met because the reporting entity (in this case, the parent) *would* have a controlling financial interest in the legal entity through its voting interest.

Definition of a PBE

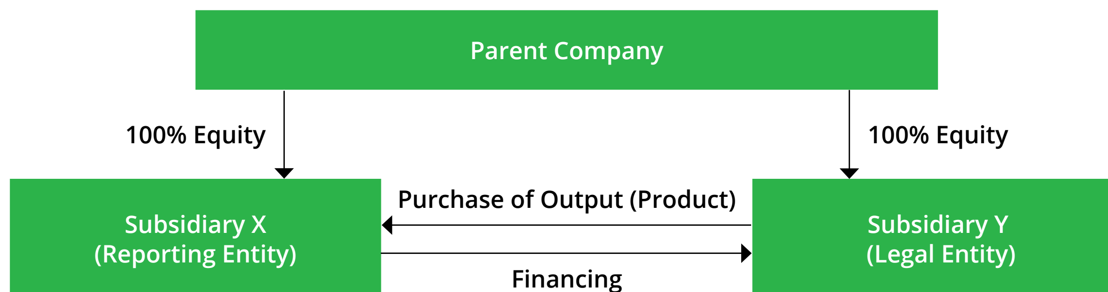
As noted above, a reporting entity cannot apply the private-company scope exception if the reporting entity, common-control parent, or legal entity is a PBE (as outlined in ASC 810-10-15-17AD(b) and (c)). The ASC master glossary defines a PBE, in part, as a business entity that is "required by the [SEC] to file or furnish financial statements, or [that] 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)**" (emphasis added). The definition further states that 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."

Certain nonpublic entities may meet the definition of a PBE because of statutory or regulatory requirements. Such entities would not be eligible to apply the private-company scope exception in ASU 2018-17.

As noted above, a reporting entity that wishes to apply the private-company scope exception in ASU 2018-17 is required to determine whether the reporting entity and legal entity are under common control solely on the basis of the voting interest model. Therefore, in structures in which a common-control parent has the majority vote in both the reporting entity and the legal entity and no other investors have substantive participating rights, criterion (a) in ASC 810-10-15-17AD would be met (i.e., the reporting entity and legal entity would be determined to be under common control). In addition, criterion (d) would be met because the common-control parent rather than the reporting entity would

have a controlling financial interest in the legal entity. Consequently, the reporting entity would be eligible to apply the scope exception provided that the common-control parent, reporting entity, and legal entity are not PBEs in accordance with criteria (b) and (c) in ASC 810-10-15-17AD.

In the illustration below, Subsidiary X (the reporting entity) would be eligible to apply the scope exception with respect to Subsidiary Y (the legal entity) only if the three entities are not PBEs. Subsidiary X would be able to apply the scope exception because Parent Company, the common-control parent, has a controlling financial interest through its majority *voting interest* in both X and Y.



ASU 2018-17 supersedes the existing accounting alternative under ASC 810 that originated from ASU 2014-07 since the FASB believes that the new guidance on common-control relationships for private companies would encompass existing leasing arrangements that qualified for the previous scope exception. Like the accounting alternative under current guidance, the private-company scope exception provided by ASU 2018-17 would be considered an accounting policy that, if elected, should be applied consistently to all legal entities that qualify for it.

As a result of meeting the criteria in ASC 810-10-15-17AD for applying the new scope exception, specifically criterion (d), private-company reporting entities that apply the scope exception and therefore do not consolidate under the VIE model would also not consolidate under the voting interest entity model since those entities would not have qualified for the scope exception if they had a controlling financial interest under the voting interest entity model. Consequently, private-company reporting entities that apply the scope exception will be required to provide enhanced disclosures similar to those required of entities that apply the VIE guidance. For a list of the disclosure requirements, see the appendix of Deloitte's November 19, 2018, *Heads Up*.

Evaluation of Fees Paid to a Decision Maker

ASC 810 currently requires indirect interests held by related parties under common control to be considered in their entirety[19] in the evaluation of whether a decision maker's fee arrangement is a variable interest under ASC 810-10-55-37(c). ASU 2016-17 amended ASC 810-10-25-42 to require consideration of these indirect interests on a proportionate basis in the primary-beneficiary analysis but did not align current guidance with the considerations related to the variable interest analysis. Accordingly, ASU 2018-17 now aligns the guidance by removing a sentence in ASC 810-10-55-37D[20] to conform the guidance in that paragraph with the amendments in ASU 2016-17.

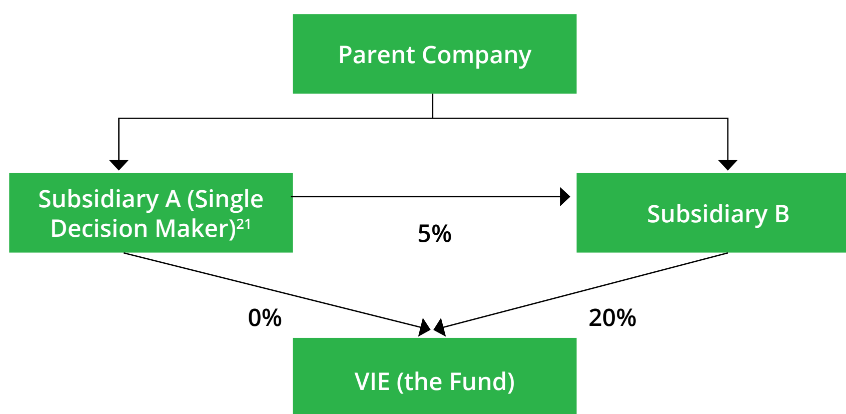
[19] Specifically, ASC 810-10-55-37D.

[20] ASU 2018-17 removes the following sentence: "Indirect interests held through related parties that are under common control with the decision maker should be considered the equivalent of direct interests in their entirety."

Connecting the Dots

Under current guidance, there is asymmetry in the manner in which a decision maker's indirect interests held through a related party under common control are evaluated regarding (1) the identification of a variable interest and (2) the determination of a VIE's primary beneficiary in the assessment of related-party relationships. Under ASU 2018-17, however, the evaluation of indirect interests would be aligned in both of these analyses. Therefore, it is less likely that a decision maker applying ASU 2018-17 would be required to apply the VIE model because fewer fee arrangements would qualify as variable interests.

For example, as the diagram below depicts, a fund's single decision maker could have only a 5 percent interest in a related party under common control that holds a 20 percent interest in a fund. Under ASC 810 as amended by ASU 2015-02 and ASU 2016-17, the single decision maker would have a variable interest in accordance with ASC 810-10-55-37(c) and ASC 810-10-55-37D because the 20 percent interest held by the entity under common control would be treated as the decision maker's interest in its entirety. When performing the primary-beneficiary analysis, the decision maker would treat only 1 percent of the interest as its own in determining whether it has satisfied the economics criterion. Accordingly, the decision maker's fee arrangement would satisfy the power criterion, but the fee arrangement itself would not satisfy the economics criterion.



