Investment Management
Accounting and Financial Reporting Update
December 22, 2016
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Foreword

December 22, 2016

To our clients and colleagues in the investment management sector:

We are pleased to announce our ninth annual accounting and financial reporting update. The topics discussed in this publication were selected because they may be of particular interest to investment management entities.

Some of the notable developments and activities that occurred during 2016 were (1) the issuance of refinements to the new guidance on recognition of revenue from contracts with customers, (2) the issuance of new guidance on classification and measurement of financial instruments, and (3) the SEC’s continued focus on rulemaking, particularly in connection with its efforts related to investment company report modernization, liquidity risk management, and swing pricing.

This publication is divided into three sections: (1) “Updates to Guidance,” which highlights changes to accounting and reporting standards that advisers and funds need to start preparing for now; (2) “On the Horizon,” which discusses proposed changes to the FASB’s guidance on fair value measurement, and (3) “SEC Update,” which highlights key SEC rulemaking activities and other developments that have occurred since the last edition of this publication. In addition, Appendix A contains a table that lists accounting pronouncements that became effective in 2016.

The 2016 accounting and financial reporting updates for the banking and securities, insurance, and real estate sectors are available (or will be available soon) on US GAAP Plus, Deloitte’s Web site for accounting and financial reporting news.

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

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Introduction

The year 2016 has seen continued economic improvement, as evidenced by increasing consumer confidence, strong market performance, and the Federal Reserve’s elevation of the federal funds rate. However, Brexit has created near-term uncertainty and volatility in Europe, and the effects on the market of a new U.S. president and administration are unknown.

Business Outlook

The sense that the investment management industry is poised for disruption remains strong, as does the belief that there are tremendous opportunities, and associated risks, within the industry. Advanced technology may rapidly bring down the cost of active portfolio management for firms that embrace it, and blockchain is a potentially game-changing technology and a possible threat to established players. Shifting wealth and changing demographics along with the rapidly evolving economic environment are likely to affect the industry for several more years.

The industry also faces increased regulatory compliance and competition. As a result, investment managers should expect greater compliance costs as well as pressure to produce higher returns for lower management fees. To retain existing investors and attract new prospects, investment managers will need to differentiate themselves.

Regulatory Reform

Investment Company Report Modernization

On October 13, 2016, the SEC finalized its Investment Company Report Modernization rules, making sweeping changes to registered investment company reporting. The new and amended rules are intended to keep up with changes in the industry and technology as well as to provide more timely transparency to the SEC and investors. The new rules will create forms such as N-PORT and N-CEN, replace existing forms such as N-Q and N-SAR, and considerably reduce the filing requirements for other forms. In addition to the new forms, the SEC has adopted amendments to Regulation S-X to, among other things, enhance and standardize derivatives disclosures in financial statements to allow for comparability among funds. These changes, will significantly affect the industry and should be reviewed by investment companies, investment advisers, and investors.

Investment Company Liquidity Risk Management and Swing Pricing Rules

The SEC has begun an initiative to promote effective liquidity risk management throughout the open-end-fund industry by (1) requiring funds to adopt a liquidity risk management system and (2) permitting (but not requiring) registered funds to use “swing pricing.”

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1 See the Deloitte Center for Financial Services’s Investment Management Repositioned — Capitalizing on Three Disruptive Forces.
Introduction

The liquidity risk management rules are intended to reduce the risk that mutual funds and ETFs will not be able to meet shareholder redemptions and mitigate potential ownership dilution of the residual shareholders. Under the new rules, mutual funds and ETFs will be required to establish programs under which the assessment, management, and periodic review of a fund's liquidity risk would be performed and the oversight of boards would be enhanced.

In addition, the SEC intends to further enhance the monitoring and disclosure of both fund liquidity and redemption practices by permitting swing pricing. Swing pricing is the process of reflecting in a fund's NAV the costs associated with shareholders' trading activity so that those costs can be passed on to the purchasing and redeeming shareholders. It is designed to protect existing shareholders from dilution associated with shareholder purchases and redemptions and would be another tool to help funds manage liquidity risks.

For additional information about industry issues and trends, see Deloitte's 2016 Financial Services Industry Outlooks.
Updates to Guidance
Revenue Recognition

Background
In May 2014, the FASB and IASB issued their final standard on revenue recognition. The standard, issued as ASU 2014-09 by the FASB and as IFRS 15 by the IASB, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance (e.g., certain sections of ASC 946-605). For additional information about ASU 2014-09 as issued, see Deloitte’s May 28, 2014, Heads Up and July 2014 Financial Services Spotlight.

Thinking It Through
Aspects of the new revenue recognition guidance that could potentially present implementation challenges for investment managers include the following:

- **Performance-based fees** — ASU 2014-09 provides specific requirements for contracts that include variable consideration (including performance fee arrangements whose consideration fluctuates depending on changes in the underlying assets managed by an investment manager). Specifically, it indicates that the estimated variable consideration is eligible for recognition (included in the transaction price) only to the extent that it is probable that subsequent changes in the estimate would not result in a significant revenue reversal. This concept is commonly referred to as the “constraint.” Since an investment manager’s performance-based fees may be affected by the future performance of the underlying assets it manages, it is difficult to accurately predict how much of the performance-based fees payable to the entity are not subject to future reversal until the fees are finalized or close to being finalized. This could be well after the performance-based fees have been received by the entity.

Accordingly, for entities that currently apply Method 2 under EITF D-96 (codified in ASC 605-20-S99-1), the timing of revenue recognition for performance-based fees may be significantly delayed by the ASU’s constraint on the amount of revenue that may be recognized as of a reporting date. In addition, the ASU could accelerate the recognition of revenue for these fees for entities that currently apply Method 1 under EITF D-96. The ASU provides an example¹ to illustrate how an entity would apply the new revenue recognition requirements to a management arrangement that includes performance-based fees. While the ASU could affect the recognition of these fees as revenue, the new guidance does not modify how entities should account for the associated costs (typically, compensation paid to employees). That is, although the performance-based revenue may be deferred until long after cash has been received by the entity, amounts distributed to employees may need to be recognized as an expense in the period in which the amounts are incurred.

¹ ASC 606-10-55-221 through 55-225, Example 25 — Management Fees Subject to the Constraint.
• **Incentive-based capital allocations** — The ASU indicates that financial instruments that are within the scope of other Codification topics are not within the ASU’s scope. However, it does not address whether contracts involving incentive-based capital allocations, such as those in the form of carried interests, are (1) revenue contracts for investment management services, similar to other incentive fees and, therefore, are within the scope of the ASU or (2) financial instruments that should be accounted for as equity-method investments in accordance with ASC 323-30-599-1.

• **Gross versus net presentation** — Often, an investment manager or its affiliates involve third parties to provide services they have agreed to perform (e.g., distribution services). The investment manager must determine whether it is the principal in the transaction (i.e., whether it has an obligation to provide the specified goods or services itself) or is an agent (i.e., arranges for the other party to provide those goods or services). The ASU provides indicators and other implementation guidance to help an entity determine whether it is acting as a principal (with revenue recognized on a gross basis) or as an agent (with revenue recognized on a net basis). While the ASU’s indicators for determining whether an entity is acting as a principal or as an agent in an arrangement are similar to the current requirements, its guidance on making this determination differs slightly from that in current U.S. GAAP. The ASU requires an entity to apply an overall principle on the basis of the “control” notion, and it replaces the examples in the current guidance with more limited examples. Further, in March 2016, the FASB issued [ASU 2016-08](#) in response to concerns identified by stakeholders, in applying the revenue standard’s principal-versus-agent guidance. Accordingly, investment managers will need to evaluate all their arrangements under the amended principal-versus-agent guidance to determine whether they need to revise their presentation.

• **Management fee waivers and customer expense reimbursements** — Under U.S. GAAP, investment managers historically have recorded fee waivers and expense reimbursements as either (1) a reduction of revenue or (2) an expense when the waivers or reimbursements are not refunds or rebates of the amount charged to the fund. We expect the AICPA’s Asset Management Revenue Recognition Task Force to issue guidance related to this topic.

• **Distribution fees received** — Under current U.S. GAAP, up-front distribution fees are generally recognized as revenue when received. However, under the new revenue guidance, investment managers would need to determine whether up-front distribution fees are related to the transfer of a separate promised service (a “distinct” performance obligation). If the up-front fees are related to the transfer of a service or services that are separable from other promises in the contact, the entity should recognize an allocated portion of the total consideration as revenue when it transfers the related service or services to the customer. However, if the activities associated with the fee are not related to a separate performance obligation, revenue recognition would be deferred. In addition, sales and distribution contracts may entitle the distributor to consideration that is variable (e.g., consideration that is based on quantity of shares purchased by the shareholder, assets under management, and time a shareholder is invested in a fund). The ASU requires that a distributor include variable consideration in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Distributors will need to evaluate whether variable consideration is constrained and therefore not eligible for recognition as revenue.
Revenue Recognition

- **Third-party distribution fees paid** — The new revenue standard retains the cost guidance in ASC 946-605-25-8 that requires an entity that receives CDSC fees and 12b-1 fees (or fees similar to, or substantially the same as, CDSC fees and 12b-1 fees) to (1) defer and amortize incremental direct costs associated with distributing a mutual fund's shares and (2) expense indirect distribution costs when such costs are incurred. However, the ASU supersedes the guidance in ASC 946-605-25-8 on when to recognize as revenue the fees received from investors to compensate the entity for these costs (i.e., the current requirement is that these fees should be recognized as revenue when received). Accordingly, such fees would be subject to the overall revenue recognition model.

