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Investment Management Accounting and Financial Reporting Update

November 18, 2014

Financial Services Industry

Contents

Foreword

November 18, 2014

To our clients and colleagues in the investment management sector:

We are pleased to announce our seventh annual accounting and financial reporting update. Some of the notable developments and activities that occurred during 2014 were (1) the issuance of new guidance on the recognition of revenue from contracts with customers; (2) the continued work of the FASB on accounting for financial instruments, consolidation, and leases; and (3) the SEC's continued focus on rulemaking, particularly in connection with its efforts to complete mandated actions under the Dodd-Frank Act. Standard-setting activities that affect funds are summarized in the the first section of the publication, and standard-setting activities that affect advisers are summarized in the second.

The 2014 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.

In addition, don't miss our upcoming publication, *SEC Comment Letters — Including Industry Insights*, which discusses our perspective on topics that the SEC staff has focused on in comment letters issued to registrants over the past year, including an analysis of comment letter trends in each financial services sector.

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

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Introduction

The U.S. stock market, which saw double-digit growth in 2013 and 2012,[1] continued to improve in 2014. The investment management sector is benefiting from this growth, as evidenced by an increase in capital raised and funds closed by private equity firms. Real estate funds are also experiencing higher returns in 2014, primarily due to low interest rates since 2008, and a recovery in property values. Because of increased property values and availability of collateral, real estate funds are able to obtain capital at a lower cost and in greater amounts. They are also able to use the proceeds to finance the purchase and development of new construction and expand their operations. At the same time, bond funds have been able to maintain solid returns, which is unusual during a strong equity market.

Business Outlook

Two and a half years of increased stability have allowed investors to gain confidence, to "get their feet back into the water," and to expect to earn higher returns. To achieve these returns, investors are turning to investment managers and their specialized investment strategies, financial products, and entity structures (including business development companies and exchange-traded funds). Among those investors are baby boomers whose pensions and retirement savings will continue to represent a large market share for investment managers. Further, as technology continues to improve, investors are seeking additional diversification in their portfolios, including the opportunity to invest in emerging markets.

Although there is cause for optimism, the industry is facing increased regulatory compliance and competition. As a result, investment managers should expect additional compliance costs and increased pressure to produce higher returns for lower management fees. To retain existing investors and attractive new prospects, investment managers will need to differentiate themselves.

Regulatory Reform

Over the past few years, regulators have increased their scrutiny of the investment management sector in an effort to address exposures that could result in another financial crisis. Regulators continue to focus on more robust data reporting, including transparency of portfolio holdings and management fee and risk disclosures; cybersecurity; and tax reform of investment company structures. The SEC[2] has issued multiple releases containing staff guidance as well as new final rules on money market fund reform. These changes, among others, should be reviewed by investment companies, investment advisers, auditors, and investors.

For additional information about industry issues and trends, see Deloitte's 2014 Financial Services Industry Outlooks.

[1] According to Factiva, the Standard & Poor's 500 increased by 26.4 percent and 11.7 percent for the years ended December 31, 2013, and 2012, respectively.

[2] For a list of abbreviations used in this publication, see Appendix B.

Accounting Standards Codification Updates and Standard-Setting Activity Affecting Funds

Investment Companies

Background

In June 2013, the FASB issued ASU 2013-08,[1] which amends the criteria under which an entity qualifies as an investment company in accordance with ASC 946. The ASU was effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013 (for calendar-year-end companies, the ASU is effective for 2014). Entities whose status changes as a result of adopting the ASU will record the effect of adoption as an adjustment to beginning retained earnings (or opening net assets) in the period of adoption.

Thinking It Through

While the ASU is not expected to significantly change which entities qualify for the specialized investment-company guidance in ASC 946, it (1) introduces new disclosure requirements that apply to all investment companies and (2) amends the measurement criteria for interests in other investment companies.

In addition, although the amendments state that "the guidance in [ASC 946] does not apply to [REITs]," since some REITs have historically applied the investment-company accounting requirements in ASC 946 and the FASB did not intend to change practice for real estate entities with the issuance of the ASU, it is possible that a REIT could qualify as an investment company under the ASU. Also, entities may be required to use significant judgment in evaluating whether their only substantive activities are investing for returns from capital appreciation and investment income (ASC 946-10-15-6[2]). This may be particularly challenging when the entity has other involvements with its investees.

For more information, see Deloitte's 2013 *Investment Management: Accounting and Financial Reporting Update*.

Liquidation Basis of Accounting

Background

On April 22, 2013, the FASB issued ASU 2013-07, which provides guidance on when and how to apply the liquidation basis of accounting and on what to disclose. The ASU is intended to increase the consistency and comparability of financial statements prepared under the liquidation basis of accounting. Before the ASU's issuance, there had been limited guidance on this topic under U.S. GAAP. The ASU applies to both public and nonpublic entities; however, investment companies regulated under the Investment Company Act are excluded from its scope.

Effective Date and Transition

The ASU applies to entities that determine that liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein (for calendar-year-end companies, the ASU is effective for 2014). The ASU's guidance is applied prospectively from the date liquidation is imminent.

[1] For the full titles of standards, topics, and regulations used in this publication, see Appendix A.

[2] ASC 946-10-15-6 states that one of the fundamental characteristics of an investment company is that it is an entity that "[c]ommits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income, or both."

Thinking It Through

It is important for an investment company that will be liquidated to consider the ASU's guidance when developing its plan for liquidation. For example, if an entity is required to start applying the liquidation basis of accounting in the middle of a reporting period, the entity could be required to present "stub"-period financial statements. In addition, the ASU requires that an entity estimate and accrue the expected future income to be realized during the course of liquidation. Accordingly, investment entities will need to use judgment in determining whether to record expected future income for certain investments because the fair value of the investments may already include an expectation of the future income.

For more information, see Deloitte's 2013 *Investment Management: Accounting and Financial Reporting Update*.

Repurchase Agreements

Background

In June 2014, the FASB issued ASU 2014-11, which makes limited amendments to the guidance in ASC 860 on accounting for certain repurchase agreements ("repos"). The ASU (1) requires entities to account for repurchase-to-maturity transactions as secured borrowings, (2) eliminates the accounting guidance on linked repurchase financing transactions, and (3) expands the disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers (specifically, repos, securities lending transactions, and repurchase-to-maturity transactions) that are accounted for as secured borrowings.

Repurchase Agreements That Settle at Maturity

The ASU amends ASC 860 to include an exception that prohibits entities from accounting for repurchase-to-maturity transactions as sales. Specifically, ASC 860-10-40-5A (added by the ASU) states:

> A repurchase-to-maturity transaction shall be accounted for as a secured borrowing as if the transferor maintains effective control (see paragraphs 860-10-40-24 through 40-24A).

The ASU does not change the other criteria in ASC 860 for assessing effective control; however, it clarifies that repos and securities lending transactions that meet all of the derecognition criteria in ASC 860-10-40-5 should be accounted for as secured borrowings. In addition, the ASU's basis for conclusions clarifies that the repurchase-to-maturity exception should not be applied by analogy to "similar transactions that are settled in cash before the maturity of the transferred financial asset."