Under ASU 2018-17, the decision maker will consider only the 1 percent interest as its own (i.e., proportionately) when evaluating whether the fee arrangement was a variable interest, in a manner similar to its assessment of the interest attributable to the decision maker in the primary-beneficiary step under current guidance. Thus, the fee arrangement would not be a variable interest provided that the fees are otherwise "commensurate"[22] and "at market"[23] under ASC 810-10-55-37(a) and (d). The decision maker would therefore not be required to apply the VIE model because it does not have a variable interest.

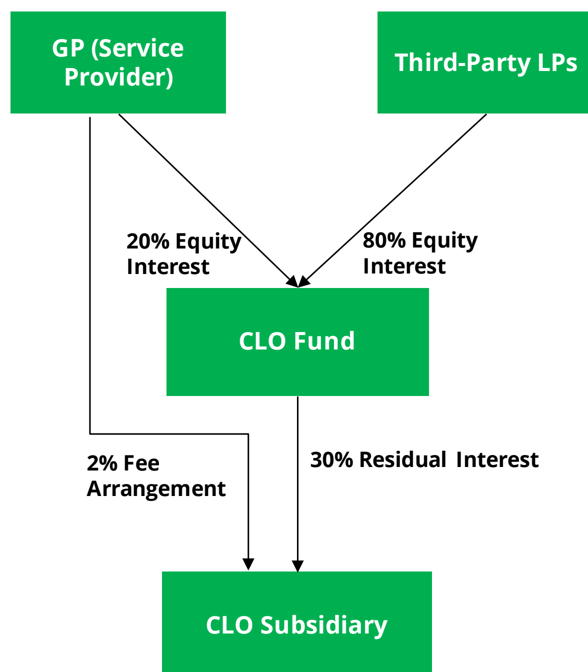
The changes made by ASU 2018-17 do not affect interests held through a subsidiary since such interests should be treated as direct interests of the consolidated group in a consolidation assessment. Consider the example below.

[21] It is assumed that Subsidiary A receives a fee for decision-making that meets the conditions in ASC 810-10-55-37(a) and (d).
[22] The fees are compensation for services provided and are commensurate with the level of effort required to provide those services.
[23] The service arrangement includes only terms, conditions, or amounts that are customarily present in arrangements for similar services negotiated at arm's length.

Example 2

GP (Service Provider) owns 20 percent of CLO Fund. The remaining 80 percent is owned by unrelated Third-Party LPs. CLO Fund owns a 30 percent residual interest in CLO Subsidiary. GP (Service Provider) has a management agreement with, and acts as the decision maker for, CLO Subsidiary. Under the agreement, GP (Service Provider) receives fees that are deemed commensurate and at market.

Both CLO Fund and CLO Subsidiary have been deemed VIEs because neither of them has substantive participating rights or kick-out rights. Assume that GP (Service Provider) has power over CLO Fund, which, in conjunction with the 20 percent equity interest of GP (Service Provider) in CLO Fund, results in the consolidation of CLO Fund by GP (Service Provider).



Because GP (Service Provider) consolidates CLO Fund, CLO Fund's 30 percent residual interest in CLO Subsidiary represents a direct interest of GP (Service Provider) in CLO Subsidiary (i.e., it is not considered an indirect interest that would be assessed on a proportionate basis). Consequently, GP (Service Provider) would be the primary beneficiary of CLO Subsidiary since (1) the GP (Service Provider) management agreement represents a variable interest in CLO Subsidiary and provides GP (Service Provider) with power over CLO Subsidiary and (2) CLO Fund's 30 percent residual interest in CLO Subsidiary, which represents a 30 percent direct interest in CLO Subsidiary for GP (Service Provider), meets the economics criterion.

Effective Date and Transition

For entities other than private companies, ASU 2018-17 is effective for fiscal years beginning after December 15, 2019, including interim periods therein. For private companies, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. In a manner consistent with the amendments in previously issued ASUs related to ASC 810, the amendments in ASU 2018-17 are required to be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented.

Connecting the Dots

In March 2016, the FASB issued ASU 2016-03, which gives private companies a one-time unconditional option to forgo a preferability assessment the first time they elect a private-company accounting alternative within the ASU's scope. ASU 2016-03 contains no effective date or transition guidance, eliminates the effective dates of private-company accounting alternatives that are within the ASU's scope, and extends the transition guidance for such alternatives indefinitely.

By contrast, ASU 2018-17 includes an effective date and transition information for applying the new private-company scope exception and other guidance in the ASU. The FASB discussed whether the ASU's effective date and transition guidance should be aligned with ASU 2016-03; however, the Board decided that alignment with ASU 2016-03 would be burdensome for reporting entities that currently apply the existing accounting alternative under ASC 810 because they would have to apply the new private-company scope exception immediately to maintain their existing accounting presentation and, consequently, apply the exception to all other legal entities that are eligible for it at that time. Accordingly, the December 15, 2020, effective date of ASU 2018-17 for private companies is intended to give those companies sufficient time to decide whether they want to elect using the new private-company scope exception. However, reporting entities that consider making this election after the effective date of ASU 2018-17 will be required to perform a preferability assessment in accordance with ASC 250 *if* the election represents a change in accounting policy.

Additional Transition Considerations

Under ASC 810, the determination of whether a legal entity is a VIE, and, if so, whether the reporting entity is required to consolidate the legal entity must generally be made upon the reporting entity's initial involvement with the legal entity. However, ASU 2018-17 allows the reporting entity to make this determination as of the date of application of the ASU if it is not practicable for the reporting entity to obtain the information necessary to make the determination as of the date of initial involvement.

ASU 2018-17 requires a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The cumulative-effect adjustment is based on the carrying amounts of the assets, liabilities, and noncontrolling interests of the legal entity (when consolidation is required)[24] or the carrying amount of any retained interest in the legal entity (when deconsolidation is required)[25] if it is practicable to determine such carrying amount(s). In addition, the ASU provides a practicability exception for determining the carrying amounts of the assets, liabilities, and noncontrolling interests of a consolidated legal entity (or the carrying amount of any retained interest in a deconsolidated legal entity). A reporting entity that elects the practicability exception will be allowed to initially measure such carrying amount(s) at fair value.

Connecting the Dots

As previously noted, it is possible that a reporting entity applying the current scope exception in ASC 810 (as provided by ASU 2014-07) would not be eligible to apply the scope exception in ASU 2018-17. In that case, the reporting entity would be required to apply the guidance in the VIE model retrospectively in accordance with ASC 810-10-65-9.

[24] ASC 810-10-65-9(e) states that when the reporting entity is required to *consolidate* the legal entity, "carrying amounts refer to the amounts at which the assets, liabilities, and noncontrolling interests would have been carried in the consolidated financial statements if the requirements of [ASU 2018-17] had been effective when the reporting entity first met the conditions to consolidate the legal entity."