- **Transfer of rights to certain future distribution fees** — The new revenue guidance supersedes the industry-specific guidance in ASC 946-605, which requires immediate revenue recognition for the sale of rights to cash flows from future distribution fees if certain criteria are met. Since these arrangements may include provisions that protect the purchasers of such rights if certain events occur (e.g., termination of the 12b-1 plan by the fund's independent board of directors), entities will need to carefully assess whether to account for the arrangements as borrowings in accordance with ASC 470 or evaluate them as sales under the new revenue standard.

These and other issues are the subject of several papers drafted by the AICPA's revenue recognition task forces. A list of all of the issues currently on the task forces' agendas for discussion and their respective statuses is available on the [AICPA's Web site](http://aicpa.org).

**Effective Date and Transition**

The new guidance is effective for public business entities for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods.

For nonpublic entities, the standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Nonpublic entities can also elect to early adopt the standard as of the following:

- Annual reporting periods beginning after December 15, 2016, including interim periods.
- Annual reporting periods beginning after December 15, 2016, and interim periods within annual reporting periods beginning one year after the annual reporting period of initial application of the new standard.
Leases

Background
In May 2016, the FASB issued ASU 2016-02, its long-awaited new standard on accounting for leases. The ASU responds to concerns related to the off-balance-sheet treatment of operating lease arrangements by lessees, requiring lessees to adopt a right-of-use (ROU) asset approach that brings substantially all leases, with the exception of short-term leases (i.e., those with a lease term of less than 12 months), on the balance sheet. Under this approach, a 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 new standard began as a convergence project between the IASB and the FASB. However, the boards' final standards contain several notable differences, one of the more significant of which is related to a lessee's subsequent accounting of a lease. Under the FASB's approach, a lease is classified as either an operating lease or a finance lease, with different expense profiles for each. Under the IASB's guidance, an entity would classify all leases as finance leases. The FASB decided to retain today's dual classification approach to limit the ASU's effects on the income statement. Accordingly, while the FASB's new guidance is expected to significantly affect the balance sheet of most investment advisers, its effects on an investment adviser's income statement may not be as significant.

Thinking It Through
The standard defines a lease as a “contract, or part of a contract, that conveys the right to control the use of identified property, plant, and equipment (an identified asset) for a period of time in exchange for consideration.” While this may seem straightforward, it is crucial for an investment manager to identify a complete population of its leases. Accordingly, entities should evaluate their contracts and determine whether, in their entirety or in part, they convey the right to use property, plant, and equipment. Many investment managers have started to evaluate their arrangements to assess whether they have a complete population of leases agreements. Many companies are starting by ensuring that the disclosures in their current financial statement footnotes are complete.

Lessee Accounting
The FASB chose a dual-model approach under which a lessee classifies a lease by using criteria that are similar to the lease classification criteria currently in IFRSs. For leases considered finance leases (many of today's 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 considered operating leases (many of today's 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.

IASB issued IFRS 16, Leases, in January 2016.
Example

A lessee enters into a three-year lease and agrees to make the following annual payments at the end of each year: $10,000 in year 1, $15,000 in year 2, and $20,000 in year 3. The initial measurement of the ROU asset and liability to make lease payments is $38,000 at a discount rate of 8 percent.

The following table highlights the differences in accounting for lease under the finance lease and operating lease models:

<table>
<thead>
<tr>
<th>Year</th>
<th>Both Methods</th>
<th>Finance Lease Approach</th>
<th>Operating Lease Approach</th>
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</thead>
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<tr>
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<td>Lease Liability</td>
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<td>Amortization Expense &lt;Y&gt;</td>
</tr>
<tr>
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</tr>
<tr>
<td>3</td>
<td>—</td>
<td>1,481</td>
<td>$12,667</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$7,000</td>
<td>$38,000</td>
</tr>
</tbody>
</table>

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 similar to the existing capital/finance lease and operating lease models. However, the FASB decided to align the U.S. GAAP classification requirements with the criteria in IFRSs. In addition, the FASB decided that for leases similar to current sales-type leases, the lessor would be permitted to recognize the profit on the transaction only if the arrangement would have qualified as a sale under the new revenue recognition guidance.

Effective Date and Transition

The new guidance is effective for public business entities for fiscal years beginning after December 15, 2018 (i.e., calendar periods beginning on January 1, 2019), including interim periods therein. For all other entities, the standard is effective for annual periods beginning after December 15, 2019 (i.e., calendar periods beginning on January 1, 2020), and interim periods thereafter. Early adoption is permitted. Lessees and lessors are required to use a modified retrospective transition method for existing leases. Accordingly, they would apply the new accounting model for the earliest year presented in the financial statements.

Thinking It Through

The new standard requires a lessee to record its lease arrangements by using the rate the lessor charges it in the lease, if readily determinable, or alternatively to use its incremental borrowing rate. For leases that are currently accounted for as operating leases, an investment manager will be required, upon adopting the new guidance, to determine the appropriate discount rate to apply when the lease arrangements are initially recorded on the balance sheet.

For discussion of additional implementation considerations, see Deloitte's March 1, 2016, Heads Up.
Classification and Measurement

Background

In January 2016, the FASB issued ASU 2016-01, which amends the guidance on the classification and measurement of financial instruments and makes 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 available-for-sale (AFS) debt securities.
- Disclosure requirements for financial assets and financial liabilities.

The ASU's key provisions are discussed below. For more information about ASU 2016-01, see Deloitte's January 12, 2016, Heads Up.

Classification and Measurement of Equity Investments

The ASU requires entities to carry all investments in equity securities at fair value, with changes in fair value recorded through earnings (FVTNI), 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 practicability exception under which the equity investment is measured at cost less impairment, if any, plus or minus observable price changes in orderly transactions. This practicability exception would not be available to reporting entities that are investment companies, broker-dealers in securities, or postretirement benefit plans.

An entity that has elected the practicability exception 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 within ASC 321-10-35-3. If, on the basis of the qualitative assessment, the equity investment is impaired, an entity is required to record an impairment equal to the amount by which the carrying value exceeds fair value. The entity no longer evaluates whether such impairment is other than temporary.

Thinking It Through

The requirement to classify and measure equity securities at FVTNI could significantly affect investors in bond and other debt funds. Although these funds invest in bonds or other debt securities, on the basis of existing guidance in ASC 320-10-50-4, investors in the bond funds are required to classify their investments as equity securities. Currently, such investments are often classified as AFS with changes in fair value recognized through OCI. Under the new guidance, however, investors will need to account for their investments in these bond funds as FVTNI (rather than recording the changes in fair value through OCI, which would only be permitted if the investor held the bond or debt securities in the fund directly).
Classification and Measurement

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 other comprehensive income (OCI) any changes in fair value associated with instrument-specific credit risk. While 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, it also acknowledges that there may be other methods an entity may use to determine instrument-specific credit risk.

Valuation Allowance on a Deferred Tax Asset 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 associated with debt securities that are classified as AFS. Under current U.S. GAAP, entities may perform this evaluation either separately from their other DTAs or in combination with them. The ASU 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 nonpublic business entities, the amendments eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost. In addition, for such financial instruments, public business entities 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.

Effective Date and Transition
For public business entities, 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. Nonpublic business entities are permitted to adopt the standard in accordance with the effective date for public business entities.

Impairment

Background
In June 2016, the FASB issued ASU 2016-13, which amends guidance on the impairment of financial instruments. The ASU adds to U.S. GAAP an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses.
The ASU will have a significant effect on banks and certain asset portfolios (e.g., loans, leases, debt securities), which will need to modify their current processes for establishing an allowance for losses and other-than-temporary impairments to ensure that they comply with the ASU’s new requirements. In addition, the CECL model applies to most debt instruments (other than those measured at fair value), trade receivables, lease receivables, reinsurance receivables that result from insurance transactions, financial guarantee contracts, and loan commitments.

Investment advisers with a portfolio of available-for-sale (AFS) debt securities may also be affected by the ASU. While AFS debt securities are excluded from the CECL model’s scope and will continue to be assessed for impairment under the guidance in ASC 320 (the FASB moved the impairment model for AFS debt securities from ASC 320 to ASC 326-30), the FASB has made limited amendments to the impairment model for AFS debt securities, as discussed below.


**AFS Debt Securities**

The CECL model does not apply to AFS debt securities. Instead, the FASB decided to make targeted improvements to the existing other-than-temporary impairment model in ASC 320 for certain AFS debt securities to eliminate the concept of “other than temporary” from that model. Accordingly, the ASU states that an entity:

- Must use an allowance approach (rather than permanently writing down the security’s cost basis).
- Must limit the allowance to the amount at which the security’s fair value is less than its amortized cost basis.
- May not consider the length of time fair value has been less than amortized cost.
- May not consider recoveries in fair value after the balance sheet date when assessing whether a credit loss exists.

**Thinking It Through**

The Board did not revise (1) step 1 of the existing other-than-temporary impairment model (i.e., an “investment is impaired if the fair value of the investment is less than its cost”) or (2) the requirement under ASC 320 for an entity to recognize in net income the impairment amount only related to credit and to recognize in OCI the noncredit impairment amount. However, the ASU does require an entity to use an allowance approach for certain AFS debt securities when recognizing credit losses (as opposed to a permanent write-down of the AFS security’s cost basis). As a result, the entity would reverse credit losses through current-period earnings on an AFS debt security in both of the following circumstances:

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3 The following debt instruments would not be accounted for under the CECL model:
- Loans made to participants by defined contribution employee benefit plans.
- Policy loan receivables of an insurance entity.
- Pledge receivables (promises to give) of a not-for-profit entity.
- Loans and receivables between entities under common control.

4 The CECL model does not apply to financial guarantee contracts that are accounted for as insurance or measured at fair value through net income.

