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Summary of the September Meeting of the Emerging Issues Task Force

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This *EITF Snapshot* summarizes the September 22, 2016, meeting of the Emerging Issues Task Force (EITF or "Task Force"). Initial Task Force consensuses ("consensuses-for-exposure") are exposed for public comment upon ratification by the Financial Accounting Standards Board (FASB). After the comment period, the Task Force considers comments received and redeliberates the issues at a scheduled meeting to reach a final consensus. Those final consensuses are then provided to the FASB for final ratification and, ultimately, issuance as an Accounting Standards Update (ASU).

The FASB plans to consider the EITF's September 2016 consensus and consensus-for-exposure for ratification at its October 5, 2016, meeting. After that meeting, the official EITF minutes, including the results of the FASB's ratification process, will be posted to Deloitte's [Technical Library](#) and to the [FASB's Web site](#) (note that the official EITF minutes may contain details that differ from those in this publication). EITF Issue summaries (released before the meeting and used to frame the discussion) are also available on those sites.

Issue 16-A, “Statement of Cash Flows: Restricted Cash”

Status: Final consensus.

Affects: Entities with restricted cash and restricted cash equivalents that prepare a cash flow statement.

Background: The classification of restricted cash in the statement of cash flows, along with eight other cash-flow-related issues, was initially addressed in Issue 15-F.¹ At its November 2015 meeting, the EITF decided that the diversity in practice related to the cash flow classification of restricted cash should be addressed as a separate EITF issue. Accordingly, the FASB issued a [proposed ASU](#)² on restricted cash in April 2016 and an [ASU](#)³ on the other eight topics in August 2016.

Summary: At this meeting, the Task Force discussed the comment letters received on the proposed ASU. On the basis of its redeliberations of the proposal, the Task Force reached a final consensus that:

- An entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The Task Force decided not to define the terms “restricted cash” and “restricted cash equivalents” but observed that an entity should continue to provide appropriate disclosures about its accounting policies pertaining to restricted cash in accordance with other GAAP. The Task Force also observed that any change in accounting policy will need to be assessed under ASC 250.⁴
- A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents.
- An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions.

Effective Date and Transition: For public business entities, the guidance related to the final consensus will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it will be effective for annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Early adoption of the guidance in the ASU will be permitted. A reporting entity will apply the guidance retrospectively.

Next Steps: FASB ratification is expected at the Board’s October 5, 2016, meeting, after which a final ASU will be issued.

Issue 16-C, “Accounting for Service Concession Arrangements”

Status: Consensus-for-exposure.

Affects: Entities that enter into service concession contracts with a public-sector entity to operate the public-sector entity’s infrastructure.

¹ EITF Issue No. 15-F, “Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments.”

² FASB Proposed Accounting Standards Update, *Restricted Cash* — a consensus of the FASB Emerging Issues Task Force.

³ FASB Accounting Standards Update No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* — a consensus of the FASB Emerging Issues Task Force.

⁴ For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte’s “[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#).”

Background: Some government or public-sector entities (“grantors”) enter into contracts with private-sector entities (referred to herein as “operating entities”) to manage the operation of the infrastructure used to provide public services (the operating entity may also manage construction, maintenance, or both). Such contracts are referred to herein as “service concession contracts.” Airports, roads, bridges, and hospitals are common types of assets that are subject to such contracts.

Previously, the Task Force concluded in Issue 12-H⁵ that operating entities were prohibited from accounting for service concession contracts as leases when two conditions (quoted from ASU 2014-05⁶) were met:

- a. The grantor controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price.
- b. The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement.

Rather, operating entities were instructed to look to other ASC topics (e.g., ASC 605) for guidance on accounting for these contracts. Because of the unique nature of service concession contracts, questions have arisen about the revenue recognition implications related to various stages of these contracts, such as initial construction, ongoing operations, and periodic major maintenance. Specifically, the Task Force was asked to deliberate whether, from the perspective of the operating entity, the customer is (1) the grantor or (2) the general public that uses the asset subject to the service concession contract.

Summary: At this meeting, the Task Force deliberated the accounting for service concession contracts and reached the following consensus-for-exposure, which applies to contracts within the scope of ASC 853:

- Under ASC 606, when it becomes effective, the grantor is always considered the operating entity’s customer.
- Major maintenance performed by the operating entity to repair or maintain the asset owned by the grantor would be evaluated under the revenue model in ASC 606 when it becomes effective.
- Other than transition disclosures, which would be similar to those required by ASC 606, no additional disclosures are necessary.

Effective Date and Transition: The Task Force reached a consensus-for-exposure that the effective date would mirror that of ASU 2014-09,⁷ which was subsequently deferred by ASU 2015-14.⁸ As a result, for public business entities, the guidance pertaining to any final consensus would be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it would be effective for annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019. Early adoption would be permitted for annual periods beginning after December 15, 2016, provided that a reporting entity also adopts the guidance in ASU 2014-09. The transition method a reporting entity uses in adopting the guidance in the final consensus would need to be consistent with that used in adopting ASU 2014-09.

Next Steps: FASB ratification is expected at the Board’s October 5, 2016, meeting, after which a proposed ASU will be issued for public comment.

⁵ EITF Issue No. 12-H, “Accounting for Service Concession Arrangements.”

⁶ FASB Accounting Standards Update No. 2014-05, *Service Concession Arrangements* — a consensus of the FASB Emerging Issues Task Force.

⁷ FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*.

⁸ FASB Accounting Standards Update No. 2015-14, *Revenues From Contracts With Customers (Topic 606): Deferral of the Effective Date*.

Announcement and Administrative Matters

At this meeting, SEC Assistant Deputy Chief Accountant Jenifer Minke-Girard made an announcement (the “staff announcement”) about the application of Staff Accounting Bulletin (SAB) Topic 11.M⁹ to ASUs 2014-09, 2016-02,¹⁰ and 2016-13.¹¹

Ms. Minke-Girard highlighted that when a registrant is unable to reasonably estimate the impact of adopting the ASU(s), the registrant should consider providing additional qualitative disclosures about the significance of this impact on its financial statements. Ms. Minke-Girard further indicated that the SEC staff would expect such disclosures to include a description of:

- The effect of any accounting policies that the registrant expects to select upon adopting the ASU(s).
- How such policies may differ from the registrant’s current accounting policies.
- The status of the registrant’s implementation process and the nature of any significant implementation matters that have not yet been addressed.



Editor’s Note

Ms. Minke-Girard observed that while it would be beneficial for calendar-year-end registrants to include such disclosures in their upcoming quarterly filings, the SEC staff’s objective in making this statement at the September EITF meeting was to give such registrants sufficient time to consider the staff announcement before their year-end financial reporting. She also noted that SAB Topic 11.M applies to foreign private issuers that use IFRSs. Recognizing that IFRS filers may not monitor EITF meetings, the SEC staff will consider clarifying its expectations for such filers in additional communications.

This discussion of the staff announcement is based on our observations at the EITF meeting. The staff announcement will be available in the EITF meeting minutes once they are published.

The next EITF decision-making meeting is tentatively scheduled for November 17, 2016. At that meeting, the EITF will most likely discuss the comments received on Issue 16-B.¹²

⁹ SEC Staff Accounting Bulletin 11.M, “Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period.”

¹⁰ FASB Accounting Standards Update No. 2016-02, *Leases*.

¹¹ FASB Accounting Standards Update No. 2016-13, *Measurement of Credit Losses on Financial Instruments*.

¹² EITF Issue No. 16-B, “Employee Benefit Plan Master Trust Reporting.”

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