[25] ASC 810-10-65-9(h) states that when the reporting entity is required to *deconsolidate* the legal entity, "carrying amount refers to the amount at which any retained interest would have been carried in the reporting entity's financial statements if [ASU 2018-17] had been effective when the reporting entity became involved with the legal entity or no longer met the conditions to consolidate the legal entity."

If a reporting entity applies the new private-company scope exception upon transition to ASU 2018-17 and one of the entities (the parent, reporting entity, or legal entity) subsequently becomes a PBE, the reporting entity can no longer apply the scope exception. In that case, the transition approach would depend on which entity became a PBE. If the reporting entity is *not* the entity that became a PBE, prospective application of the VIE guidance would be required. However, if the reporting entity is the entity that became a PBE, retrospective application of the VIE guidance would be required. Therefore, the reporting entity must continually assess whether it can continue to apply the scope exception.

Compensation

Background

In June 2018, the FASB issued ASU 2018-07,[26] which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees.

Currently, share-based payment arrangements with employees are accounted for under ASC 718, while nonemployee share-based payments issued for goods and services are accounted for under ASC 505-50. ASC 505-50, before the ASU's amendments, differs significantly from ASC 718. Differences include (but are not limited to) the guidance on (1) the determination of the measurement date (which generally is the date on which the measurement of equity-classified share-based payments becomes fixed), (2) the accounting for performance conditions, (3) the ability of a nonpublic entity to use certain practical expedients for measurement, and (4) the accounting for (including measurement and classification) share-based payments after vesting.

The ASU supersedes ASC 505-50 and expands the scope of ASC 718 to include all share-based payment arrangements related to the acquisition of goods and services from both nonemployees and employees.

Key Provisions of ASU 2018-07

Measurement Date

One of the more significant changes under the new guidance is related to the determination of the measurement date, which is generally the date on which the measurement of equity-classified share-based payments becomes fixed. The ASU eliminates the guidance in ASC 505-50 on determining the measurement date for nonemployee share-based payment arrangements. Rather, for equity-classified awards, the measurement date would generally be the grant date.

Connecting the Dots

Under ASC 505-50, the measurement date for nonemployee share-based payments that are classified as equity is the earlier of the date as of which (1) a commitment for performance by the counterparty to earn the equity instruments is reached (a "performance commitment") or (2) the counterparty's performance is complete. For a performance commitment to be reached, "sufficiently large disincentives for nonperformance" must exist so that "performance by the counterparty to earn the equity instruments is probable." In practice, a performance commitment is often not reached before the completion of performance, which delays the measurement date until performance is complete (i.e., the nonemployee awards are

[26] For additional information about ASU 2018-07, see Deloitte's *A Roadmap to Accounting for Share-Based Payment Awards* and Deloitte's June 21, 2018, *Heads Up*.

remeasured or "marked to market" each reporting period until they are vested). Under ASU 2018-07, the measurement of equity-classified nonemployee share-based payments is generally fixed on the grant date, as defined in ASC 718. This requirement could significantly affect the cost recognized for nonemployee awards issued for goods and services.

Example 1

On January 1, 20X1, Entity A enters into an arrangement with an advertising company that provides marketing services for the next two years in exchange for 1,000 equity-classified warrants. The warrants vest at the end of two years (i.e., when the marketing services are complete). In accordance with ASC 505-50, the measurement date is determined to be the date that the advertising company completes the marketing services (December 31, 20X2) because sufficiently large disincentives for nonperformance do not exist. The marketing services are provided ratably over the two-year period, and half of the services have been provided as of December 31, 20X1.

The fair-value-based measure of the warrants on January 1, 20X1; December 31, 20X1; and December 31, 20X2, is $10, $12, and $14, respectively. The following journal entries illustrate the recognition under ASC 505-50 and ASU 2018-07:

Journal Entry	ASC 505-50		ASU 2018-07	
December 31, 20X1				
Marketing expense	6,000		5,000	
Additional paid-in capital (APIC)		6,000		5,000
	To record marketing expense on the basis of the fair-value-based measure as of December 31, 20X1 (1,000 warrants × $12 fair-value-based measure × 50% for 1 of 2 years of services rendered).		To record marketing expense on the basis of the grant-date fair-value-based measure (1,000 warrants × $10 fair-value-based measure × 50% for 1 of 2 years of services rendered).	
December 31, 20X2				
Marketing expense	8,000		5,000	
APIC		8,000		5,000
	To record marketing expense on the basis of the fair-value-based measure as of December 31, 20X2 [(1,000 warrants × $14 fair-value-based measure × 100% of services rendered) – $6,000 marketing expense previously recognized].		To record marketing expense on the basis of the grant-date fair-value-based measure [(1,000 warrants × $10 fair-value-based measure × 100% of services rendered) – $5,000 marketing expense previously recognized].	

The following table summarizes the annual and cumulative cost recognized under ASC 505-50 and ASU 2018-07:

Marketing Expense	ASC 505-50	ASU 2018-07
20X1	$ 6,000	$ 5,000
20X2	8,000	5,000
Total	$ 14,000	$ 10,000

Treatment of Performance Conditions

The treatment of nonemployee share-based payment performance conditions under ASU 2018-07 is significantly different from that under existing guidance. In recognizing the cost of nonemployee awards, an entity generally is precluded by ASC 505-50 from considering whether it is probable that the performance conditions will be met. Rather, if the quantity and terms of nonemployee awards depend on counterparty performance conditions, the entity measures any cost recognized on the basis of the "then-current lowest aggregate fair value" of the awards as of each reporting period until the performance conditions are "known" (i.e., achieved). This can often result in a scenario in which the lowest aggregate fair value is zero and no cost is recognized until the performance conditions are achieved, even if the performance conditions are expected to be met. Under the ASU, the guidance on nonemployee awards with performance conditions is aligned with that in ASC 718. Accordingly, an entity is required to recognize any cost on the basis of the probable outcome of performance conditions.

Example 2

On January 1, 20X1, Entity C enters into a contract with an advertising company that provides marketing services in exchange for a cash fee. The marketing services are completed on December 31, 20X1. The cost associated with the cash fee is recognized as the marketing services are performed. In addition, if C achieves $100 million in sales over a one-year period after the services are provided (January 1, 20X2, through December 31, 20X2), the advertising company will receive 100 equity-classified warrants. Entity C concludes that it is **probable** that it will achieve $100 million in sales for the one-year period, and it achieves the sales target on December 31, 20X2. Under ASC 505-50, C will not recognize any cost associated with the warrants (the lowest aggregate fair value is zero until the performance condition is achieved) when the marketing services are provided. Rather, the cost of the warrants will be recognized when or if the sales level is achieved on the basis of the fair-value-based measure of the warrants on the date of achievement. As a result, any cost associated with the warrants is recognized after the marketing services have been provided. Under the ASU, C recognizes the grant-date fair-value-based measure of the warrants earlier than it would under current guidance since achievement of the sales target is probable. In addition, C would generally recognize the cost as the marketing services are performed.