5 The amendments do not apply to an AFS debt security that an entity intends to sell or will more likely than not be required to sell before the recovery of its amortized cost basis. If an entity intends to sell or will more likely than not be required to sell a security before recovery of its amortized costs basis, the entity would write down the debt security’s amortized cost to the debt security’s fair value as required under existing U.S. GAAP.
**Equity Method of Accounting**

- If the fair value of the debt security exceeds its amortized cost in a period after a credit loss had been recognized through earnings (because fair value was less than amortized cost), the entity would reverse the entire credit loss previously recognized.

- If the fair value of the debt security does not exceed its amortized cost in a period after a credit loss had been recognized through earnings (because fair value was less than amortized cost) but the credit quality of the debt security improves in the current period, the entity would reverse the credit loss previously recognized only in an amount that would reflect the improved credit quality of the debt security.

**Effective Date and Transition**

For public business entities that meet the U.S. GAAP definition of an SEC filer, the ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

For public business entities that do not meet the U.S. GAAP definition of an SEC filer, the ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years.

For all other entities, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years beginning after December 15, 2021.

In addition, entities are permitted to early adopt the new guidance for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

**Equity Method of Accounting**

**Background**

In March 2016, the FASB issued ASU 2016-07 to eliminate the requirement that an entity retrospectively apply the equity method of accounting to all prior periods in which it had historically accounted for the investment under either the cost method or as an AFS security when it subsequently meets the conditions for applying the equity method of accounting. The ASU also requires an entity to recognize unrealized holding gains or losses in accumulated other comprehensive income (AOCI) related to an AFS security that becomes eligible for the equity method of accounting in earnings as of the date the investment qualifies for the equity method of accounting.

**Thinking It Through**

For investment managers, the existing requirements can be particularly onerous because investments are often structured as partnerships or limited liability corporations, which may require the equity method of accounting at a relatively low ownership percentage. In addition, there may be fluctuations in an investment manager’s ownership percentage in a fund as a result of investor redemptions. The ASU will eliminate the requirement for an investment manager with an interest in an open-ended fund to retrospectively apply the equity method of accounting each time it obtains significant influence over a fund as a result of redemptions by other investors.

**Effective Date and Transition**

The guidance is effective for all entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The guidance must be applied prospectively to increases in the level of ownership interest or degree of influence occurring after the ASU’s effective date. Early adoption is permitted.
Consolidation

Background

In February 2015, the FASB issued ASU 2015-02, which significantly amended the consolidation analysis required under U.S. GAAP. The Board's focus during deliberations was largely on the investment management industry and, accordingly, the ASU could have a substantial effect on the consolidation conclusions of investment advisors, particularly related to whether they are required to consolidate the entities they manage. The ASU was effective for calendar-year-end public companies on January 1, 2016 (and effective for all other entities for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017). The primary effects of the ASU’s adoption by investment managers were are as follows:

• The ASU significantly amends how variable interests held by a reporting entity’s related parties or de facto agents affect its consolidation conclusion. Specifically, interests held by a related party of an investment manager, are less likely to result in the manager’s conclusion that it has a variable interest or must consolidate a VIE. Accordingly, upon adopting the ASU, certain asset managers have had to deconsolidate funds they were required to consolidate because of interests held by their related parties.

• The ASU eliminated three of the prior criteria in ASC 810-10-55-37 related to whether a decision maker's fee arrangement is a variable interest. Therefore, fewer fee arrangements are considered variable interests. This has had a significant effect on the consolidation conclusions for managers of collateralized loan obligation entities (CLOs) or collateralized debt obligation entities (CDOs) that receive a junior or subordinated fee. Generally, investment managers that have adopted the ASU are only required to continue to consolidate CLOs and CDOs when they hold either the residual interest in the entity or have a significant interest in the entity.

• The SEC issued a no-objection letter to SIFMA clarifying how a reporting entity should determine whether the equity holders (as a group) in a series fund structure have power over the entity under the ASU. The clarification has resulted in the conclusion by a number of investment managers that the separate series of an international series structure should not be considered their own legal entity (and that the series fund structure is a VIE). Accordingly, the individual series are evaluated as silos under the VIE guidance. Further, under the ASU, an investment manager is more likely to consolidate additional international series funds than it was before adopting the guidance.

• Limited partnerships are VIEs unless the limited partners have either substantive kick-out or participating rights. As a result of adopting the ASU, more partnerships for which the investment adviser is the general partner are VIEs (and, accordingly, the reporting entity will be required to provide additional disclosures); however, it is less likely that a general partner will consolidate the limited partnership.

See Deloitte’s A Roadmap to Consolidation — Identifying a Controlling Financial Interest for additional information.
Consolidation

**Interests Held Through Related Parties That Are Under Common Control**

In October 2016, the FASB issued** ASU 2016-17** to remove the last sentence of ASC 810-10-25-42, which states, “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.” As a result of the ASU, a reporting entity would consider its indirect economic interests in a VIE held through related parties that are under common control on a proportionate basis in a manner consistent with its consideration of indirect economic interests held through related parties that are not under common control.

**Example**

An investment manager establishes a fund (a VIE) to acquire various investments. The VIE has a general partner (Subsidiary A) that holds a 1 percent interest in the partnership, a limited partner owned by the parent company of the general partner (Subsidiary B) that holds a 20 percent interest in the partnership, and various unrelated investors that hold the remaining equity interests. In addition, A holds a 5 percent interest in B, and both A and B are wholly owned subsidiaries of Parent Company. As the investment manager, A has full discretion to buy and sell investments, manage the investments, and obtain financing.

Under the guidance before ASU 2016-17, A and B must consider their own interests before evaluating which entity is the primary beneficiary of the VIE. Accordingly, A would conclude that it meets the “power criterion” as well as the “economics criterion.” That is, A has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE because A must treat B’s 20 percent interest in the VIE as its own since A has an interest in B, and both are under the common control of Parent Company.

Under ASU 2016-17, A will still conclude that it meets the power criterion on its own. However, in the evaluation of the economics criterion, since A owns a 5 percent interest in B, and B owns a 20 percent equity interest in the VIE, A will conclude that it has a 1 percent indirect interest in the VIE a result of its interest in B (5 percent interest in B multiplied by B’s 20 percent interest in the VIE). Therefore, A will not meet the economics criterion on its own. However, since A and B are under common control and as a group will satisfy the power and economics criteria, they will need to perform the related-party tiebreaker test to determine which party is most closely associated with the VIE.
Employee Share-Based Payment Accounting Improvements

Thinking It Through
As a result of ASU 2016-17, the related-party tiebreaker test will be performed more frequently because, as illustrated in the example above, it will be less likely for the decision maker to meet the economics criterion on its own when considering its exposure through a related party under common control on a proportionate basis. Many decision makers view the ASU’s guidance favorably because they could otherwise automatically consolidate a legal entity with a small indirect interest. The ASU will instead require the decision maker to consider which party (the single decision maker or the related party under common control) is most closely associated with the VIE and therefore should consolidate. This guidance may have a significant impact on the individual financial statements of investment management subsidiaries because it could change which subsidiary consolidates a VIE.

Effective Date and Transition
For all reporting entities, the guidance in ASU 2016-17 will be effective for annual periods beginning after December 15, 2016. Reporting entities that have not yet adopted the guidance in ASU 2015-02 will be required to adopt ASU 2016-17’s amendments at the same time they adopt those in ASU 2015-02. Early adoption, including adoption in an interim period, is permitted as of October 26, 2016 (the ASU’s issuance date).

Employee Share-Based Payment Accounting Improvements

Background
In March 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance, which is part of the Board’s simplification initiative, also contains practical expedients for nonpublic entities.

Key Provisions of the ASU

Accounting for Income Taxes
Under current guidance, when a share-based payment award is granted to an employee, the fair value of the award is generally recognized over the vesting period, and a corresponding DTA is recognized to the extent that the award is tax-deductible. The tax deduction is generally based on the intrinsic value at the time of exercise (for an option) or on the fair value upon vesting of the award (for restricted stock), and it can be either greater (excess tax benefit) or less (tax deficiency) than the compensation cost recognized in the financial statements. All excess tax benefits are recognized in additional paid-in capital (APIC), and tax deficiencies are recognized either in the income tax provision or in APIC to the extent that there is a sufficient “APIC pool” related to previously recognized excess tax benefits.
Employee Share-Based Payment Accounting Improvements

Under the ASU, an entity recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. This change eliminates the notion of the APIC pool and significantly reduces the complexity and cost of accounting for excess tax benefits and tax deficiencies. In addition, excess tax benefits and tax deficiencies are considered discrete items in the reporting period in which they occur and are not included in the estimate of an entity's annual effective tax rate.

The ASU's guidance on recording excess tax benefits and tax deficiencies in the income statement also has a corresponding effect on the computation of diluted earnings per share (EPS) when an entity applies the treasury stock method. An entity that applies such a method under current guidance estimates the excess tax benefits and tax deficiencies to be recognized in APIC in determining the assumed proceeds available to repurchase shares. However, under the ASU, excess tax benefits and tax deficiencies are excluded from the calculation of assumed proceeds since those amounts are recognized in the income statement. In addition, the new guidance affects the accounting for tax benefits of dividends on share-based payment awards, which will now be reflected as income tax expense or benefit in the income statement rather than as an increase to APIC. Further, the ASU eliminates the requirement to defer recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable.

In addition to addressing the recognition of excess tax benefits and tax deficiencies, the ASU provides guidance on the related cash flow presentation. Under existing guidance, excess tax benefits are viewed as a financing transaction and are presented as financing activities in the statement of cash flows. However, there is no cash receipt but only a reduction in taxes payable. Therefore, a reclassification is made in the statement of cash flows to reflect a hypothetical inflow in the financing section and a hypothetical outflow from the operating section.