Repurchase Financings

The ASU eliminates the guidance on repurchase financing transactions in ASC 860-10-40-42 through 40-47 and requires the transferor and transferee to symmetrically account for the initial transfer of the financial asset as a sale (provided that derecognition conditions are met) and purchase, respectively. In addition, the ASU requires entities to evaluate and account for the repurchase component of the combined transaction in a manner similar to how they would evaluate and account for other typical repurchase agreements.

Thinking It Through

If an entity determines that it does not maintain effective control over the transferred financial asset, it would still need to meet the remaining derecognition criteria (i.e., legal isolation under ASC 860-10-40-5(a) and the right to pledge or exchange under ASC 860-10-40-5(b)) to qualify for sale accounting. In addition, the ASU amends the definition of a repurchase agreement to include transfers of financial assets, rather than transfers of a security. An entity should assess whether the amended definition would affect its accounting and classification for such arrangements.

Disclosure Requirements

The ASU requires new disclosures related to (1) certain transfers of financial assets that are accounted for as sales and (2) collateral supporting repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings.

For certain transfers accounted for as sales, the transferor would need to disclose the following by type of transactions:

- The carrying amount of assets derecognized as of the date of derecognition.
- The amount of gross proceeds received by the transferor at the time of derecognition for the assets derecognized.
- Information about the transferor's ongoing exposure to the economic return on the transferred financial assets.
- Amounts arising from the transaction that are reported in the statement of financial position, such as those represented by derivative contracts.

The ASU specifically excludes from the scope of this disclosure requirement (1) dollar-roll transactions that qualify for sale accounting and (2) certain other transactions that are subject to the disclosure requirements of ASC 860-20-50-3 and 50-4.

For repos, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings, ASC 860-30-50-7 requires the following disclosures:

1. A disaggregation of the gross obligation by the class of collateral pledged
2. The remaining contractual tenor of the agreements
3. A discussion of the potential risks associated with the agreements and the related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.

In addition, entities are required to reconcile the gross obligation of these arrangements to the gross liabilities of repos and securities lending transactions included in the offsetting disclosure of assets and liabilities under ASC 210-20-50-3(a) before offsetting adjustments. Any difference would be presented as a reconciling item.

Thinking It Through

Certain Transfers Accounted for as Sales

Reverse repurchase agreements[3] that qualify for sale accounting (e.g., cash settled reverse repos that meet the derecognition criteria in ASC 860) are subject to the disclosure requirements in ASC 860-20-50-4A through 50-4D. Similarly, investment companies that are lenders of securities in a securities lending arrangement are also required to provide the disclosures pursuant to ASC 860-30-50-4D if the securities are accounted for as sales. The ASU further clarifies that repo agreements that involve the return of a financial asset that is not substantially the same as the initially transferred asset are not subject to the disclosure requirements noted above for certain transfers accounted for as sales. For example, dollar roll transactions, mortgage dollar roll transactions, or treasury roll transactions that involve the return of a mortgage security or a treasury security that is not substantially the same as the initially transferred security are not subject to the disclosure requirements.

[3] The AICPA Audit and Accounting Guide *Investment Companies* defines "repurchase agreements" and "reverse repurchase agreements" as follows:

"A *repurchase agreement* (repo) is, in its simplest form, the purchase of a security at a specified price with an agreement to sell the same or substantially the same security to the same counterparty at a fixed or determinable price at a future date with a stipulated interest rate. A repo allows the investment company to transfer uninvested cash to a seller, usually a broker, for a security."

"A *reverse repurchase agreement* (reverse repo or resale) is, in its simplest form, the sale of a security at a specified price and interest factor with an agreement to purchase the same or substantially the same security from the same counterparty at a fixed or determinable price at a future date. A reverse repo allows the investment company to transfer possession of a security to a buyer, usually a broker, for cash. The investment company agrees to repay cash plus interest in exchange for the return of the same securities."

Certain Transfers Accounted for as Secured Borrowings

Repos or securities lending arrangements that are accounted for as secured borrowings are subject to the disclosure requirements in ASC 860-30-50-7. In addition, in their disclosures about repos, securities lending, and repurchase-to-maturity transactions, entities are required to reconcile the gross obligation of these arrangements to the gross liabilities of repos and securities lending transactions in their offsetting of assets and liabilities disclosures under ASC 210-20. Any differences should be illustrated as a reconciling item and may be due to the scope differences of the disclosures.

Effective Date and Transition

The ASU prescribes effective dates for the accounting changes and the disclosure guidance. These dates vary depending on whether the reporting entity is a public or a nonpublic business entity.

For public business entities, the accounting changes in the ASU are effective for the first interim or annual period beginning after December 15, 2014. For all other entities, the accounting changes are effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. Early application for a public business entity is prohibited; however, all other entities may elect to apply the requirements for interim periods beginning after December 15, 2014.

Public business entities would apply the disclosure requirements related to certain transactions accounted for as a sale to interim and annual periods beginning after December 15, 2014. Such entities would apply the disclosure requirements related to repos, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings to annual periods beginning after December 15, 2014, and to interim periods beginning after March 15, 2015. For all other entities, the disclosure requirements are effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. Entities are not required to present comparative disclosures before the effective date.

See Deloitte's June 19, 2014, *Heads Up* for more information.

Fair Value Hierarchy Levels for Certain Investments Measured at Net Asset Value

Background

In August 2014, the EITF added to its agenda Issue 14-B to address the diversity in practice related to how reporting entities that measure certain investments at NAV under ASC 820 classify those investments within the fair value hierarchy. Under ASC 820, reporting entities have the option of measuring certain types of investments at NAV if those investments meet the scope requirements in ASC 820-10-15-4 and 15-5. When the NAV practical expedient is elected, a reporting entity must classify those investments within the fair value hierarchy as either Level 2 or Level 3, depending on the entity's ability to redeem the investment at NAV on or around the measurement date. If the entity can redeem the investment at NAV on the measurement date, the investment is classified as Level 2. If the entity is never able to redeem the investment at NAV, the investment is classified as Level 3. If the investment is redeemable at NAV, but not on the measurement date, the entity must determine whether it has the ability to redeem the investment at NAV in the "near term."

Because ASC 820 does not define "near term," diversity in practice has developed regarding interpretation of this phrase. Some entities interpret it broadly (e.g., within a year) while others (typically, investment companies) use a narrower interpretation (e.g., within a quarter).

In addition, users of financial statements have told the EITF that they find little value in seeing these types of investments reclassified between Levels 2 and 3 in the fair value hierarchy solely on the basis of how close the reporting date is to the next redemption date for the investment.

Consensus-for-Exposure

At its September 2014 meeting, the EITF reached a consensus-for-exposure that entities would no longer categorize within the levels of the fair value hierarchy table any investments that a reporting entity has measured under the NAV practical expedient. Instead of categorizing these investments within the levels of the fair value hierarchy table, reporting entities would be required to include those investments measured at NAV under the practical expedient in a reconciling line item in arriving at the amounts measured at fair value in the balance sheet.