The fair-value-based measure of the warrants on January 1, 20X1; December 31, 20X1; and December 31, 20X2, is $10, $12, and $14, respectively. The following journal entries illustrate the recognition under ASC 505-50 and ASU 2018-07:

Journal Entry	ASC 505-50		ASU 2018-07	
December 31, 20X1				
Marketing expense	No entry is recorded since the lowest aggregate fair value is zero until the performance condition is achieved.		1,000	
APIC				1,000
			To record marketing expense on the basis of the grant-date fair-value-based measure since it is probable that the performance condition will be achieved (100 warrants × $10 fair-value-based measure).	
December 31, 20X2				
Marketing expense	1,400			
APIC		1,400		
	To record marketing expense on the basis of the fair-value-based measure as of December 31, 20X2 (100 warrants × $14 fair-value-based measure).			

Example 2 (continued)

The following table summarizes the annual and cumulative cost recognized under ASC 505-50 and ASU 2018-07:

Marketing Expense	ASC 505-50	ASU 2018-07
20X1	$ —	$ 1,000
20X2	1,400	—
Total	$ 1,400	$ 1,000

Manner and Period of Cost Recognition

Although the total cost recognized for nonemployee awards could change under ASU 2018-07, the manner of and period(s) for recognizing costs will not. The ASU incorporates certain recognition guidance from ASC 505-50 into ASC 718; thus, any cost recognized for nonemployee share-based payments will continue to be recognized under other applicable accounting guidance as though the grantor paid cash. That is, ASC 718 under the ASU does not prescribe the period(s) or the manner (i.e., capitalize or expense) in which nonemployee share-based payments will be recognized. Rather, an entity should recognize an asset or expense (or reverse a previously recognized cost) in the same period(s) and in the same manner as though the entity had paid cash for the goods or services.

Fair-Value-Based Measurement

Under the ASU, nonemployee awards are always measured on the basis of the fair value[27] of the equity instruments issued, in a manner consistent with the measurement for employee awards. That is, the fair-value-based measurement objective for nonemployee awards would align with that for employee awards. However, in calculating the fair-value-based measurement of nonemployee stock options and similar instruments, an entity can elect on an award-by-award basis to use the contractual term as the expected term.

Nonpublic Entity Practical Expedients

ASU 2018-07 permits nonpublic entities to use the same practical expedients for measuring nonemployee awards as those provided for employee awards, including the following:

- *Calculated value* — Under ASC 718, a nonpublic entity is required to use "calculated value" to measure its stock options and similar instruments granted to employees if it is unable to reasonably estimate the fair value of such awards because it is not practicable for it to estimate the expected volatility of its stock price. Calculated value is a measure that uses the historical volatility of an appropriate industry sector index instead of the expected volatility of the entity's stock price. Under the ASU, the practical expedient related to calculated value is extended to nonemployee awards and needs to be consistently applied to both employee and nonemployee awards.
- *Intrinsic value* — Under the ASU, the accounting policy election permitting nonpublic entities to measure all liability-classified share-based payment awards at intrinsic value instead of fair value is extended to nonemployee awards. If an entity has already elected to apply the practical expedient to employee awards, that election would also apply to nonemployee awards (i.e., this practical expedient must be consistently applied to both employee and nonemployee awards). The election should be made upon adoption of the ASU.

[27] In certain circumstances, nonpublic entities are permitted to use calculated value or intrinsic value. See Nonpublic Entity Practical Expedients.

- *Expected term* — As previously noted, the ASU allows an entity to elect on an award-by-award basis to use the contractual term as the expected term when calculating the fair-value-based measurement of nonemployee stock options and similar instruments. If an entity does not elect to use the contractual term, it estimates the expected term. However, as in the case of employee awards, the ASU allows a nonpublic entity to elect, as a practical expedient, to estimate the expected term for nonemployee stock options and similar awards that meet the conditions in ASC 718-10-30-20B.[28] The practical expedient is an entity-wide accounting policy election that must be consistently applied to both employee and nonemployee awards. In addition, if elected, the practical expedient must be applied to all nonemployee awards that meet the conditions in ASC 718-10-30-20B and for which the entity did not elect to use the contractual term as the expected term. Under the practical expedient, the expected term is generally estimated as the midpoint between the nonemployee vesting period and the contractual term of the award.[29]

Classification

The guidance in ASC 718 on the classification of employee share-based payment awards also applies to nonemployee awards under ASC 505-50 before they vest. However, under ASC 505-50, nonemployee awards become subject to other guidance in U.S. GAAP that generally applies to financial instruments (e.g., ASC 815) once performance is complete (i.e., the awards are vested). By contrast, employee awards remain within the scope of ASC 718 (even after they vest) unless they are modified after the holder ceases to be an employee (except under an equity restructuring that meets certain criteria). Since ASU 2018-07 aligns the classification treatment of employee and nonemployee awards, nonemployee awards will generally remain within the scope of ASC 718 unless they are modified after the awards vest and the nonemployee is no longer providing goods and services (except under an equity restructuring that meets certain criteria). An exception, however, is a nonemployee award that is granted in the form of a convertible instrument and was originally within the scope of ASC 718. Such an award is subject to other guidance in U.S. GAAP once it vests, including ASC 470-20.

Effective Date

For PBEs,[30] the amendments in ASU 2018-07 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted if financial statements have not yet been issued (for PBEs) or have not yet been made available for issuance (for all other entities), but no earlier than an entity's adoption date of ASC 606. If early adoption is elected, all amendments in the ASU that apply must be adopted in the same period. In addition, if early adoption is elected in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. See Deloitte's August 1, 2018, *Financial Reporting Alert* for additional information about adoption of the ASU in an interim period.

[28] ASC 718-10-30-20B states that a "nonpublic entity that elects to apply the practical expedient . . . shall apply the practical expedient to a share option or similar award that has all of the following characteristics:

a. The share option or similar award is granted at the money.
b. The grantee has only a limited time to exercise the award (typically 30–90 days) if the grantee no longer provides goods or terminates service after vesting.
c. The grantee can only exercise the award. The grantee cannot sell or hedge the award.
d. The award does not include a market condition."

[29] An exception to using the midpoint is an award that has an implicit vesting period and a performance condition that is not probable of being met. In this circumstance, the expected term is the contractual term.

[30] The FASB retained the current definitions in ASC 718 of a "public entity" and a "nonpublic entity" for use in the determination of whether a nonpublic entity practical expedient can be elected. However, an entity will determine the ASU's effective date on the basis of whether it meets the ASC master glossary's definition of a "public business entity."