Under the ASU, excess tax benefits no longer represent financing activities since they are recognized in the income statement; therefore, excess tax benefits are not separate cash flows and should be classified as operating activities in the same manner as other cash flows related to income taxes. Accordingly, the ASU eliminates the requirement to reclassify excess tax benefits from operating activities to financing activities.

Accounting for Forfeitures

The ASU allows an entity to elect as an accounting policy either to continue to estimate the total number of awards for which the requisite service period will not be rendered (as currently required) or to account for forfeitures when they occur. This entity-wide accounting policy election only applies to service conditions; for performance conditions, the entity continues to assess the probability that such conditions will be achieved. An entity must also disclose its policy election for forfeitures.

Thinking It Through

An entity that adopts a policy to account for forfeitures as they occur must still estimate forfeitures when an award is (1) modified (the estimate applies to the original award in the measurement of the effects of the modification) and (2) exchanged in a business combination (the estimate applies to the amount attributed to precombination service). However, the accounting policy for forfeitures will apply to the subsequent accounting for awards that are modified or exchanged in a business combination.
Statutory Tax Withholding Requirements

The ASU modifies the current exception to liability classification of an award when an employer uses a net-settlement feature to withhold shares to meet the employer’s minimum statutory tax withholding requirement. Currently, the exception only applies when no more than the number of shares necessary for the minimum statutory tax withholding requirement to be met is repurchased or withheld. The new guidance stipulates that the net settlement of an award for statutory tax withholding purposes would not result, by itself, in liability classification of the award provided that the amount withheld for taxes does not exceed the maximum statutory tax rate in the employees’ relevant tax jurisdictions. Further, to eliminate diversity in practice, the ASU requires that cash payments to tax authorities in connection with shares withheld to meet statutory tax withholding requirements be presented as a financing activity in the statement of cash flows because such payments represent an entity’s cash outflow to reacquire the entity’s shares.

Thinking It Through

Under current guidance, an entity is required to track the minimum statutory tax withholding requirement applicable to each specific award grantee in each applicable jurisdiction if shares are repurchased or withheld. Under the new guidance, the maximum rate is determined on a jurisdiction-by-jurisdiction basis even if that rate exceeds the highest rate applicable to a specific award grantee. However, the classification exception would not apply to entities that do not have a statutory tax withholding obligation; for such entities, any net settlement for tax withholding would result in a liability-classified award.

In addition, an entity may change the terms of its awards related to net settlement for withholding taxes from the minimum statutory tax rate to a higher rate up to the maximum statutory tax rate. While this change may be made to existing awards, the entity would not be required to account for such a change as a modification. However, this accounting treatment applies only in these narrow circumstances (i.e., solely to change the net-settlement provisions from the minimum statutory tax rate to a higher rate up to the maximum statutory tax rate for statutory tax withholding purposes) and should not be analogized to other situations.

Practical Expedients for Nonpublic Entities

Expected-Term Practical Expedient

The ASU allows nonpublic entities to use the simplified method to estimate the expected term for awards (including liability-classified awards measured at fair value) with service or performance conditions that meet certain requirements. Such entities would apply this practical expedient as follows:

- For awards with only a service condition, nonpublic entities can estimate the expected term as the midpoint between the requisite service period and the contractual term of the award.
- For awards with a performance condition, the estimate of the expected term would depend on whether it is probable that the performance condition will be achieved:
  - If it is probable that the performance condition will be achieved, nonpublic entities can estimate the expected term as the midpoint between the requisite service period and the contractual term.
  - If it is not probable that the performance condition will be achieved, nonpublic entities can estimate the expected term as (1) the contractual term if the award does not contain an explicit service period or (2) the midpoint between the requisite service period and the contractual term if the award does contain an explicit service period.
**Intrinsic Value Practical Expedient**

The ASU allows nonpublic entities to make a one-time election to switch from fair value measurement to intrinsic value measurement, without demonstrating preferability, for share-based payment awards classified as liabilities.

Nonpublic entities are not allowed to make this election on an ongoing basis after the effective date of the new guidance.

**Transition and Related Disclosures**

The following table outlines the transition methods for an entity’s adoption of ASU 2016-09:

<table>
<thead>
<tr>
<th>Type</th>
<th>Transition Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognition of excess tax benefits and tax deficiencies (accounting</td>
<td>Prospective</td>
</tr>
<tr>
<td>for income taxes)</td>
<td></td>
</tr>
<tr>
<td>Unrecognized excess tax benefits (accounting for income taxes)</td>
<td>Modified retrospective</td>
</tr>
<tr>
<td>Classification of excess tax benefits in the statement of cash flows</td>
<td>Retrospective or prospective</td>
</tr>
<tr>
<td>Accounting for forfeitures</td>
<td>Modified retrospective</td>
</tr>
<tr>
<td>Classification and statutory tax withholding requirements</td>
<td>Modified retrospective</td>
</tr>
<tr>
<td>Classification of employee taxes paid in the statement of cash flows</td>
<td>Retrospective</td>
</tr>
<tr>
<td>when an employer withholds shares for tax withholding purposes</td>
<td></td>
</tr>
<tr>
<td>Nonpublic entity practical expedient for expected term</td>
<td>Prospective</td>
</tr>
<tr>
<td>Nonpublic entity practical expedient for intrinsic value</td>
<td>Modified retrospective</td>
</tr>
</tbody>
</table>

**Thinking It Through**

An entity’s prior-year APIC pool is not affected because prior-year excess tax benefits and tax deficiencies have already been recognized in the financial statements, and the recognition of excess tax benefits and tax deficiencies in the income statement is prospective only in the fiscal year of adoption. As a result, there is no reclassification between APIC and retained earnings in the fiscal years before adoption. The modified retrospective transition guidance for taxes only applies to previously unrecognized excess tax benefits outstanding upon adoption of ASU 2016-09 with a cumulative-effect adjustment to retained earnings.

In the period of adoption, entities are required to disclose (1) the nature of and reason for the changes in accounting principle and (2) any cumulative effects of the changes on retained earnings or other components of equity as of the date of adoption. In addition, because the change in presentation in the statement of cash flows related to excess tax benefits can be applied either prospectively or retrospectively, entities are required to disclose (1) “that prior periods have not been adjusted” if the change is applied prospectively or (2) the “effect of the change on prior periods retrospectively adjusted” if the change is applied retrospectively. For the change in presentation in the statement of cash flows related to statutory tax withholding requirements, entities are required to disclose the “effect of the change on prior periods retrospectively adjusted.”
Effective Date

For public business entities, the ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual reporting periods. For all other entities, the ASU is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual reporting periods beginning after December 15, 2018. Early adoption will be permitted in any interim or annual period for which financial statements have not yet been issued or have not been made available for issuance. 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 annual period that includes that interim period.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

Background

In August 2016, the FASB issued ASU 2016-15, which amends ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. ASC 230 lacks consistent principles for evaluating the classification of cash payments and receipts in the statement of cash flows. This has led to diversity in practice and, in certain circumstances, financial statement restatements. Therefore, the FASB issued the ASU with the intent of reducing diversity in practice with respect to eight types of cash flows.

Key Provisions of the ASU

The ASU is a result of consensuses reached by the EITF on issues related to the eight types of cash flows. Key provisions of the amendments are summarized below.

<table>
<thead>
<tr>
<th>Cash Flow Issues</th>
<th>Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt prepayment or debt extinguishment costs</td>
<td>Cash payments for debt prepayment or extinguishment costs (including third-party costs, premiums paid, and other fees paid to lenders) must “be classified as cash outflows for financing activities.”</td>
</tr>
<tr>
<td>Settlement of zero-coupon bonds</td>
<td>The cash outflows for the settlement of a zero-coupon bond must be bifurcated into operating and financing activities. The portion of the cash payment related to accreted interest should be classified in operating activities, while the portion of the cash payment related to the original proceeds (i.e., the principal) should be classified in financing activities.</td>
</tr>
<tr>
<td>Contingent consideration payments made after a business combination</td>
<td>Contingent consideration payments that were not made soon after a business combination (on the basis of the consummation date) must be separated and classified in operating and financing activities. Cash payments up to the amount of the contingent consideration liability recognized as of the acquisition date, including any measurement-period adjustments, should be classified in financing activities, while any excess cash payments should be classified in operating activities.</td>
</tr>
<tr>
<td>Cash Flow Issues</td>
<td>Amendments</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Proceeds from the settlement of insurance claims</td>
<td>Cash proceeds from the settlement of insurance claims should be classified on the basis of the nature of the loss. For insurance proceeds received in a lump-sum settlement, an entity should determine the classification on the basis of the nature of each loss included in the settlement.</td>
</tr>
<tr>
<td>Proceeds from the settlement of corporate-owned life insurance (COLI) policies and bank-owned life insurance (BOLI) policies</td>
<td>Cash proceeds from the settlement of COLI and BOLI policies must be classified in investing activities. However, an entity is permitted, but not required, to align the classification of premium payments on COLI and BOLI policies with the classification of COLI and BOLI proceeds (i.e., payments for premiums may be classified as investing, operating, or a combination thereof).</td>
</tr>
<tr>
<td>Distributions received from equity method investees</td>
<td>An entity is required to make an accounting policy election to classify distributions received from equity method investees under either of the following methods:</td>
</tr>
<tr>
<td></td>
<td>• <strong>Cumulative-earnings approach</strong> — Under this approach, distributions are presumed to be returns on investment and classified as operating cash inflows. However, if the cumulative distributions received, less distributions received in prior periods that were determined to be returns of investment, exceed the entity’s cumulative equity in earnings, such excess is a return of capital and should be classified as cash inflows from investing activities.</td>
</tr>
<tr>
<td></td>
<td>• <strong>Nature of the distribution approach</strong> — Under this approach, each distribution is evaluated on the basis of the source of the payment and classified as either operating cash inflows or investing cash inflows.</td>
</tr>
<tr>
<td>If an entity whose chosen policy is the nature of the distribution approach cannot apply the approach because it does not have enough information to determine the appropriate classification (i.e., the source of the distribution), the entity must apply the cumulative-earnings approach and report a change in accounting principle on a retrospective basis. The entity is required to disclose that a change in accounting principle has occurred as a result of the lack of available information as well as the information required under ASC 250-10-50-2, as applicable.</td>
<td></td>
</tr>
<tr>
<td>The amendments do not address equity method investments measured under the fair value option.</td>
<td></td>
</tr>
<tr>
<td>Beneficial interests in securitization transactions</td>
<td>A transferor's beneficial interests received as proceeds from the securitization of an entity's financial assets must be disclosed as a noncash activity. Subsequent cash receipts of beneficial interests from the securitization of an entity’s trade receivables must be classified as cash inflows from investing activities.</td>
</tr>
</tbody>
</table>
Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