Entities would continue to provide the disclosures required by ASC 820-10-50-6A to those investments measured by using the NAV practical expedient. Entities would no longer be required to provide those disclosures for investments for which the entity was eligible for the expedient but chose not to apply it.

The Task Force decided that entities would be required to adopt the guidance retrospectively and will discuss the Issue's effective date at a future meeting. The comment period for the proposed ASU ends January 15, 2015.

Thinking It Through

The EITF's consensus-for-exposure would simplify reporting requirements by limiting the disclosures required by ASC 820-10-50-6A to those investments measured under the NAV practical expedient (rather than all investments eligible for the practical expedient). It also would simplify reporting requirements by eliminating the need for reporting entities to transfer investments measured under the practical expedient between Levels 2 and 3 of the fair value hierarchy depending on the reporting date.

Investments in Another Investment Company

Consolidation Requirements

In October 2014, the SEC issued IM Guidance Update No. 2014-11, which contains the Chief Accountant of the SEC's Division of Investment Management's views on when it is appropriate for a registered investment company (RIC) in a fund of funds or master-feeder structure to consolidate another investment company. The release indicates that in these situations, it is generally appropriate for the RIC not to consolidate an investment company investee, regardless of its ownership percentage.

The release also indicates that it is appropriate for a business development company to consolidate its wholly owned subsidiaries. Similarly, a RIC should consolidate wholly owned "blocker" subsidiaries. While the release does not define wholly owned, SEC Regulation S-X defines a wholly owned subsidiary as "a subsidiary substantially all of whose outstanding voting shares are owned by its parent and/or the parent's other wholly owned subsidiaries."

Disclosure Requirements

In June 2014, the FASB approved a plan to issue a proposed ASU that would amend the disclosure requirements for an investment company's investment in another investment company. Specifically, the Board tentatively decided that:

- "A feeder fund should attach the master fund's financial statements along with its financial statements."
- "All [investment] companies should disclose each investment owned by an investee fund that exceeds 5 percent of the reporting investment company's net asset at the reporting date."

The proposed guidance would not affect the exception under ASC 946-210-50-10, which states, "If information about the investee's portfolio is not available, that fact shall be disclosed."

The FASB is expected to issue the proposed ASU by the end of 2014. Comments on the proposal will be due 75 days after the release of the proposed ASU. The FASB has not formally indicated when, once issued, the final standard would be effective, but the new requirements would be applied prospectively, and early adoption would be permitted.

Thinking It Through

The proposed guidance could affect investment companies that have a "master-feeder" structure and did not previously attach the master fund's financial statements to the feeder fund's financial statements. Under the proposal, the reporting entity (feeder fund) would be required to attach the audited financial statements of the master fund to its financial statements. Investment managers and independent auditors should discuss the timing and availability of financial information if the independent auditor of the master fund is not the same as the reporting entity's auditor.

Accounting Standards Codification Updates and Standard-Setting Activity Affecting Advisers

Revenue Recognition

Background

On May 28, 2014, the FASB and IASB issued their final standard on revenue from contracts with customers. 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. For additional information about the new standard, see Deloitte's May 28, 2014, *Heads Up* and June 2, 2014, *Investment Management Spotlight*.

Thinking It Through

Aspects of the ASU that could affect investment managers include the following:

- *Performance-based fees* — The ASU does not supersede the guidance in EITF D-96;[1] however, it provides specific requirements for contracts that include variable consideration (including arrangements whose consideration fluctuates depending on changes in the underlying assets managed by an investment manager). Specifically, it indicates that the estimated variable consideration (or a portion thereof) is included in the transaction price (and therefore eligible for recognition) 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[2] 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. Accordingly, for entities that currently apply Method 2 under EITF D-96, the timing of revenue recognition for these fees may be significantly delayed by the ASU's constraint on the amount of revenue that may be recognized as of a reporting date.

  The ASU provides an example[3] to illustrate how an entity would apply the new revenue recognition requirements to a management arrangement that includes performance-based fees. Although the FASB and IASB discussed whether termination provisions should affect the revenue recognition analysis, the ASU does not indicate whether the arrangement in the example includes any termination provisions that would allow the investment manager to terminate the contract and still receive all or part of its performance-based fees.

  In addition, while the ASU could delay 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.

- *Contract combinations* — Although entities are permitted by current U.S. GAAP to combine contracts under certain circumstances, the ASU requires contract combination when certain criteria are met. Since the contract combination requirement may change what investment managers previously regarded as a unit of accounting, each arrangement should be carefully evaluated. To determine whether contracts should be combined, an investment manager should consider whether each of the contracted services could be performed by a separate third-party provider under similar terms and conditions. The ability to perform these services separately under similar terms and conditions may indicate that the services were not negotiated as a package with a single commercial objective and that the consideration paid for each contract does not depend on the price or performance of the other services. Investment managers should consider all facts and circumstances when making this evaluation.

[1] The SEC has indicated that it plans to review and update its revenue recognition guidance in light of the ASU. The extent to which the ASU's guidance will affect a public entity will depend on how the SEC amends the guidance in EITF D-96 to be consistent with the new revenue standard.

[2] While the ASU includes a scope exception for financial instruments that are within the scope of other ASC topics, it does not address whether contracts involving performance-based fees in the form of carried interests are (1) revenue contracts within the scope of the ASU or (2) financial instruments that should be accounted for as equity-method investments. This issue may be discussed by the AICPA implementation group.

[3] ASC 606-10-55-221 through 55-225, *Example 25 — Management Fees Subject to the Constraint*.

- *Up-front distribution fees received* — Up-front distribution fees are generally recognized as revenue when received under current U.S. GAAP. Under the ASU, investment managers would apply the guidance on up-front fees to determine whether up-front distribution fees are related to the transfer of a separate promised service (a "distinct" performance obligation) or multiple separate promised services. 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. Given the significant difference in the accounting, investment managers should focus on identifying the promises made to the customer and whether those promises represent distinct services (i.e., a performance obligation).

- *Third-party distribution fees paid* — The ASU 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 ASU 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 such arrangements should be accounted for as a borrowing in accordance with ASC 470 or evaluated as sales under the revenue standard. Entities that have applied ASC 946-605 and recognized as revenue the consideration received in these transactions will need to reassess their accounting for these arrangements.

- *Gross versus net presentation* — Often, an investment manager or its affiliates involve third parties to provide services it has agreed to perform. In this situation, the investment manager must determine whether "the nature of its promise is a performance obligation to provide the specified goods or services itself (that is, the entity is a principal) or to arrange for the other party to provide those goods or services (that is, the entity is an agent)." 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 in ASC 605-45, the ASU's guidance on making this determination differs slightly from that of current U.S. GAAP by applying an overall principle based on the "control" notion and replacing the examples in the current guidance with more limited examples.

Effective Date and Transition

For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted (however, early adoption is optional for entities reporting under IFRSs). The effective date for nonpublic entities is annual reporting periods beginning after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018. The ASU provides earlier alternative effective dates for nonpublic entities. Entities have the option of using either a full retrospective or a modified approach to adopt the guidance in the ASU.