Transition and Related Disclosures

ASU 2018-07 generally requires an entity to use a modified retrospective transition approach, with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year, for all (1) liability-classified nonemployee awards that have not been settled as of the adoption date and (2) equity-classified nonemployee awards for which a measurement date has not been established. In the application of a modified retrospective transition approach:

- The ASU's transition provisions do not apply to equity-classified awards for which a measurement date was previously established under ASC 505-50 because of the existence of a performance commitment or because performance was complete.
- It may be difficult for some entities to determine the grant-date fair-value-based measure of nonemployee equity-classified awards. The ASU therefore requires equity-classified awards (for which a measurement date has not been previously established) to be remeasured on the basis of their adoption-date fair-value-based measure.
- An entity applies the guidance on modifications of an award from liability to equity classification (i.e., the unsettled liability award as measured on the adoption date would be reclassified to equity) to determine the cumulative-effect adjustment to equity for unsettled awards that are currently classified as a liability but will be classified as equity under the ASU.
- An entity should not adjust the basis of assets that include nonemployee share-based payment costs if the assets are completed (e.g., finished goods inventory or fixed assets for which amortization has commenced).

However, if a nonpublic entity changes its measurement of nonemployee awards to calculated value instead of a fair-value-based measure, the ASU requires the entity to use a prospective approach.

In the first interim and fiscal year of adoption, an entity is required to disclose the following:

- The nature of and reason for the change in accounting principle.
- The cumulative effect of the change on retained earnings (or other components of equity or net assets) in the statement of financial position as of the beginning of the period of adoption.

Cloud Computing Arrangements

Background

In August 2018, the FASB issued ASU 2018-15,[31] which amends ASC 350-40 to address a customer's accounting for implementation costs incurred in a cloud computing arrangement (CCA) that is a service contract. ASU 2018-15 aligns the accounting for costs incurred to implement a CCA that is a service arrangement with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Therefore, a customer should apply ASC 350-40 to determine which implementation costs should be capitalized in a CCA that is considered a service contract.

With the issuance of ASU 2015-05,[32] the FASB clarified that a CCA is considered to be a service contract if the customer either does not have the "right to take possession of the software at any time during the hosting period without significant penalty" or cannot feasibly "either run the software on its own hardware or contract with another party unrelated to the vendor to host the software."

[31] For additional information about ASU 2018-15, see Deloitte's September 11, 2018, *Heads Up*.

[32] For additional information about ASU 2015-05, see Deloitte's April 17, 2015, *Heads Up*.

Key Provisions of ASU 2018-15

A Customer's Accounting for Implementation Costs in a CCA That Is a Service Contract

Under ASU 2018-15, an entity would apply ASC 350-40 to determine which implementation costs related to a CCA that is a service contract should be capitalized. For example, while an entity would expense costs incurred in the preliminary-project and post-implementation-operation stages, it would capitalize certain costs incurred during the application-development stage, and it might be able to capitalize certain costs during the post-implementation-operation stage that result in enhanced functionality to the hosted solution. ASU 2018-15 does not change the accounting for the service component of a CCA.

Connecting the Dots

Common examples of CCAs include software as a service, platform or infrastructure as a service, and other similar types of hosting arrangements. Many companies in the insurance sector are increasing their use of CCAs to reduce the costs of maintaining their IT infrastructure, improve data security, and increase the efficiency and effectiveness of core operations (e.g., underwriting and managing claims).

Presentation and Measurement of Capitalized Implementation Costs in a CCA That Is a Service Contract

Capitalized implementation costs related to a CCA that is a service contract are different from capitalized costs associated with developing or obtaining internal-use software. Internal-use software is, by its nature, a recognizable intangible asset. Accordingly, any incurred and capitalized costs associated with developing or obtaining internal-use software form part of the acquired asset and would generally also be considered an intangible asset. However, a CCA that is a service contract does not give rise to a recognizable intangible asset because it is an executory service contract. Consequently, any costs incurred to implement a CCA that is a service contract would not be capitalized as an intangible asset (since they do not form part of an intangible asset) but instead would be characterized in a company's financial statements in the same manner as other service costs and assets related to service contracts.

Connecting the Dots

The ASU indicates the following regarding the presentation of implementation costs capitalized in a CCA that is a service contract:

- The expense and the fee associated with the hosting arrangement would be presented as a single line item in the statement of income.
- The balance sheet line item for the customer's presentation of capitalized implementation costs should be the same as that for the prepayment of fees related to the hosting arrangement.
- The manner in which a customer classifies the cash flows related to capitalized implementation costs should be the same as that in which it classifies the cash flows for the fees related to the hosting arrangement.

The ASU specifies that an entity would be required to amortize capitalized implementation costs over the term of the CCA "on a straight-line basis unless another systematic and rational basis is more representative of the pattern in which the entity expects to benefit from access to the hosted software." The term of the CCA should include the fixed noncancelable periods plus renewal periods the customer is reasonably certain to exercise, termination periods the customer is reasonably certain to not exercise, and periods covered by an option to extend (or not to terminate) that is controlled by the vendor.

Amortization of capitalized implementation costs should begin when each module or component of a CCA is ready for its intended use, even if the overall CCA will be placed in service in planned stages over multiple reporting periods. If the functionality of a module or component is entirely dependent on the completion of other modules or components, amortization of capitalized implementation costs would commence when both the module or component, and the module or component upon which functionality is dependent, are ready for their intended use.

Application of the Impairment Model to Capitalized Implementation Costs in a CCA That Is a Service Contract

In a manner consistent with ASC 350-40, ASU 2018-15 requires an entity to apply the impairment model in ASC 360-10-35 to its capitalized implementation costs of a CCA that is a service contract. That is, a customer assesses impairment at the asset grouping level (i.e., the lowest level of separately identifiable cash flows that are largely independent of the cash flow of other groups of assets). The ASU provides examples of circumstances in which capitalized costs associated with a CCA that is a service contract may not be recoverable:

- The CCA is not expected to provide substantive service potential.
- A significant change occurs in the manner in which or the extent to which the CCA is used or expected to be used.
- The CCA has had, or will have, a significant change made to it.

At its June 2018 meeting, the EITF clarified that an entity might include assets other than the capitalized costs associated with a CCA that is a service contract when identifying an asset group for potential impairment. However, when applying the impairment guidance, the customer would consider the asset related to each module or component of the CCA as the unit of account for abandonment. That is, the customer should account for the capitalized implementation costs as abandoned when an entity ceases to use the related component or module and should evaluate each component or module of a CCA separately in determining when cease of use occurs.

Disclosures for CCAs That Are Service Contracts

The ASU does not expand on existing disclosure requirements except to require a description of the nature of CCAs that are service contracts. An entity would therefore disclose the following for CCAs that are service contracts:

- The nature of its arrangements.
- The information currently required by ASC 350-40, which does not contain specific disclosure requirements but instead refers users to other relevant guidance in U.S. GAAP.
- The required disclosures in ASC 360-10 by treating the capitalized implementation costs as a separate major class of depreciable asset.

Effective Date and Transition

The effective dates of the ASU's amendments are as follows:

- *PBEs* — Fiscal years beginning after December 15, 2019, and interim periods within those fiscal years.
- *All other entities* — Fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.

The guidance may be early adopted in any annual or interim period for which financial statements have not yet been issued or made available for issuance.