(Table continued)

<table>
<thead>
<tr>
<th>Cash Flow Issues</th>
<th>Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separately identifiable cash flows and application of the predominance principle</td>
<td>The guidance provides a three-step approach for classifying cash receipts and payments that have aspects of more than one class of cash flows: 1. An entity should first apply specific guidance in U.S. GAAP, if applicable. 2. If there is no specific guidance related to the cash receipt or payment, an entity should bifurcate the cash payment or receipt into “each separately identifiable source or use [of cash] on the basis of the nature of the underlying cash flows.” Each separately identifiable source or use of cash will be classified as operating, investing, or financing activities by applying the guidance in ASC 230. 3. If the cash payment or receipt cannot be bifurcated, the entire payment or receipt should be classified as operating, investing, or financing activities on the basis of the activity that is likely to be the predominant source or use of cash.</td>
</tr>
</tbody>
</table>

**Thinking It Through**

While ASC 230 distinguishes between returns of investment (which should be classified as inflows from investing activities) and returns on investment (which should be classified as inflows from operating activities), it does not prescribe a method for differentiating between the two. With respect to distributions from equity method investees, investment managers make this determination by applying a cumulative-earnings approach or a nature of the distribution approach. The ASU formalizes each of these methods and allows an entity to choose either one as an accounting policy election.

**Transition and Effective Date**

For public business entities, the guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption will be permitted for all entities.
Restricted Cash

Background
In November 2016, the FASB issued ASU 2016-18, which amends ASC 230 to clarify guidance on the classification and presentation of restricted cash. The ASU is the result of the following consensuses reached by the EITF:

• 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.

• 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.

• Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows.

• 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 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, it is 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 is permitted. A reporting entity will apply the guidance retrospectively.
On the Horizon
Disclosure Framework: Fair Value Measurement

Background
On December 3, 2015, the FASB issued for public comment a proposed ASU that would amend the requirements in ASC 820 for disclosing fair value measurements. The proposed ASU would add the following objective to ASC 820 to encourage preparers to use discretion in complying with the disclosure requirements:

The objective of the disclosure requirements in this Subtopic is to provide users of financial statements with information about all of the following:

a. The valuation techniques and inputs that a reporting entity uses to arrive at its measures of fair value, including judgments and assumptions that the entity makes
b. The effects of changes in fair value on the amounts reported in financial statements
c. The uncertainty in the fair value measurement of Level 3 assets and liabilities as of the reporting date
d. How fair value measurements change from period to period.

In addition, the proposed ASU would make changes (eliminations, modifications, and additions) to the fair value disclosure requirements in ASC 820, as discussed below.

Eliminated and Modified Disclosure Requirements

Policy on Timing of Transfers Between Levels and Transfers Between Levels 1 and 2
The proposed ASU would remove the requirement in ASC 820-10-50-2C for an entity to disclose its policy on the timing of transfers between levels of the fair value hierarchy. An entity would still be required to have a consistent policy on timing of such transfers. The requirement to separately disclose the amounts transferred between Level 1 and Level 2 and the corresponding reason for doing so would also be removed.

Level 3 Fair Value Measurements
The disclosure requirements for Level 3 fair value measurements would be amended as follows:

- Valuation process — The proposed ASU would remove requirements in ASC 820-10-50-2(f) (and related implementation guidance in ASC 820-10-55-105) for an entity to disclose its valuation processes for Level 3 fair value measurements.

Thinking It Through
Removing the disclosure requirement in ASC 820-10-50-2(f) will result in divergence between U.S. GAAP and IFRSs. The requirement was added to the FASB's and IASB's jointly issued standard on the basis of a recommendation by the IASB's expert panel. The panel explained that the disclosure would help users understand the quality of the entity's fair value estimates and give investors more confidence in management's estimate. The FASB has proposed to remove the requirement because it would conflict with the Board's proposed concepts statement. The Board indicated that disclosure of internal control procedures is outside the purpose of the notes to the financial statements and is not required under other topics in U.S. GAAP.
Removing this requirement does not change management’s responsibility for internal controls over the valuation process and related auditor testing. Further, it should not affect investor confidence in the quality of the fair value estimate given the regulatory environment in the United States (e.g., SEC and PCAOB) as well as the intense scrutiny in this area. The Board also noted that investors are typically familiar with the overall valuation process.

- **Measurement uncertainty** — The proposed ASU would retain the requirement in ASC 820-10-50-2(g) to provide a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs. However, it would clarify that this disclosure is intended to communicate information about the uncertainty in measurement as of the reporting date and not to provide information about sensitivity to future changes in fair value.

- **Quantitative information about unobservable inputs** — The proposed ASU would require disclosure of the range and weighted average of the unobservable inputs to comply with the requirement in ASC 820-10-50-2(bbb) (as shown by example in the implementation guidance in ASC 820-10-55-103). Disclosing the period used to develop significant unobservable inputs based on historical data would also be required. A private company would be exempt from such disclosure requirement.

- **Level 3 rollforward** — The proposed ASU would retain the Level 3 rollforward requirement for entities that are not private companies. For entities that are private companies, the proposed ASU would modify the Level 3 rollforward requirement and remove the requirement to disclose the change in unrealized appreciation or depreciation related to investments held as of the balance sheet date under ASC 820-10-50-2(d). Instead, disclosures would be required about transfers into and out of Level 3 and purchases (or issues) of Level 3 investments. The Board indicated that entities are already required to disclose the ending balance in the fair value hierarchy table, and they could disclose transfers into (and out of) and purchases (or issues) of Level 3 investments in a sentence rather than in a full rollforward as required today.

**Thinking It Through**

As part of its outreach activities on the Level 3 rollforward, the Board noted that some financial statement users believe that the rollforward is useful because it helps them understand management’s decisions, especially for different economic cycles. The full rollforward was generally deemed less useful for users of private-company financial statements. Transfers into and out of Level 3 were generally considered to be the most useful aspect of the rollforward.

**NAV Disclosures of Estimates of Timing of Future Events**

The following disclosures currently required under ASC 820-10-50-6A(b) and ASC 820-10-50-6A(e) would apply only when they have been communicated to the reporting entity by the investee or are otherwise made publicly available (even if not specifically communicated to the investor):

- “For each class of investment that includes investments that can never be redeemed with the investees, but the reporting entity receives distributions through the liquidation of the underlying assets of the investees, the reporting entity’s estimate of the period of time over which the underlying assets are expected to be liquidated by the investees.”

- “[W]hen the restriction from redemption might lapse.”

If the timing is unknown, the entity would be required to disclose that fact.
Thinking It Through
The objective of this change is to prevent an investor from having to make its own estimate when it does not have knowledge of the timing from the investee or other public source. In addition, ASU 2015-07 removed the requirement for entities to categorize within the levels of the fair value hierarchy all investments they have measured under the NAV practical expedient.

New Disclosure Requirements — Unrealized Gains and Losses
Entities that are not private companies would disclose fair value changes for assets and liabilities held as of the balance sheet date disaggregated by fair value hierarchy level (i.e., Levels 1, 2, and 3) for (1) net income before taxes and (2) comprehensive income. This is currently only required for the Level 3 amounts within net income under ASC 820-10-50-2(c) and (d). This requirement would not apply private companies in accordance with the private-company decision-making framework.

Transition and Next Steps
The proposed ASU requires that the modifications to disclosures about changes in unrealized gains and losses and the changes in the quantitative information about unobservable inputs (see discussion above) would be applied prospectively beginning in the period of adoption. Entities would apply all other changes in disclosures retrospectively to all periods presented.

The FASB did not propose an effective date. Rather, the Board indicated that it plans to determine such date after considering stakeholders’ feedback on the proposed guidance.

Comments on the proposed ASU were due February 29, 2016 and were discussed at the FASB’s meeting on June 1, 2016 where it was decided that additional outreach will be conducted with investors and other financial statement users on the proposed ASU. It is not currently expected that a final ASU will be issued in 2016.
SEC Update

Background
The SEC continues to focus on rulemaking, particularly in connection with its efforts to complete mandated actions under the Dodd-Frank Act and to implement provisions under the FAST Act. Key SEC rulemaking activities and other developments that have occurred since the last edition of this publication are discussed below.

Non-GAAP Measures
Press coverage and SEC scrutiny of non-GAAP measures have resulted from the SEC’s concerns about (1) the increased use and prominence of such measures, (2) their potential to be misleading, and (3) the progressively larger difference between the amounts reported for them and for GAAP measures. In a speech on June 27, 2016, SEC Chair Mary Jo White reiterated the SEC’s concerns about practices that can result in misleading non-GAAP disclosures. She exhorted companies “to carefully consider [SEC guidance on this topic] and revisit their approach to non-GAAP disclosures.” She also urged “that appropriate controls be considered and that audit committees carefully oversee their company’s use of non-GAAP measures and disclosures.”