Implementation and Transition Activities

A number of groups are actively involved in implementation activities related to the new standard, including the joint Transition Resource Group formed by the FASB and IASB (see Deloitte's *TRG Snapshot*), the AICPA's revenue recognition task forces, various firms, the SEC,[4] and the PCAOB. Preparers should continue to monitor the activities of these groups before their adoption of the new guidance.

Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity

Background

In August 2014, the FASB issued ASU 2014-13, which provides guidance on how a reporting entity should measure the financial assets and the financial liabilities of a consolidated collateralized financing entity (CFE). Specifically, the ASU provides a measurement alternative that, when elected, allows the reporting entity to measure both the financial assets and financial liabilities of a consolidated CFE "using the more observable of the fair value of the [CFE's] financial assets and the fair value of the financial liabilities."

The ASU is effective for public business entities for annual periods beginning after December 15, 2015, and interim periods therein. For nonpublic entities, the guidance is effective for annual periods ending after December 15, 2016, and interim periods beginning thereafter. Early adoption as of the beginning of an annual period is permitted. At initial adoption, a reporting entity may use either (1) a modified retrospective approach[5] or (2) a full retrospective approach.

Scope

The ASU defines CFEs as follows:

> [VIEs that hold] financial assets, issues beneficial interests in those financial assets, and has no more than nominal equity. The beneficial interests have contractual recourse only to the related [financial] assets of the collateralized financing entity and are classified as financial liabilities. A collateralized financing entity may hold nonfinancial assets temporarily as a result of default by the debtor on the underlying debt instruments held as assets by the collateralized financing entity or in an effort to restructure the debt instruments held as assets by the collateralized financing entity. . . . A collateralized financing entity also may hold other financial assets and financial liabilities that are incidental to the operations of the collateralized financing entity and have carrying values that approximate fair value (for example, cash, broker receivables, or broker payables).

Under the ASU, a reporting entity may apply the measurement alternative within the ASU when both of the following conditions are present:

> a. All of the financial assets and the financial liabilities of the [CFE] are measured at fair value in the consolidated financial statements under other applicable Topics, other than financial assets and financial liabilities that are incidental to the operations of the collateralized financing entity and have carrying values that approximate fair value (for example, cash, broker receivables, or broker payables).
>
> b. The changes in the fair values of those financial assets and financial liabilities are reflected in earnings.

[4] The SEC has indicated that it plans to review and update the revenue recognition guidance in SAB Topic 13 in light of the ASU. The extent to which the ASU's guidance will affect a public entity will depend on whether the SEC removes or amends the guidance in SAB Topic 13 to be consistent with the new revenue standard.

[5] That is, by recording a cumulative-effect adjustment to equity as of the beginning of the annual period of adoption.

Measurement

Initial Measurement

A reporting entity that elects the measurement alternative (included in ASC 810) would use the more observable of the fair value of the financial assets or the financial liabilities of the CFE as the basis for determining the initial measurement for both the financial assets and financial liabilities. For example, if the fair value of the financial liabilities is more observable, the initial value of the less observable financial assets would be calculated on the basis of the fair value of the financial liabilities. The following table provides the formulas used to calculate the less observable of the CFE's financial assets and financial liabilities:

Financial Assets Are More Observable		Financial Liabilities Are More Observable	
	Fair value of financial assets[6]		Fair value of the financial liabilities (other than the beneficial interests retained by the reporting entity)[7]
Plus:	Carrying value of nonfinancial assets held temporarily	Plus:	Fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services)
Less:	Fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services)	Plus:	Reporting entity's carrying value of any beneficial interests that represent compensation for services
Less:	Reporting entity's carrying value of any beneficial interests that represent compensation for services	Less:	Carrying value of nonfinancial assets held temporarily
Equals:	The value of the financial liabilities of the CFE.[8]	Equals:	The value of the financial assets of the CFE.[9]

If a reporting entity chooses not to elect the measurement alternative for an eligible CFE, the reporting entity would measure the fair value of the CFE's financial assets and liabilities by using the requirements in ASC 820 on fair value measurement. In that case, any initial difference in the fair value of the financial assets and liabilities of the CFE would be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss).

Subsequent Measurement

In each subsequent reporting period, a reporting entity that has elected the measurement alternative would record in earnings its own economic interest in the CFE, including (1) the "changes in the fair value of any beneficial interests retained by the reporting entity (other than those that represent compensation for services)"; and (2) "[b]eneficial interests that represent compensation for services (for example, management fees or servicing fees)."[10]

Alternatively, if the reporting entity elected not to apply the measurement alternative for an eligible CFE, any subsequent changes in the fair value of the CFE's financial assets and financial liabilities would be recorded in earnings and attributed to the reporting entity in the consolidated statement of income (loss).

New Disclosures

Reporting entities that elect to apply the ASU's measurement alternative approach to measure the financial assets and financial liabilities of a consolidated CFE are required to provide ASC 820 disclosures and the ASC 825 disclosures on financial instruments for the CFE's financial assets and financial liabilities. In addition, reporting entities must disclose that the less observable measure has been measured on the basis of the more observable of the fair value of the financial liabilities and financial assets.[11]

6 The fair value of the financial assets should include "the carrying values of any financial assets that are incidental to the operations of the [CFE] because the financial assets' carrying values approximate their fair values."

7 The fair value of the financial liabilities should include "the carrying values of any financial liabilities that are incidental to the operations of the [CFE] because the financial liabilities' carrying values approximate their fair values."

8 The reporting entity should allocate this amount to the individual financial liabilities (other than the beneficial interests retained by the reporting entity), as applicable, by using a reasonable and consistent method.

9 The reporting entity should allocate this amount to the individual financial assets (other than the beneficial interests retained by the reporting entity), as applicable, by using a reasonable and consistent method.

10 In accordance with ASC 810-10-35-8.

11 These disclosure requirements do not apply to those financial assets and financial liabilities that are incidental to the CFE and have carrying values that approximate fair value.

Thinking It Through

ASU 2014-13 requires entities that do not elect the measurement alternative to account for changes in the fair value of the financial assets and financial liabilities of a consolidated CFE through earnings and attribute those earnings to the parent. Therefore, reporting entities that previously reported such changes in fair value through a separate line item in equity (e.g., appropriated retained earnings) will need to change their accounting.

Reporting entities that elect to apply the measurement alternative will need to use judgment to determine whether the inputs used to measure the fair value of the CFE's financial assets are more observable than those used to measure the fair value of the CFE's financial liabilities. For help in applying the ASU's guidance, reporting entities should refer to ASC 820 and consider the nature and source(s) of the inputs used in measuring the fair value of the CFE's financial assets and financial liabilities.

Going Concern

Background

In August 2014, the FASB issued ASU 2014-15, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued.[12] An entity must provide certain disclosures if "conditions or events raise substantial doubt about [the] entity's ability to continue as a going concern."