Entities are permitted to apply either a retrospective or prospective transition approach to adopt the guidance. When prospective transition is chosen, entities must apply the transition requirements to any eligible costs incurred after adoption.

Appendix A — Summary of Accounting Pronouncements Effective in 2018

The table below lists selected ASUs that became effective for calendar year 2018 for PBEs and non-PBEs.

FASB/EITF	Effective Date for PBEs	Effective Date for Non-PBEs	Early Adoption Allowed (Yes/No)	Deloitte Resources
Final Guidance				
ASU 2018-09, *Codification Improvements* (issued July 16, 2018)	The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in this ASU do not require transition guidance and will be effective upon issuance of this ASU. However, many of the amendments in this ASU do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for PBEs.	The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in this ASU do not require transition guidance and will be effective upon issuance of this ASU.	Yes	July 17, 2018, US GAAP *Plus* news item
ASU 2018-06, *Codification Improvements to Topic 942,* Financial Services — Depository and Lending (issued May 7, 2018)	Effective upon issuance.	Effective upon issuance.	N/A	May 8, 2018, US GAAP *Plus* news item
ASU 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118* (issued March 13, 2018)	Effective upon issuance.	Effective upon issuance.	N/A	March 13, 2018, US GAAP *Plus* news item and January 3, 2018, *Financial Reporting Alert* (updated August 30, 2018)

ASU 2018-04, *Investments — Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273* (issued March 9, 2018)	The effective date for the amendments to ASC 320 is the same as the effective date of ASU 2016-01. Other amendments are effective upon issuance.	The effective date for the amendments to ASC 320 is the same as the effective date of ASU 2016-01. Other amendments are effective upon issuance.	N/A	March 9, 2018, US GAAP *Plus* news item
ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (issued February 28, 2018)	Fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Entities with fiscal years beginning between December 15, 2017, and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018, and entities with fiscal years beginning between June 15, 2018, and December 15, 2018, are not required to adopt these amendments before adopting the amendments in ASU 2016-01. For all other entities, the effective date is the same as the effective date in ASU 2016-01.	The effective date is the same as the effective date in ASU 2016-01.	Yes, if the entity has adopted ASU 2016-01.	March 2, 2018, journal entry
ASU 2017-14, *Income Statement — Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue From Contracts With Customers (Topic 606): Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 116 and SEC Release No. 33-10403* (issued November 22, 2017)	See effective date information for ASU 2014-09 below.	See effective date information for ASU 2014-09 below.	Yes	November 22, 2017, US GAAP *Plus* news item

ASU 2017-13, *Revenue Recognition (Topic 605), Revenue From Contracts With Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments* (issued September 29, 2017)	Effective upon adoption of ASC 606, *Revenue From Contracts With Customers*, and ASC 842, *Leases*.	Effective upon adoption of ASC 606, *Revenue From Contracts With Customers*, and ASC 842, *Leases*.	Yes	October 2, 2017, US GAAP *Plus* news item and July 20, 2017, *Heads Up*
ASU 2017-10, *Determining the Customer of the Operation Services* — a consensus of the FASB Emerging Issues Task Force (issued May 16, 2017)	For PBEs that have not adopted ASU 2014-09, the amendments are effective at the same time ASU 2014-09 is effective. For entities that have adopted ASU 2014-09, the amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, for a PBE; an NFP 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; and an employee benefit plan that files or furnishes financial statements with or to the SEC.	For non-PBEs that have not adopted ASU 2014-09, the amendments are effective at the same time ASU 2014-09 is effective. For all other entities that have adopted ASU 2014-09, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.	Yes	March 2017 *EITF Snapshot*
ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (issued March 10, 2017)	Annual periods beginning after December 15, 2017, including interim periods within those annual periods.	Annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.	Yes	March 14, 2017, *Heads Up* and November 8, 2017, *Financial Reporting Alert*
ASU 2017-05, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* (issued February 22, 2017)	See effective date information for ASU 2014-09 below.	See effective date information for ASU 2014-09 below.	Yes	February 28, 2017, *Heads Up* and *A Roadmap to Applying the New Revenue Recognition Standard*

ASU 2017-01, *Clarifying the Definition of a Business* (issued January 5, 2017)	Annual periods beginning after December 15, 2017, including interim periods within those annual periods.	Annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.	Yes, in certain circumstances.	January 13, 2017, *Heads Up* and *A Roadmap to Accounting for Business Combinations*
ASU 2016-20, *Technical Corrections and Improvements to Topic 606,* Revenue From Contracts With Customers (issued December 21, 2016)	See effective date information for ASU 2014-09 below.	See effective date information for ASU 2014-09 below.	Yes	January 5, 2017, journal entry
ASU 2016-18, *Restricted Cash* — a consensus of the FASB Emerging Issues Task Force (issued November 17, 2016)	Fiscal years beginning after December 15, 2017, and interim periods within those fiscal years.	Fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.	Yes	November 17, 2016, *Heads Up* and *A Roadmap to the Preparation of the Statement of Cash Flows*
ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory* (issued October 24, 2016)	Annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods.	Annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual periods beginning after December 15, 2019.	Yes	October 25, 2016, *Heads Up* and *A Roadmap to Accounting for Income Taxes*
ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* — a consensus of the FASB Emerging Issues Task Force (issued August 26, 2016)	Fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.	Fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.	Yes	August 30, 2016, *Heads Up* and *A Roadmap to the Preparation of the Statement of Cash Flows*
ASU 2016-12, *Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* (issued May 9, 2016)	See effective date information for ASU 2014-09 below.	See effective date information for ASU 2014-09 below.	Yes	May 11, 2016, *Heads Up*

ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting* (issued May 2, 2016)	Effective at the same time as ASU 2014-09 and ASU 2014-16.	Effective at the same time as ASU 2014-09 and ASU 2014-16.	Yes	May 3, 2016, US GAAP *Plus* news item
ASU 2016-10, *Identifying Performance Obligations and Licensing* (issued April 14, 2016)	See effective date information for ASU 2014-09 below.	See effective date information for ASU 2014-09 below.	Yes	April 15, 2016, *Heads Up*
ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* (issued March 30, 2016)	Annual periods, and interim periods within those annual periods, beginning after December 15, 2016.	Annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018.	Yes	April 21, 2016, *Heads Up* and *A Roadmap to Accounting for Share-Based Payment Awards*
ASU 2016-08, *Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)* (issued March 17, 2016)	See effective date information for ASU 2014-09 below.	See effective date information for ASU 2014-09 below.	Yes	March 22, 2016, *Heads Up*
ASU 2016-06, *Contingent Put and Call Options in Debt Instruments* — a consensus of the FASB Emerging Issues Task Force (issued March 14, 2016)	Fiscal years beginning after December 15, 2016, and interim periods within those fiscal years.	Fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018.	Yes	March 16, 2016, *Heads Up*
ASU 2016-05, *Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships* — a consensus of the FASB Emerging Issues Task Force (issued March 10, 2016)	Fiscal years beginning after December 15, 2016, and interim periods within those fiscal years.	Fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018.	Yes	March 16, 2016, *Heads Up*