In May 2016, the SEC staff issued new and updated Compliance and Disclosure Interpretations (C&DI) that clarify the SEC’s guidance on non-GAAP measures. The updated guidance was intended to change certain practices about which the SEC has expressed concern. In remarks after the issuance of the C&DI, the SEC staff strongly encouraged registrants to “self-correct” before the staff considers any further rulemaking or enforcement action related to non-GAAP measures.

For more information, see Deloitte’s A Roadmap to Non-GAAP Financial Measures.

Thinking It Through
For the 12 months ended July 31, 2016, non-GAAP measures ranked second in the top-ten list of topics frequently commented on by the SEC’s Division of Corporation Finance (the “Division”) as part of its filing review process, moving up from fourth place for the comparable prior year. Over the next year, we expect the number of SEC comments to continue to remain high and even increase until the guidance in the updated C&DI has been fully incorporated into practice. The SEC staff’s most recent comment letters have particularly focused on the use and prominence of non-GAAP measures in press releases. Comments on press releases and filed documents have also centered on disclosures, including reconciliation requirements and the purpose and use of such measures. In addition, we expect to see more comments about the use of misleading measures, including measures that use individually tailored accounting principles, and the tax effect of non-GAAP adjustments. For more information about SEC comment letter trends, see Deloitte’s SEC Comment Letters — Including Industry Insights: What “Edgar” Told Us and the 2016 supplement, SEC Comment Letters — Statistics According to “Edgar.”
SEC Adopts Rules to Modernize Information Reported by Funds, Require Liquidity Risk Management Programs, and Permit Swing Pricing

In October 2016, the SEC voted to adopt changes to modernize and enhance the reporting and disclosure of information by registered investment companies and to enhance liquidity risk management by open-end funds, including mutual funds and exchange traded funds. The new rules will enhance the quality of information available to investors and will allow the SEC to more effectively collect and use data reported by funds. The rules will also promote effective liquidity risk management across the open-end-fund industry and will enhance disclosure regarding fund liquidity and redemption practices. The new rules permit the use of “swing pricing” by certain open-end management investment companies.

The changes are part of the Commission’s initiative to enhance its monitoring and regulation of the asset management industry.

For more information, see the press release on the SEC’s Web site.

SEC Issues Rules for Securities Clearing Agencies

In September 2016, the SEC issued a final rule and a proposed rule related to covered clearing agencies.

The final rule establishes “enhanced standards for the operation and governance” of covered clearing agencies. The final rule’s scope includes “SEC-registered securities clearing agencies that have been designated as systemically important by the Financial Stability Oversight Council . . . or that are involved in more complex transactions.” Such clearing agencies “will be subject to new requirements regarding, among other things, their financial risk management, governance, recovery planning, operations, and disclosures to market participants and the public.”

Under the proposed rule, a covered clearing agency would be defined as “any registered clearing agency that provides the services of a central counterparty, central securities depository, or a securities settlement system.” The proposal would also define various terms related to covered clearing agencies.

For more information, see the press release on the SEC’s Web site.

SEC Reminds Registrants of Best Practices for Implementing New Revenue, Lease, and Credit Loss Accounting Standards

In recent speeches, the SEC staff has reminded registrants about best practices to follow in the periods leading up to the adoption of ASU 2014-09 (on revenue), ASU 2016-02 (on leases), and ASU 2016-13 (on credit losses). The staff’s comments, which reiterated themes the Commission has addressed over the past year, focused on internal control over financial reporting (ICFR), auditor independence, and disclosures related to implementation activities.

For more information, see Deloitte’s September 22, 2016, Financial Reporting Alert.
SEC Proposes to Shorten Standard Settlement Cycle for Broker-Dealer Securities Transactions

In September 2016, the SEC issued a proposed rule that would “shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date (‘T+3’) to two business days after the trade date (‘T+2’).” The purpose of the proposed amendments is “to reduce a number of risks, including credit risk, market risk, and liquidity risk and, as a result, reduce systemic risk for U.S. market participants.”

For more information, see the press release on the SEC’s Web site.

SEC Publishes Final Rule on Cross-Border Security-Based Swaps

In February 2016, the SEC issued a final rule related to cross-border security-based swaps (SBSs). Under the final rule, which is being issued in response to a mandate of the Dodd-Frank Act, “a non-U.S. company that uses personnel located in a U.S. branch or office to arrange, negotiate, or execute a security-based swap transaction in connection with its dealing activity [must] include that transaction in determining whether it is required to register as a security-based swap dealer.”

For more information, see the press release on the SEC’s Web site.

SEC Issues Final Rule to Establish Trade Acknowledgment and Verification Requirements for SBS Transactions

In June 2016, the SEC issued a final rule to establish trade acknowledgment and verification requirements for SBS transactions. Under the final rule, which is being issued in response to a mandate of the Dodd-Frank Act, an SBS entity that enters into an SBS transaction is required to do the following:

- “Provide a trade acknowledgment electronically to its transaction counterparty promptly, and no later than the end of the first business day following the day of execution.”
- “Promptly verify or dispute with its counterparty the terms of a trade acknowledgment it receives.”
- “Have written policies and procedures in place that are reasonably designed to obtain verification of the terms outlined in any trade acknowledgment that it provides.”

In addition, certain broker-dealers that are SBS entities will be exempt from the requirements in Exchange Act Rule 10b-10 if they meet the requirements of the final rule. The final rule became effective on August 16, 2016.

For more information, the press release on the SEC’s Web site.

SEC Issues Final Rule on Regulation SBSR

In July 2016, the SEC issued a final rule that amends Regulation SBSR on the reporting and dissemination of SBS information. The purpose of the final rule, which implements requirements in Title VII of the Dodd-Frank Act, is to “increase transparency in the security-based swap market.” The final rule became effective on October 11, 2016.

For more information, see the press release on the SEC’s Web site.
SEC Updates

**SEC Issues Final Rule Granting Regulatory Access to Data Held by SBS Data Repositories**

In August 2016, the SEC issued a final rule that amends Rule 13n-4 of the Exchange Act to give certain regulators and other authorities access to SBS data repositories. Specifically, the final rule:

- Requires “either a memorandum of understanding or other arrangement between the Commission and the recipient of the data to address the confidentiality of the security-based swap data provided to the recipient.”
- Identifies “the five prudential regulators named in the statute, as well as the Federal Reserve banks and the Office of Financial Research, as being eligible to access data.”
- Addresses “factors that the Commission may consider in determining whether to permit other entities to access data.”

For more information, see the press release on the SEC’s Web site.

**SEC Issues Proposed and Final Rules Related to Investment Advisers**

In June 2016, the SEC issued a proposed rule that would require “SEC-registered investment advisers to adopt and implement written business continuity and transition plans reasonably designed to address operational and other risks related to a significant disruption in the investment adviser’s operations.” Further, such advisers would need to “make and keep all business continuity and transition plans that are currently in effect or at any time within the past five years were in effect.”

In August 2016, the SEC issued a final rule (effective October 31, 2016) to improve the reporting and disclosure requirements for investment advisers. Specifically, the final rule amends:

- Form ADV to (1) require investment advisers to disclose additional information (e.g., about their “separately managed account business”), (2) include an approach under which “private fund adviser entities operating a single advisory business” can use a single Form ADV to register, and (3) make certain technical corrections to “Form ADV items and instructions.”
- Investment Advisers Act rules to (1) require advisers to maintain additional records of performance-related calculations and communications and (2) “remove transition provisions that are no longer necessary.”

Advisers will need to begin complying with the amendments on October 1, 2017.

For more information on the proposed rule and final rule, see the respective press releases on the SEC’s Web site.

**SEC Requests Comments on Regulation S-K**

In April 2016, the SEC issued a concept release that seeks feedback from constituents on modernizing certain business and financial disclosure requirements of Regulation S-K. The main requirements of Regulation S-K, which is the central repository for nonfinancial statement disclosure requirements for public companies, were established more than 30 years ago, and the modernization and optimization of these requirements may be called for as a result of evolving business models, new technology, and changing investor interests.

The release is part of the SEC’s ongoing disclosure effectiveness initiative, which is a broad-based review of the Commission’s disclosure, presentation, and delivery requirements for public companies. It
follows the SEC's issuance last fall of a request for comment that sought feedback on the effectiveness of financial disclosure requirements in Regulation S-X that apply to certain entities other than the registrant.

For more information, see Deloitte's April 18, 2016, *Heads Up*.

**SEC Requests Comments on Certain Regulation S-K Disclosure Requirements**

In August 2016, the SEC published a request for comment (with an October 31, 2016, comment deadline) as part of its disclosure effectiveness initiative. The request for comment seeks feedback on certain disclosure requirements in Subpart 400 of Regulation S-K related to management, certain security holders, and corporate governance matters. The Commission plans to take the comments received into account when it develops its study on Regulation S-K, which is required by the FAST Act.

For more information, see the press release on the SEC's Web site.

**SEC Proposes to Eliminate Outdated and Duplicative Disclosure Requirements**

In July 2016, the SEC issued a proposed rule that would amend certain of the Commission's disclosure requirements that may be redundant, duplicative, or outdated, or may overlap with other SEC, U.S. GAAP, or IFRS disclosure requirements. The proposal also seeks comment on whether certain of the SEC's disclosure requirements that overlap with requirements under U.S. GAAP should be retained, modified, eliminated, or referred to the FASB for potential incorporation into U.S. GAAP.