Under U.S. GAAP, an entity's financial reports reflect its assumption that it will continue as a going concern until liquidation is imminent.[13] However, before liquidation is deemed imminent, an entity may have uncertainties about its ability to continue as a going concern. Because there are no specific requirements under current U.S. GAAP related to disclosing such uncertainties, auditors have used applicable auditing standards[14] to assess the nature, timing, and extent of an entity's disclosures. Consequently, there has been diversity in practice. The ASU is intended to alleviate that diversity.

The ASU extends the responsibility for performing the going-concern assessment to management and contains guidance on (1) how to perform a going-concern assessment and (2) when going-concern disclosures would be required under U.S. GAAP.

Key Provisions of the ASU

Disclosure Thresholds

An entity would be required to disclose information about its potential inability to continue as a going concern when there is "substantial doubt" about its ability to continue as a going concern, which the ASU defines as follows:

> Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued . . . . The term probable is used consistently with its use in Topic 450 on contingencies.

In applying this disclosure threshold, entities would be required to evaluate "relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued." Reasonably knowable conditions or events are those that an entity may not readily know of but can be identified without undue cost and effort.

[12] An entity that is neither an SEC filer nor a conduit bond obligor for debt securities that are traded in a public market would use the date the financial statements are available to be issued (in a manner consistent with the ASU's definition of "issued").

[13] In accordance with ASC 205-30, an entity must apply the liquidation basis of accounting once liquidation is deemed imminent.

[14] PCAOB AU Section 341.

Time Horizon

In each reporting period (including interim periods), an entity would be required to assess its ability to meet its obligations as they become due for one year after the date the financial statements are issued.

Disclosure Content

The disclosure requirements in the ASU closely align with those under current auditing literature. If an entity triggers the substantial-doubt threshold, its footnote disclosures must contain the following information, as applicable:

Substantial Doubt Is Raised but Is Alleviated by Management's Plans	Substantial Doubt Is Raised and Is Not Alleviated
• Principal conditions or events. • Management's evaluation. • Management's plans.	• Principal conditions or events. • Management's evaluation. • Management's plans. • Statement that there is "substantial doubt about the entity's ability to continue as a going concern."

The ASU explains that these disclosures may change over time as new information becomes available.

Effective Date

The guidance in the ASU is "effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016." Early application is permitted.

For additional information, see Deloitte's August 28, 2014, *Heads Up*.

Accounting for Share-Based Payment Awards With Performance Targets That Can Be Met After the Requisite Service Period

In June 2014, the FASB issued ASU 2014-12, which provides clarifying guidance on the application of ASC 718 to share-based payment awards containing performance targets that affect vesting and that can be met after the requisite service period. The ASU clarifies that performance targets that can be met after the requisite service period in share-based payment awards should be treated as performance conditions that affect vesting. As a result, such performance targets would not be incorporated into the grant-date fair value measure of the award. In addition, reporting entities would not record compensation expense related to the award until it was probable that the performance target would be met.

The ASU's guidance is effective for all entities for reporting periods (including interim periods) beginning after December 15, 2015. Early adoption is permitted. Entities have the option of applying the guidance either prospectively (i.e., only to awards granted or modified on or after the ASU's effective date) or retrospectively. Retrospective application only applies to awards with performance targets outstanding on or after the beginning of the first annual period presented (i.e., the earliest presented comparative period).

Consolidation

Introduction

The FASB is currently finalizing its forthcoming ASU on consolidation. The ASU could have a significant impact on an investment manager's conclusion about whether it needs to consolidate a fund. Specifically, the amended guidance could affect an investment manager's evaluation of whether (1) the fees it receives result in the consolidation of a fund that is a variable interest entity (VIE), (2) funds established as limited partnerships and similar entities should be consolidated, and (3) variable interests held by the investment manager's related parties or de facto agents affect its consolidation conclusion.

Accordingly, investment managers will need to reevaluate their previous consolidation conclusions in light of their involvement with current VIEs, limited partnerships not previously considered VIEs, and entities previously subject to the deferral in ASU 2010-10. Although the FASB has completed its redeliberations related to the project, the guidance in the ASU may change significantly as a result of decisions made during the finalization process.

For additional information about the forthcoming ASU, see Deloitte's October 7, 2014, *Heads Up*.

Determining Whether Fees Paid to an Investment Manager Are Variable Interests

One of the first steps in assessing whether an investment manager is required to consolidate a fund is to determine whether the investment manager holds a variable interest in the fund being evaluated. While the ASU will retain the current definition of a variable interest, it modifies the criteria for determining whether an investment manager's fee is a variable interest.

Under current U.S. GAAP, six criteria must be met before an investment manager can conclude that its fee does not represent a variable interest. The ASU will eliminate the criteria related to subordination of the fees (ASC 810-10-55-37(b)) and significance of the fees (ASC 810-10-55-37(e) and (f)). Under the proposed requirements, the evaluation of whether fees paid to an investment manager are a variable interest would focus on whether (1) the fees "are commensurate with the level of effort," (2) the investment manager has any other direct or indirect interests (including indirect interests through its related parties) that absorb more than an insignificant amount of the fund's variability, and (3) the arrangement includes only customary terms.

It is expected that as a result of the modification of the criteria in ASC 810-10-55-37, fewer fee arrangements will be considered variable interests. In addition, eliminating the requirement to evaluate whether fees are subordinated (i.e., whether their level of priority is lower than that of other operating liabilities) could significantly affect managers of a CLO or CDO structure. That is, the junior or subordinated fee may no longer be considered a variable interest in the entity if the manager does not have any other interests in the entity and all of the remaining criteria in ASC 810-10-55-37 are met.

Limited Partnerships

Determining Whether a Limited Partnership Is a VIE

The ASU will amend the definition of a VIE for limited partnerships and similar entities only. Under the ASU, a limited partnership would be considered a VIE regardless of whether it has sufficient equity or meets the other requirements to qualify as a voting interest entity unless a single limited partner (LP) or a simple majority of all partners (including interests held by the general partner (GP) and its related parties) has substantive kick-out rights (including liquidation rights) or participating rights. As a result of the proposed amendments to the definition of a VIE for limited partnerships and similar entities, partnerships that historically were not considered VIEs may need to be evaluated under the new VIE consolidation model. Although the consolidation conclusion may not change, an updated analysis on the basis of the revised guidance would be required. In addition, even if a reporting entity determines that it does not need to consolidate a VIE, it would have to provide the existing extensive disclosures for any VIEs in which it holds a variable interest.

Consolidation of a Limited Partnership

Under current U.S. GAAP, a GP is required to perform an evaluation under ASC 810-20 to determine whether it controls a limited partnership that is not considered a VIE. This evaluation focuses on whether certain rights held by the unrelated LPs are substantive and overcome the presumption that the GP controls (and therefore is required to consolidate) the partnership. To overcome the presumption that the GP controls the partnership, the LPs (excluding interests held by the GP, by entities under common control of the GP, and by other entities acting on behalf of the GP) must have either (1) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the GP without cause (as distinguished from "with cause") or (2) substantive participating rights.