ASU 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products — a consensus of the FASB Emerging Issues Task Force* (issued March 8, 2016)	Effective for PBEs, certain NFPs, and certain employee benefit plans for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years.	Fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.	Yes	March 16, 2016, *Heads Up*
ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (issued January 5, 2016)	Fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.	For all other entities, including NFPs and employee benefit plans within the scope of ASC 960 through ASC 965 on plan accounting, the amendments in the ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.	Certain provisions only.	January 12, 2016, *Heads Up*
ASU 2015-17, *Balance Sheet Classification of Deferred Taxes* (issued November 20, 2015)	Annual periods beginning after December 15, 2016, and interim periods within those annual periods.	Annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018.	Yes	November 30, 2015, *Heads Up*
ASU 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date* (issued August 12, 2015)	See effective date information for ASU 2014-09 below.	See effective date information for ASU 2014-09 below.	Yes	August 13, 2015, journal entry

ASU 2014-09, *Revenue From Contracts With Customers* (issued on May 28, 2014; effective date amended by ASU 2015-14, which was issued on August 12, 2015)	For PBEs, certain NFPs, and certain employee benefit plans, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017.	Annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.	For PBEs, certain NFPs, and certain employee benefit plans, early application is permitted only as of annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. All other entities may apply the ASU early as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance in the ASU early as of an annual reporting period beginning after December 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 the ASU.	*A Roadmap to Applying the New Revenue Recognition Standard* May 28, 2014; January 22, 2018; and April 11, 2018, *Heads Up* newsletters

Appendix B — Current Status of FASB Projects

This appendix summarizes the current status of, and next steps for, some of the active standard-setting projects of the FASB as of November 16, 2018. (For more information, see the FASB's Web site.)

Project	Status and Next Steps	Deloitte Resources
Recognition and Measurement Projects		
Codification improvements — nonemployee share-based payments	On November 14, 2018, the Board "decided to add a project to its technical agenda to clarify the accounting for share-based payments that are made as consideration payable to a customer. . . . The Board decided to expose the proposed Update for public comment for a period ending on March 29, 2019, or for 30 days (whichever is longer)."	November 15, 2018, journal entry
Codification improvements	**Credit Losses** On August 20, 2018, the FASB issued a proposed ASU that would make narrow-scope improvements to its credit losses standard. Comments were due by September 19, 2018. On November 7, 2018, the FASB proposed making amendments to its credit losses standard for the following topics: (1) recoveries, (2) negative allowances, (3) vintage disclosures, and (4) contractual extensions. These topics will be addressed by upcoming proposed ASUs. **Financial Instruments** On September 5, 2018, the FASB directed its staff to draft a proposed ASU that would amend the guidance related to credit losses, hedging, and recognition and measurement of financial instruments.	August 31, 2018, journal entry September 12, 2018, journal entry

Consolidation reorganization and targeted improvements	On September 20, 2017, the FASB issued a proposed ASU that would reorganize the consolidation guidance in ASC 810 by dividing it into separate subtopics for voting interest entities and VIEs. The new subtopics would be included in a new topic, ASC 812, which would supersede ASC 810. Comments on the proposal were due by December 4, 2017. On June 27, 2018, the FASB decided to continue the project.	October 5, 2017, *Heads Up*
Distinguishing liabilities from equity (including convertible debt)	The FASB added this project to its technical agenda on September 20, 2017. The purpose of the project is "to improve understandability and reduce complexity, without sacrificing the information that users of financial statements need." The project will focus on "indexation and settlement (within the context of the derivative scope exception), along with convertible debt, disclosures, and earnings per share." On June 6, 2018, the Board discussed the direction of the project with respect to convertible instruments and indexation.	*A Roadmap to Distinguishing Liabilities From Equity*
Facilitation of the effects of the LIBOR-to-SOFR transition on financial reporting	On August 29, 2018, the FASB added a project to its agenda to consider changes to GAAP necessitated by the market-wide transition from LIBOR to SOFR, with the objective of facilitating the transition.	
Hedging: last-of-layer method	On March 28, 2018, the FASB decided to add a narrow-scope project to address the accounting for last-of-layer basis adjustments and hedging multiple layers under the last-of-layer method in accordance with ASU 2017-12.	April 10, 2018, journal entry
Improving the accounting for asset acquisitions and business combinations	On August 2, 2017, the FASB tentatively decided that this project should (1) address differences between the accounting for acquisitions of assets and that for acquisitions of businesses and (2) focus on the accounting for transaction costs, in-process research and development, and contingent consideration. On May 8, 2018, the FASB discussed how certain aspects of the accounting for asset acquisitions could be aligned with those for business combinations.	

Recognition under ASC 805 for an assumed liability in a revenue contract (EITF Issue 18-A)	At the October 10, 2018, Board meeting, the FASB ratified the consensus-for-exposure reached at the September 27, 2018, EITF meeting related to recognition of an assumed liability in a revenue contract acquired in a business combination. At the September meeting, the EITF reaffirmed its consensus-for-exposure that the performance-obligation definition in ASC 606, *Revenue From Contracts With Customers*, should be used to determine whether a liability assumed for a contract liability from a revenue contract with a customer is recognized by the acquirer in a business combination.	September 2018 *EITF Snapshot*
Presentation and Disclosure Projects		
Disclosure framework: disclosures — interim reporting	The purpose of this project is to improve the effectiveness of interim disclosures. At its May 28, 2014, meeting, the FASB decided to amend ASC 270 "to reflect that disclosures about matters required to be set forth in annual financial statements should be provided on an updated basis in the interim report if there is a substantial likelihood that the updated information would be viewed by a reasonable investor as significantly altering the 'total mix' of information available to the investor." On July 11, 2018, the Board directed the staff to develop principles for interim disclosure.	
Disclosures by business entities about government assistance	On November 12, 2015, the FASB issued a proposed ASU that would require specific disclosures about government assistance received by businesses. Comments on the proposed ASU were due by February 10, 2016. At its June 8, 2016, meeting, the FASB made tentative decisions about the project's scope, whether to require disclosures about government assistance received but not recognized directly in the financial statements, and omission of information when restrictions preclude an entity from disclosing the information required. On April 5, 2018, the Board directed the staff to perform additional research.	June 14, 2016, journal entry November 20, 2015, *Heads Up*