The proposed amendments are the next step in the SEC's ongoing disclosure effectiveness initiative. As part of the initiative, the SEC in April 2016 also issued a concept release that sought feedback on modernizing certain business and financial disclosure requirements of Regulation S-K.

**Thinking It Through**

The implications of the proposal are likely to vary depending on the category of change (e.g., duplicate, overlapping, superseded). The effect of some changes may not be significant if their purpose is only to eliminate a duplicated or superseded requirement. Changes to address overlapping requirements could have a more significant effect since they can result in what the SEC describes as (1) disclosure location considerations and (2) bright-line threshold considerations.

For more information, see Deloitte's July 18, 2016, *Heads Up* and the press release on the SEC's Web site.

**SEC Staff Updates C&DIs Related to Regulation S-K, the Securities Act, and Other Topics**

In October 2016, the Division updated C&DIs related to Regulation S-K, Item 402(u), and added the following new questions:

- **Question 128C.01** — Clarifies what type of consistently applied compensation measure (CACM) a registrant should select to identify the median employee when a registrant does not use annual total compensation calculated in accordance with Regulation S-K, Item 402(c)(2)(x).

- **Question 128C.02** — Clarifies whether a registrant may use hourly or annual rates of pay in determining its CACM.
• **Question 128C.03** — Clarifies the time period a registrant may use when it uses a CACM to identify the median employee.

• **Question 128C.04** — Clarifies the treatment of furloughed employees by registrants in the identification of the median employee.

• **Question 128C.05** — Clarifies the circumstances under which a worker is considered an independent contractor or a leased worker.

In September 2016, the Division issued the following C&DIs:

• **Question 139.33 and Question 126.41 related to Securities Act sections and forms** — Include guidance on self-directed “brokerage windows.”

• **Question 301.03 related to Regulation AB** — Clarifies whether a funding-agreement-backed note with certain characteristics should be considered an “asset-backed security,” as that term is defined in either Item 1101(c) of Regulation AB or Section 3(a)(79) of the Exchange Act.

In July 2016, the Division issued the following C&DIs:

• **Question 103.11 related to filing Schedules 13D and 13G (Rule 13d-1)** — Addresses whether a shareholder is exempt from filing Schedule 13G on the basis of the provisions in the Hart-Scott-Rodino Act.

• **Question 111.02 and Question 125.13 related to Securities Act sections and forms** — Contain questions related to an issuer’s representation about the absence of a distribution of the securities received in an exchange.

• **Question 140.02 related to Regulation S-K** — Discusses how, in situations in which “a selling security holder is not a natural person,” a registrant should “satisfy the obligation in Item 507 of Regulation S-K to disclose the nature of any position, office, or other material relationship that the selling security holder has had within the past three years with the registrant or any of its predecessors or affiliates.”

In June 2016, the Division updated Section 271 of its C&DIs on rules related to the Securities Act. The updated guidance addresses questions about the completion of a merger transaction.

**SEC Proposes Amendments to Broker-Dealers’ Disclosures About Order Handling Information**

In July 2016, the SEC issued a **proposed rule** that would enhance the requirements related to broker-dealers’ disclosures about order handling information. Specifically, the proposal would require broker-dealers to “disclose the handling of institutional orders to customers” and to include additional information in their existing retail order disclosures.

For more information, see the [press release](#) on the SEC’s Web site.
SEC Proposes Amendments to the Definition of Smaller Reporting Company

In June 2016, the SEC issued a proposed rule that “would expand the number of companies that qualify as smaller reporting companies, thus qualifying for certain existing scaled disclosures provided in Regulation S-K and Regulation S-X.” Specifically, the proposal would increase the qualification threshold from less than $75 million of public float to less than $250 million. Further, companies with public float of zero “would be permitted to provide scaled disclosures if [their] annual revenues are less than $100 million, as compared to the current threshold of less than $50 million in annual revenues.”

For more information, see Deloitte’s June 29, 2016, journal entry and the press release on the SEC’s Web site.

Thinking It Through

The proposal does not change the $75 million public float threshold in the SEC’s definition of “accelerated filer.” Therefore, a company could qualify as a smaller reporting company and be eligible for the scaled disclosures but may also be an accelerated filer and subject to those requirements, including the shorter deadlines for periodic filings and the requirement to include an auditor’s attestation report on ICFR.

SEC and Other Organizations Propose Guidance on Incentive-Based Compensation Arrangements

In May 2016, the SEC and several other government agencies, including the Federal Reserve Board, OCC, FDIC, FHFA, and NCUA, jointly issued a proposed rule on incentive-based compensation arrangements to implement Section 956 of the Dodd-Frank Act. The proposed rule would:

• Prohibit “incentive-based payment arrangements that the Agencies determine encourage inappropriate risks by certain financial institutions by providing excessive compensation or that could lead to material financial loss.”
• Require “financial institutions to disclose information concerning incentive-based compensation arrangements to the appropriate Federal regulator.”

For more information, see the press release on the SEC’s Web site.

SEC Updates Financial Reporting Manual

In March 2016, the Division updated its Financial Reporting Manual to clarify or add guidance on the following topics:

• Paragraph 2410.8 — Significance testing related to equity method investments.
• Topic 10 — Requirements as a result of the FAST Act.
• Topic 11 — Implementation of the FASB’s and IASB’s new revenue standard.

In November 2016, the Division updated its Financial Reporting Manual to clarify or add guidance on the following topics:

• Paragraphs 1140.3 and 10220.7 — The number of years of a target company’s financial statements that an EGC should present.
• Paragraph 1330.5 — Filings required after Form 10 is effective.
SEC Update

• Paragraph 5120.1 — Effect of loss of smaller reporting company status on accelerated filer determination and filing due dates.
• Paragraph 8110.2 — The May 2016 C&DI updates on non-GAAP financial measures.
• Paragraph 10220.5 — EGC guidance on the financial statements of entities other than the registrant; pro forma information.
• Paragraph 11120.4, Index — Implementation of the FASB’s and IASB’s new revenue standard.
• Section 11200, Index — Implementation of the FASB’s and IASB’s new leases standard.
• Section 11300, Index — Implementation of the FASB’s new standard on disclosures about short-duration insurance contracts.

For more information, see Deloitte’s March 22, 2016, and November 22, 2016, journal entries.


In February 2016, the SEC and FDIC issued a proposed rule that establishes certain “provisions applicable to the orderly liquidation of covered brokers and dealers.” The proposal is being issued in response to a mandate of the Dodd-Frank Act.

SEC Publishes Examination Priorities for 2016

In January 2016, the SEC’s Office of Compliance Inspections and Examinations published its examination priorities for 2016. New priorities include liquidity controls, public pension advisers, product promotion, exchange-traded funds, and variable annuities. Further, the priorities “reflect a continuing focus on protecting investors in ongoing risk areas such as cybersecurity, microcap fraud, fee selection, and reverse churning.”

For more information, see the press release on the SEC’s Web site.

SEC Proposes Rule on Use of Derivatives

In December 2015, the SEC issued a proposed rule on use of derivatives by registered investment companies and business development companies. The proposal would “place restrictions on funds, such as mutual funds and exchange-traded funds . . . that would limit their use of derivatives and require funds to put in place risk management measures resulting in better protection for investors.”

For more information, see the press release on the SEC’s Web site.

SEC Proposes Enhancements to Disclosure Requirements for Alternative Trading Systems

In November 2015, the SEC issued a proposed rule that would amend the requirements for alternative trading systems under the Exchange Act. Specifically, the proposal would require alternative trading systems that “trade stocks listed on a national securities exchange (NMS stocks), including ‘dark pools,’ to publicly disclose detailed information about the operations and activities of a broker-dealer operator and its affiliates.” For more information, see the press release on the SEC’s Web site.
Appendixes
# Appendix A — Summary of Accounting Pronouncements Effective in 2016

The table below lists ASUs that became effective for calendar year 2016. (Note that it is assumed that the ASUs were not early adopted before 2016 if early adoption was permitted.)

<table>
<thead>
<tr>
<th>ASU (Issuance Month)</th>
<th>Affects</th>
<th>Effective Date for Public Business Entities</th>
<th>Effective Date for All Other Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments (September 2015)</td>
<td>Entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the business combination occurs and during the measurement period have an adjustment to provisional amounts recognized.</td>
<td>Fiscal years (and interim periods therein) beginning after December 15, 2015.</td>
<td>Fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.</td>
</tr>
</tbody>
</table>
### Appendix A — Summary of Accounting Pronouncements Effective in 2016

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<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>ASU 2015-10, Technical Corrections and Improvements (June 2015)</td>
<td>All entities.</td>
<td>Transition guidance varies on the basis of the amendments in the ASU. The amendments that require transition guidance are effective for all entities for fiscal years and interim periods within those fiscal years beginning after December 15, 2015.</td>
<td></td>
</tr>
<tr>
<td>ASU 2015-09, Disclosures About Short-Duration Contracts (May 2015)</td>
<td>All insurance entities that issue short-duration contracts as defined in ASC 944. The amendments do not apply to the holder (i.e., policyholder) of short-duration contracts.</td>
<td>Fiscal years beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016.</td>
<td>Fiscal years beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017.</td>
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## Appendix A — Summary of Accounting Pronouncements Effective in 2016

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<th>ASU (Issuance Month)</th>
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</thead>
<tbody>
<tr>
<td>ASU 2014-18, <em>Accounting for Identifiable Intangible Assets in a Business Combination</em> — a consensus of the Private Company Council (December 2014)</td>
<td>All entities except public business entities and not-for-profit entities, as those terms are defined in the ASC master glossary.</td>
<td>Not applicable.</td>
<td>If the first in-scope transaction occurs in the first fiscal year beginning after December 15, 2015, the elective adoption will be effective for that fiscal year's annual financial reporting and all interim and annual periods thereafter. If the first transaction occurs in fiscal years beginning after December 15, 2016, the elective adoption will be effective in the interim period that includes the date of the transaction and subsequent interim and annual periods thereafter.</td>
</tr>
</tbody>
</table>
### Appendix A — Summary of Accounting Pronouncements Effective in 2016