Like an entity's analysis under the current guidance in ASC 810-20, its analysis under the proposed guidance on determining whether the GP should consolidate a partnership that is not considered a VIE would focus on an evaluation of whether the kick-out, liquidation, or participating rights held by the other partners are considered substantive. Unlike current guidance, however, the FASB's tentative approach requires entities to assess interests held by the GP, by entities under common control of the GP, and by other entities acting on behalf of the GP. That is, the rights would be considered substantive if they can be exercised by a simple majority of all of the partners, including the GP.

Partnerships with a single LP or a simple majority (or a lower threshold) of all partners that do not have a substantive kick-out right or participating rights, would be VIEs. The evaluation of whether the GP should consolidate a limited partnership (or similar entity) that is considered a VIE would be performed in the same manner all other VIEs are analyzed and would take into account the GP's economic exposure to the VIE. Accordingly, unless a GP (or an entity under common control of the GP) has an interest in the partnership that could potentially be significant, the GP would generally not be required to consolidate a limited partnership if the partners do not have a substantive kick-out right or participating rights.

Investment Funds That Are Not a Limited Partnership (or a Similar Entity)

The ASU will eliminate the deferral under ASU 2010-10 for investment funds. Accordingly, while kick-out and participating rights may have been considered for entities that qualified for the deferral, for investment funds that are not limited partnerships (or similar entities), kick-out and participating rights will not be considered in the determination of whether the equity-at-risk group controls the fund unless they are held by a single party (including its related parties and de facto agents). As a result, an entity may become a VIE if the equity holders as a group are no longer considered to have "power" over the entity through their kick-out rights. Therefore, more funds could become VIEs under the ASU (particularly if the investment manager has other potentially significant interests in the fund).

Under current guidance, an investment manager's assessment of whether it is the primary beneficiary of a VIE (and therefore must consolidate the VIE) that qualifies for the deferral focuses on whether the investment manager absorbs the majority of the VIE's variability as determined through quantitative analysis. Under the ASU, the reporting entity would be required to consolidate a VIE if it has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance ("power") and (2) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. Accordingly, an investment manager that has power over a VIE, but did not previously consolidate a VIE because it did not absorb a majority of the VIE's variability, may be required to consolidate the VIE if it holds an economic interest that could potentially be significant to the VIE (e.g., a 15 percent equity interest in the VIE).

Money Market Funds

The ASU will eliminate the deferral in ASU 2010-10 for a reporting entity's interest in money market funds (MMFs). Instead of the deferral, the ASU will include a scope exception to the consolidation requirements for a reporting entity's interest in an entity that is required to comply, or operates in accordance, with requirements similar to those in Rule 2a-7 of the Investment Company Act for registered MMFs. The ASU will clarify the term "similar" and will require sponsors of MMFs that qualify for the scope exception to disclose any arrangements to provide support to the fund and whether they have provided any support during the periods presented.

Effective Date and Transition

The ASU will require modified retrospective application (including a practicability exception) with an option for full retrospective application. For public business entities, the ASU's guidance would be effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. For entities other than public business entities, the ASU's guidance would be effective for annual periods beginning after December 15, 2016, and interim periods beginning after December 15, 2017. The ASU would allow early adoption for all entities but would require application of its guidance as of the beginning of the annual period containing the adoption date.

Thinking It Through

Under the ASU, investment managers may identify more funds as VIEs (requiring the reporting entity to provide additional disclosures regardless of whether it consolidates the VIEs). At the same time, the ASU's changes to the guidance on (1) whether an investment manager's fees represent a variable interest and (2) how an investment manager assesses its related parties' interests in the VIE are likely to result in investment managers' consolidation of fewer VIEs. In addition, an investment fund that previously qualified for the deferral would need to be evaluated under the revised VIE consolidation requirements. For entities that are VIEs, the consolidation assessment would change from one that focuses solely on whether the investment manager absorbs a majority of the fund's expected losses or receives a majority of the fund's expected returns to one that focuses on whether the investment manager (1) possesses the power to direct the most significant activities of the fund and (2) has a potentially significant economic interest in the fund (a much lower threshold). As a result, an investment manager may be required to consolidate a fund that is considered a VIE.

Investment managers should start considering the extent to which they may need to change their processes and controls to apply the forthcoming guidance, including those related to obtaining additional information that may have to be provided under new disclosure requirements. Changing such processes and controls may be particularly challenging for entities that intend to early adopt the new guidance. In addition, investment managers should consider the effect of the revised guidance as they enter into new transactions.

Classification and Measurement

Recent Redeliberations

The FASB is no longer pursuing a converged approach to the classification and measurement of financial instruments. Instead, the Board has decided to retain existing requirements related to (1) the classification and measurement categories for financial instruments other than equity investments, (2) the method for classifying financial instruments, (3) bifurcation of embedded derivatives in hybrid financial assets, and (4) accounting for equity method investments (including impairment of such investments). However, the Board has discussed targeted improvements to the requirements related to accounting for equity investments and presentation of certain fair value changes for fair value option liabilities.

Classification and Measurement of Equity Investments

Under the FASB's tentative approach, entities will be required to carry all investments in equity securities that do not qualify for the equity method or a practicability exception at FVTNI. For equity investments that do not have a readily determinable fair value, the FASB would permit entities to elect the practicability exception to fair value measurement under which the investment would be measured at cost less impairment plus or minus observable price changes. This exception would not be available to reporting entities that are investment companies.

Impairment Assessment of Equity Investments That Are Measured by Using the Practicability Exception

In an effort to simplify the impairment model for equity securities for which an entity has elected the practicability exception, the FASB has tentatively decided to eliminate the requirement to assess whether an impairment of such an investment is other than temporary. In each reporting period, an entity would qualitatively consider certain indicators to determine whether the investment is impaired, including:

a. A significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee

b. A significant adverse change in the regulatory, economic, or technological environment of the investee

c. A significant adverse change in the general market condition of either the geographic area or the industry in which the investee operates

d. A bona fide offer to purchase, an offer by the investee to sell, or a completed auction process for the same or similar investment for an amount less than the cost of that investment

e. Factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.

An entity that determines that the equity security is impaired on the basis of an assessment of the above indicators would recognize an impairment loss equal to the difference between the security's fair value and carrying amount. In contrast, the existing guidance in ASC 320-10-35-30 requires entities to perform a two-step assessment under which an entity first determines whether an equity security is impaired and then evaluates whether any impairment is other than temporary.

Thinking It Through

Under existing U.S. GAAP, marketable equity securities other than equity-method investments (those for which the investor has significant influence over the investee) are classified as either held for trading (FVTNI) or available for sale (FVTOCI). For AFS equity securities, any amounts in accumulated OCI are recycled to net income upon sale or an other-than-temporary impairment. Investments in nonmarketable equity securities other than equity-method investments are measured at cost (less impairment) unless the fair value option has been elected. Because equity securities can no longer be accounted for as AFS securities or by using the cost method, investment managers that hold such equity investments could see more volatility in earnings under the proposed guidance.