Financial performance reporting: disaggregation of performance information	The FASB added this project to its technical agenda on September 20, 2017, "to focus on the disaggregation of performance information either through presentation in the statement of income or disclosure in the notes." On December 13, 2017, the FASB discussed the project plan. On March 28, 2018, the FASB directed its staff to perform additional outreach.	
Segment reporting	The FASB added this project to its technical agenda on September 20, 2017. The purpose of the project is to improve "the aggregation criteria and segment disclosures." On December 13, 2017, the FASB discussed the project plan. On February 7, 2018, the FASB discussed potentially reordering the reportable segments process. On June 13, 2018, the FASB discussed a plan to perform extended outreach.	*A Roadmap to Segment Reporting*
Simplifying the balance sheet classification of debt	On January 10, 2017, the FASB issued a proposed ASU that would reduce the complexity of determining whether debt should be classified as current or noncurrent in a classified balance sheet. Comments on the proposal were due by May 5, 2017. On June 28, 2017, the Board discussed a summary of comments received. On August 22, 2018, the Board directed the staff to draft a final ASU for a vote by written ballot. The FASB expects to issue this ASU in the first quarter of 2019.	August 24, 2018, journal entry September 15, 2017, journal entry January 12, 2017, *Heads Up*

Appendix C — Titles of Standards and Other Literature

The standards and literature below were cited or linked to in this publication:

AICPA Audit and Accounting Guide

Revenue Recognition

FASB Accounting Standards Updates (ASUs)

ASU 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements* — a consensus of the Private Company Council

ASU 2014-09, *Revenue From Contracts With Customers (Topic 606)*

ASU 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

ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*

ASU 2015-05, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*

ASU 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*

ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*

ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU 2016-02, *Leases (Topic 842)*

ASU 2016-03, *Intangibles — Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance*

ASU 2016-04, *Liabilities — Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products* — a consensus of the FASB Emerging Issues Task Force

ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships* — a consensus of the Emerging Issues Task Force

ASU 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments* — a consensus of the FASB Emerging Issues Task Force

ASU 2016-08, *Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*

ASU 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*

ASU 2016-10, *Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing*

ASU 2016-11, *Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting*

ASU 2016-12, *Revenue From Contracts With Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*

ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* — a consensus of the FASB Emerging Issues Task Force

ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*

ASU 2016-17, *Consolidation (Topic 810): Interests Held Through Related Parties That Are Under Common Control*

ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* — a consensus of the FASB Emerging Issues Task Force

ASU 2016-20, *Technical Corrections and Improvements to Topic 606*, Revenue From Contracts With Customers

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

ASU 2017-05, *Other Income — Gains and Losses From the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*

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

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

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

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

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

ASU 2017-14, *Income Statement — Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue From Contracts With Customers (Topic 606)*

ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*

ASU 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*

ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

ASU 2018-04, *Investments — Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273*

ASU 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*

ASU 2018-06, *Codification Improvements to Topic 942*, Financial Services — Depository and Lending

ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*

ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*

ASU 2018-09, *Codification Improvements*

ASU 2018-10, *Codification Improvements to Topic 842, Leases*

ASU 2018-11, *Leases (Topic 842): Targeted Improvements*

ASU 2018-12, *Financial Services — Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*

ASU 2018-13, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*

ASU 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*

ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*

ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*

ASU 2018-19, *Codification Improvements to Topic 326*, Financial Instruments — Credit Losses

ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*

FASB Accounting Standards Codification (ASC) Topics

ASC 220, *Income Statement — Reporting Comprehensive Income*

ASC 230, *Statement of Cash Flows*

ASC 250, *Accounting Changes and Error Corrections*

ASC 270, *Interim Reporting*

ASC 310, *Receivables*

ASC 320, *Investments — Debt and Equity Securities*

ASC 321, *Investments — Equity Securities*

ASC 323, *Investments — Equity Method and Joint Ventures*

ASC 326, *Financial Instruments — Credit Losses*

ASC 350, *Intangibles — Goodwill and Other*

ASC 360, *Property, Plant, and Equipment*

ASC 470, *Debt*

ASC 505, *Equity*

ASC 605, *Revenue Recognition*

ASC 606, *Revenue From Contracts With Customers*

ASC 718, *Compensation — Stock Compensation*

ASC 740, *Income Taxes*

ASC 805, *Business Combinations*

ASC 810, *Consolidation*

ASC 815, *Derivatives and Hedging*

ASC 820, *Fair Value Measurement*

ASC 825, *Financial Instruments*

ASC 840, *Leases*

ASC 842, *Leases*

ASC 944, *Financial Services — Insurance*

ASC 960, *Plan Accounting — Defined Benefit Pension Plans*

ASC 965, *Plan Accounting — Health and Welfare Benefit Plans*

FASB Proposed Accounting Standards Updates

Proposed ASU 2015-340, *Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance*

Proposed ASU 2017-200, *Debt (Topic 470): Simplifying the Classification of Debt in a Classified Balance Sheet (Current Versus Noncurrent)*

Proposed ASU 2017-280, *Consolidation (Topic 812): Reorganization*

Proposed ASU 2018-270, *Codification Improvements to Topic 326, Financial Instruments — Credit Losses*

Proposed ASU 2018-300, *Codification Improvements — Financial Instruments*

FASB Concepts Statement

No. 8, *Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements*

EITF Issue (Pre-Codification Literature)

EITF Issue 02-5, "Definition of 'Common Control' in Relation to FASB Statement No. 141"

EITF Issue (Current Project)

EITF Issue 18-A, "Recognition Under Topic 805 for an Assumed Liability in a Revenue Contract"

SEC Final Rule

33-9273, *Rescission of Outdated Rules and Forms, and Amendments to Correct References*

SEC Interpretive Rule

33-10403, *Updates to Commission Guidance Regarding Accounting for Sales of Vaccines and Bioterror Countermeasures to the Federal Government for Placement Into the Pediatric Vaccine Stockpile or the Strategic National Stockpile*

SEC Staff Accounting Bulletins (SABs)

Topic 13, "Revenue Recognition"

SEC Staff Accounting Bulletin No. 116

SEC Staff Accounting Bulletin No. 118

International Standards

IFRS 9, *Financial Instruments*

IFRS 16, *Leases*

IFRS 17, *Insurance Contracts*

Appendix D — Abbreviations

Abbreviation	Description
AFS	available for sale
AICPA	American Institute of Certified Public Accountants
AOCI	accumulated other comprehensive income
APIC	additional paid-in capital
ASC	FASB Accounting Standards Codification
ASU	FASB Accounting Standards Update
CCA	cloud computing arrangement
CECL	current expected credit loss
DAC	deferred acquisition costs
DCF	discounted cash flow
DTA	deferred tax asset
DTL	deferred tax liability
EIR	effective interest rate
EITF	FASB's Emerging Issues Task Force
FASB	Financial Accounting Standards Board
GAAP	generally accepted accounting principles

Abbreviation	Description
HFI	held for investment
HFS	held for sale
HTM	held to maturity
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
LIBOR	London Interbank Offered Rate
NFP	not-for-profit entity
OCI	other comprehensive income
OIS	Overnight Index Swap
PBE	public business entity
ROU	right of use
SAB	SEC Staff Accounting Bulletin
SEC	U.S. Securities and Exchange Commission
SIFMA	Securities Industry and Financial Markets Association
SOFR	Secured Overnight Financing Rate
TRG	transition resource group
VIE	variable interest entity