<table>
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<tr>
<th>ASU (Issuance Month)</th>
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<th>Effective Date for Public Business Entities</th>
<th>Effective Date for All Other Entities</th>
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<tbody>
<tr>
<td>ASU 2014-16, 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 (November 2014)</td>
<td>Entities that are issuers of, or investors in, hybrid financial instruments that are issued in the form of a share.</td>
<td>Fiscal years (and interim periods therein) beginning after December 15, 2015.</td>
<td>Fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016.</td>
</tr>
<tr>
<td>ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period — a consensus of the FASB Emerging Issues Task Force (June 2014)</td>
<td>Reporting entities that grant their employees share-based payments in which the terms of the award stipulate that a performance target that affects vesting could be achieved after the requisite service period.</td>
<td>Fiscal years (and interim periods therein) beginning after December 15, 2015.</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B — Glossary of Standards and Other Literature

The following are the titles of standards and other literature mentioned in this publication:

**FASB ASUs**


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


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

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

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

ASU 2016-07, *Investments — Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*

ASU 2016-03, *Intangibles — Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance* — a consensus of the FASB Emerging Issues Task Force

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


ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*

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

Appendix B — Glossary of Standards and Other Literature

ASU 2015-10, Technical Corrections and Improvements

ASU 2015-09, Financial Services — Insurance (Topic 944): Disclosures About Short-Duration Contracts

ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) — a consensus of the FASB Emerging Issues Task Force

ASU 2015-06, Earnings per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions — a consensus of the FASB Emerging Issues Task Force


ASU 2015-03, Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs

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

ASU 2015-01, Income Statement — Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items

ASU 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination — a consensus of the Private Company Council

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 2014-12, Compensation — Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period — a consensus of the FASB Emerging Issues Task Force

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

**FASB ASC Topics and Subtopics**

ASC 230, Statement of Cash Flows

ASC 250, Accounting Changes and Error Corrections

ASC 250-10, Accounting Changes and Error Corrections: Overall

ASC 320, Investments — Debt and Equity Securities

ASC 320-10, Investments — Debt and Equity Securities: Overall
Appendix B — Glossary of Standards and Other Literature

ASC 323-30, Investments — Equity Method and Joint Ventures: Partnerships, Joint Ventures, and Limited Liability Entities
ASC 321-10, Investments — Equity Securities: Overall
ASC 326-30, Financial Instruments — Credit Losses: Available-for-Sale Debt Securities
ASC 470, Debt
ASC 605-20, Revenue Recognition: Services
ASC 606-10, Revenue From Contracts With Customers: Overall
ASC 810-10, Consolidation: Overall
ASC 820, Fair Value Measurement
ASC 820-10, Fair Value Measurement: Overall
ASC 944, Financial Services — Insurance
ASC 946-605, Financial Services — Investment Companies: Revenue Recognition
ASC 960, Plan Accounting — Defined Benefit Pension Plans
ASC 962, Plan Accounting — Defined Contribution Pension Plans
ASC 965, Plan Accounting — Health and Welfare Benefit Plans

FASB Proposed ASU

EITF Topics
Topic No. D-96, “Accounting for Management Fees Based on a Formula”

Office of the Comptroller of the Currency
Bank Accounting Advisory Series, August 2016

Private Company Council Literature
PCC Issue No. 15-02, “Applying Variable Interest Entity Guidance to Entities Under Common Control”

SEC Division of Corporation Finance Financial Reporting Manual
Topic 2, “Other Financial Statements Required”; Section 2400, “Equity Method Investments, Including Fair Value Option”
Topic 10, “Emerging Growth Companies”
Topic 11, “Reporting Issues Related to Adoption of New Accounting Standards”
Topic 13, “Effects of Subsequent Events on Financial Statements Required in Filings”

**SEC Final Rules**
34-78961, Standards for Covered Clearing Agencies
34-78716, Access to Data Obtained by Security-Based Swap Data Repositories
IA-4509, Form ADV and Investment Advisers Act Rules
34-78321, Regulation SBSR — Reporting and Dissemination of Security-Based Swap Information
34-78011, Trade Acknowledgment and Verification of Security-Based Swap Transactions
34-77104, Security-Based Swap Transactions Connected With a Non-U.S. Person’s Dealing Activity That Are Arranged, Negotiated, or Executed By Personnel Located in a U.S. Branch or Office or in a U.S. Branch or Office of an Agent; Security-Based Swap Dealer De Minimis Exception

**SEC Proposed Rules and Concept Releases**
34-78963, Definition of “Covered Clearing Agency”
34-78962, Amendment to Securities Transaction Settlement Cycle
33-10110, Disclosure Update and Simplification
34-78309, Disclosure of Order Handling Information
IA-4439, Adviser Business Continuity and Transition Plans
33-10107, Amendments to Smaller Reporting Company Definition
33-10064, Business and Financial Disclosure Required by Regulation S-K
34-77776, Incentive-based Compensation Arrangements
34-77157, Covered Broker-Dealer Provisions Under Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act
IC-31933, Use of Derivatives by Registered Investment Companies and Business Development Companies
34-76474, Regulation of NMS Stock Alternative Trading Systems

**Other SEC Proposal**
33-10198, Request for Comment on Subpart 400 of Regulation S-K Disclosure Requirements Relating to Management, Certain Security Holders and Corporate Governance Matters
Appendix B — Glossary of Standards and Other Literature

SEC Office of Compliance Inspections and Examinations
*Examination Priorities for 2016*

**SEC C&DI Topics**
Exchange Act Sections 13(d) and 13(g) and Regulation 13D-G Beneficial Ownership Reporting

Non-GAAP Financial Measures

Regulation AB and Related Rules

Regulation S-K

Securities Act Forms

Securities Act Rules

Securities Act Sections

**SEC Regulation S-K**
Item 402, “Executive Compensation”

**SEC Exchange Act of 1934 Rule**
Rule 13n-4, “Regulation SBSR; Duties and Core Principles of Security-Based Swap Data Repository”

**International Standards**
IFRS 16, *Leases*

IFRS 15, *Revenue From Contracts With Customers*
### Appendix C — Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AFS</td>
<td>available for sale</td>
</tr>
<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<tr>
<td>APIC</td>
<td>additional paid-in capital</td>
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<tr>
<td>ASC</td>
<td>FASB Accounting Standards Codification</td>
</tr>
<tr>
<td>ASU</td>
<td>FASB Accounting Standards Update</td>
</tr>
<tr>
<td>BOLI</td>
<td>bank-owned life insurance</td>
</tr>
<tr>
<td>C&amp;DI</td>
<td>SEC compliance and disclosure interpretation</td>
</tr>
<tr>
<td>CACM</td>
<td>consistently applied compensation measure</td>
</tr>
<tr>
<td>CDO</td>
<td>collateralized debt obligation</td>
</tr>
<tr>
<td>CDSC</td>
<td>contingent deferred sales charge</td>
</tr>
<tr>
<td>CECL</td>
<td>current expected credit loss</td>
</tr>
<tr>
<td>CLO</td>
<td>collateralized loan obligation</td>
</tr>
<tr>
<td>COLI</td>
<td>corporate-owned life insurance</td>
</tr>
<tr>
<td>DTA</td>
<td>deferred tax asset</td>
</tr>
<tr>
<td>EGC</td>
<td>emerging growth company</td>
</tr>
<tr>
<td>EITF</td>
<td>Emerging Issues Task Force</td>
</tr>
<tr>
<td>ETF</td>
<td>exchange-traded fund</td>
</tr>
<tr>
<td>FASB</td>
<td>Financial Accounting Standards Board</td>
</tr>
<tr>
<td>FDIC</td>
<td>Federal Deposit Insurance Corporation</td>
</tr>
<tr>
<td>FHFA</td>
<td>Federal Housing Finance Agency</td>
</tr>
<tr>
<td>FVTNI</td>
<td>fair value through net income</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP</td>
<td>generally accepted accounting principles</td>
</tr>
<tr>
<td>GP</td>
<td>general partner</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standard</td>
</tr>
<tr>
<td>LP</td>
<td>limited partner</td>
</tr>
<tr>
<td>NAV</td>
<td>net asset value</td>
</tr>
<tr>
<td>NMS</td>
<td>National Market System</td>
</tr>
<tr>
<td>NUCA</td>
<td>National Credit Union Administration</td>
</tr>
<tr>
<td>OCC</td>
<td>Office of the Comptroller of the Currency (U.S. Department of the Treasury)</td>
</tr>
<tr>
<td>OCI</td>
<td>other comprehensive income</td>
</tr>
<tr>
<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
</tr>
<tr>
<td>ROU</td>
<td>right of use</td>
</tr>
<tr>
<td>SBS</td>
<td>security-based swap</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>SIFMA</td>
<td>Securities Industry and Financial Markets Association</td>
</tr>
<tr>
<td>TRG</td>
<td>transition resource group</td>
</tr>
<tr>
<td>VIE</td>
<td>variable interest entity</td>
</tr>
</tbody>
</table>
The following is a list of short references for the Acts mentioned in this publication:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dodd-Frank Act</td>
<td>Dodd-Frank Wall Street Reform and Consumer Protection Act</td>
</tr>
<tr>
<td>FAST Act</td>
<td>Fix America's Surface Transportation Act</td>
</tr>
<tr>
<td>Securities Act</td>
<td>Securities Act of 1933</td>
</tr>
</tbody>
</table>

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