Presentation of Fair Value Changes Attributable to Instrument-Specific Credit Risk for Fair Value Option Liabilities

The FASB has tentatively decided to introduce a new requirement related to the presentation of fair value changes of financial liabilities for which the fair value option has been elected. Under this tentative decision, an entity would be required to separately recognize in OCI the portion of the total fair value change attributable to instrument-specific credit risk. For derivative liabilities, however, any changes in fair value attributable to instrument-specific credit risk would continue to be presented in net income.

Under the FASB's tentative approach, an entity would measure the portion of the change in fair value attributable to instrument-specific credit risk as the excess of total change in fair value over the change in fair value "resulting from a change in a base market risk, such as a risk-free interest rate . . . . Alternatively, an entity may use another method that it considers to more faithfully represent the portion of the total change in fair value resulting from a change in instrument-specific credit risk." In either case, the entity would be required to disclose the method it "used to determine the gains and losses attributable to instrument-specific credit risk and [to] apply the method consistently from period to period."[15]

See Appendix A in Deloitte's August 8, 2014, *Heads Up* for a comparison of classification and measurement models under current U.S. GAAP and the FASB's tentative approach.

[15] Quoted text is from a handout for the April 23, 2014, FASB meeting.

Next Steps

Additional matters that the Board plans to discuss at future meetings include disclosures, transition, effective date, and cost/benefit considerations.

Thinking It Through

The proposed requirement to classify and measure equity securities at FVTNI could have a significant impact for 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 such 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 proposed guidance, however, investors will need to account for their investments in these funds at FVTNI (rather than recording the changes in FVTOCI, which would only be permitted if the investor held the bond or debt securities in the fund directly).

Leases

Background

The FASB has been working with the IASB for almost a decade to address concerns related to the off-balance-sheet treatment of certain lease arrangements by lessees. The boards' proposed model would require lessees to adopt a right-of-use (ROU) asset approach that would bring 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.

Thinking It Through

The boards have spent a significant amount of time trying to define a lease arrangement to help constituents identify whether an arrangement contains a lease or represents an agreement to provide a service. The boards' revised leases ED, released by the FASB as a proposed ASU in May 2013, defines a lease as "a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." The revised ED focuses on whether (1) the contract is based on an identified asset and (2) the lessee obtains the right to control the use of the asset for a particular period.

The boards' final definition of a lease will have a significant impact on whether an arrangement is within the scope of the new guidance. For example, arrangements to provide copier services or access to other "small ticket" items could ultimately be considered lease arrangements.

Lessee Accounting

While the boards agree that a lessee should record an ROU asset and a corresponding lease liability when the lease commences, the FASB and the IASB support different approaches for the lessee's subsequent measurement of the ROU asset. The FASB decided on a dual-model approach under which a lessee would classify a lease by using criteria that are similar to the lease classification criteria currently in IAS 17. For leases that are considered Type A leases (many current capital leases are expected to qualify as Type A), the lessee would account for the lease in a manner similar to a financed purchase arrangement. That is, the lessee would recognize interest expense and amortization of the ROU asset, which typically would result in a greater expense during the early years of the lease. For leases that are considered Type B leases (many current operating leases are expected to qualify as Type B), the lessee would recognize a straight-line total lease expense. For both Type A and Type B leases, the lessee would recognize an ROU asset for its interest in the underlying asset and a corresponding lease liability.

Thinking It Through

The proposed leasing guidance could significantly affect investment managers that currently account for their real estate leases as operating leases. Under the proposal, they would be required to record these arrangements in their statement of financial position. In addition, as a result of the proposal's requirement to classify real estate leases by using a dual-model approach with criteria that are similar to those in IAS 17, investment managers could potentially recognize a different expense profile in their income statement. Specifically, under the proposed IAS 17 approach, a lessee would be required to separately assess the classification of land and other elements of a property lease unless the land element is clearly immaterial. This change may result in the bifurcation of more real estate leases into separate land and building elements that would be separately evaluated for lease classification purposes.

Lessor Accounting

Earlier this year, the boards discussed constituent feedback on the ED 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 in ASC 840 and IAS 17. However, the FASB decided to align the U.S. GAAP classification requirements with the criteria in IAS 17. In addition, the FASB decided that for leases that are similar to current sales-type leases, the lessor would only be permitted to recognize the profit on the transaction if the arrangement would have qualified as a sale under the new revenue recognition guidance (ASC 606).

Next Steps

The FASB and IASB are expected to complete their redeliberations by early 2015 and, although they have not indicated a release date, are likely to issue final guidance during the second half of 2015. Although the boards have not indicated when the final guidance would be effective, a date as early as January 1, 2018, is possible. See Deloitte's March 27, 2014, *Heads Up* for additional information about the boards' tentative decisions in connection with the proposed lessee and lessor accounting models.

Disclosure Framework

Background

In July 2012, the FASB issued a discussion paper as part of its project to develop a framework to make financial statement disclosures "more effective, coordinated, and less redundant." The paper identifies aspects of the notes to the financial statements that need improvement and explores possible ways to improve them. See Deloitte's July 17, 2012, *Heads Up* for additional information. The FASB subsequently decided to distinguish between the "Board's decision process" and the "entity's decision process" for evaluating disclosure requirements.

FASB Decision Process

Overview

On March 4, 2014, the FASB released for public comment an ED of a proposed concepts statement that would add a new chapter to the Board's conceptual framework for financial reporting. The ED proposes a decision process to be used by the Board and its staff for determining what disclosures should be required in notes to financial statements. The FASB's objective in issuing the proposal is to improve the effectiveness of such disclosures by ensuring that reporting entities clearly communicate the information that is most important to users of financial statements. See Deloitte's March 6, 2014, *Heads Up* for additional information.

Summary of Comment-Letter Feedback

Comments on the FASB's ED were due by July 14, 2014. The FASB received over 50 comment letters from various respondents, including preparers, professional and trade organizations, and accounting firms. Respondents generally expressed support for the development of a conceptual framework for use in evaluating disclosure requirements that would apply to existing and future standards.

However, many respondents were concerned that the ED's "intentionally broad" proposed decision questions may result in excessive disclosure (which respondents had also noted in their comments on the discussion paper). Accordingly, many respondents suggested that the FASB use a filtering mechanism (e.g., based on cost and decision usefulness) to further narrow disclosure requirements.

Respondents also suggested that the FASB clarify the difference between relevance and materiality and align the definition of materiality in the FASB's concepts statement with that established by the Supreme Court.[16]

Further, many respondents encouraged the Board to work with regulatory bodies, such as the SEC, to develop requirements that result in disclosures that are more effective and less redundant in the overall financial reporting package.

Next Steps

The FASB will continue its redeliberations related to concerns raised in comment letters and will review feedback received as a result of its outreach activities, which included testing the entity's decision process against various Codification topics (see "Entity's Decision Process" below). A final concepts statement is expected to be issued after the outreach process is complete.

Entity's Decision Process

Topic-Specific Disclosure Reviews

The FASB staff is currently analyzing ways to "further promote [entities'] appropriate use of discretion" in determining proper financial statement disclosures. This process will take into account "section-specific modifications" to the following Codification topics:

ASC Topic	Status
820 (fair value measurement)	Testing in progress. Results discussed with Board.
330 (inventory)	Not started.
715 (defined benefit plans)	Testing in progress. Results discussed with Board.
740 (income taxes)	Not started.

A proposed ASU could be issued as a result of this process. No tentative decisions have been made on this matter to date.

16 Paragraph QC11 in Chapter 3 of FASB Statement of Financial Accounting Concepts No. 8 states that "[i]nformation is material if omitting it or misstating it could influence decisions that users make on the basis of the financial information of a specific reporting entity." Further, PCAOB AS 11 explains that "[i]n interpreting the federal securities laws, the Supreme Court of the United States has held that a fact is material if there is 'a substantial likelihood that the . . . fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available.' As the Supreme Court has noted, determinations of materiality require 'delicate assessments of the inferences a "reasonable shareholder" would draw from a given set of facts and the significance of those inferences to him'" (footnotes omitted).

Thinking It Through

The financial statements of investment managers often contain lengthy fair value measurement disclosures. The FASB is currently using the ED's conceptual framework to test ASC 820 and expects that disclosures will ultimately be reduced as a result (i.e., by identifying disclosures that are beyond the scope of the conceptual framework).

During deliberations, the FASB discussed the Level 3 rollforward. The ED's decision question L7 contains information to be considered for disclosure, including "the causes of changes from the prior period (such as major inflows and outflows summarized by type or a detailed roll forward)," which may imply that a rollforward (or similar information) is required for each significant balance sheet line item.

In addition, the February 2014 post-implementation review report on FASB Statement 157 stated that "preparers and practitioners are concerned with the decision-usefulness of the Statement 157 disclosures. They cited concerns about disclosure overload, particularly as it relates to Level 3 disclosures, including the Level 3 rollforward."

At its September 2014 meeting, the Board discussed the following:

- Adding disclosures about:
  - Alternative measures.
  - Gains and losses.
- Modifying disclosures about:
  - The Level 3 rollforward. During deliberations, it was acknowledged that performing the rollforward every quarter was difficult (see the Interim Reporting section for further discussion).
  - Transfers between Level 1 and Level 2.
  - The policy for timing of transfers between levels.
  - Valuation process for Level 3 fair value measurements.
  - Sensitivity information.
  - Estimates of timing of future events.

No decisions were made, and the views of Board members were mixed. Board members also indicated that they would need to assess whether users would prefer (1) the application of materiality on a company basis or (2) uniform disclosures among all companies (including immaterial items).

Interim Reporting

The FASB deliberated modifications to the guidance on interim reporting. The Board tentatively decided that an update to an annual footnote disclosure is warranted as of an interim period if the update would alter the "total mix" of information available to investors. This is consistent with the guidance in SAB 99, which is based on a Supreme Court ruling.[17]

During future redeliberations on interim reporting, the Board will continue reviewing comment-letter feedback on the ED.

[17] TSC Industries v. Northway, Inc., 426 U.S. 438, 449 (1976). See also Basic, Inc. v. Levinson, 485 U.S. 224 (1988).

Debt Issuance Costs

On October 14, 2014, the FASB issued a proposed ASU that would change the presentation of debt issuance costs in the financial statements. Under the proposal, an entity would be required to present such costs in the balance sheet as a direct deduction from the debt liability in a manner consistent with its accounting treatment of debt discounts. Amortization of the issuance costs would be reported as interest expense.

The proposed guidance would replace the guidance in ASC 835-30 that requires an entity to report debt issuance costs in the balance sheet as deferred charges (i.e., as an asset). It would also align U.S. GAAP on this topic with IFRSs, under which transaction costs that are directly attributable to the issuance of the liability are treated as an adjustment to the initial carrying amount of the financial liability.

Comments on the proposal are due by December 15, 2014. For more information about the proposed ASU, see Deloitte's October 14, 2014, *Heads Up*.

Liabilities and Equity — Short-Term Improvements

In November 2014, the FASB voted to move part of its current research project on liabilities and equity to its active agenda. Specifically, the FASB decided to add a project addressing (1) practice issues related to ASC 815-40 and (2) targeted improvements to the organization of the related Codification topics.

To date, no technical decisions have been made in the project.

Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items

As part of its simplification initiative, the FASB issued a proposed ASU that would remove from U.S. GAAP the concept of extraordinary items and therefore eliminate the requirement for entities to separately present such items on the income statement and disclose them in the footnotes. Currently, extraordinary items (1) are unusual in nature and (2) occur infrequently. The proposed ASU retains the reporting and disclosure requirements for an event that demonstrates either of those characteristics. Accordingly, users of financial statements would continue to be informed about unusual or infrequent events after the concept of extraordinary items is eliminated.

The FASB believes that eliminating the concept would also improve the efficiency of the financial reporting process since it would relieve entities from having to identify extraordinary items and comply with associated presentation and disclosure requirements.

In October 2014, the FASB voted to issue final guidance in an ASU. The Board tentatively decided to allow either prospective or retrospective application of the guidance. For all entities, the ASU will be effective for periods beginning after December 15, 2015. Early adoption is permitted. If an entity early adopts the guidance, it must be applied from the beginning of the reporting period in the year of adoption.

Other Topics

COSO Framework

Background

Since the Committee of Sponsoring Organizations of the Treadway Commission issued an updated version of its *Internal Control — Integrated Framework* (the "2013 Framework") in May, 2013,[1] companies have been taking steps to implement it by December 15, 2014. While the internal control components[2] in the 2013 Framework are the same as those in the original framework issued in 1992, the updated framework requires companies to assess whether 17 principles underlying five components are present and functioning in determining whether their system of internal control is effective. Further, the 17 principles are supported by points of focus, which are important considerations in a company's evaluation of the design and operating effectiveness of controls to address the principles.

These changes will result in the need for entities to develop a different deficiency evaluation process. From an ICFR perspective, when one or more of the 2013 Framework's 17 principles are not present and functioning, a major deficiency exists, which equates to a material weakness under Section 404 of the Sarbanes-Oxley Act.[3]

See Deloitte's September 5, 2014, *Heads Up* for additional discussion of challenges and leading practices related to implementing the new framework, including observations and perspectives regarding its application for operational and regulatory compliance purposes.

Thinking It Through

Public investment managers have been taking steps to implement the 2013 Framework. Such implementation may raise regulators' expectations of nonpublic investment managers and may give those entities an opportunity to examine the adequacy of their internal controls and potentially increase the effectiveness of their operations, compliance, and financial reporting.

Further, the 2013 Framework's considerations related to outsourced service providers (OSPs) may affect investment funds that rely on OSPs. Funds should have processes for evaluating SSAE 16 reports obtained from service organizations to address the control activities component of the 2013 Framework as well as formal and auditable controls to address the OSP considerations related to the other four components of the framework (e.g., controls over the communication of expectations regarding the code of conduct, responsibilities, and authority; and controls for monitoring service-level agreements and communications).

SEC Rules

Background

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

[1] See Deloitte's June 10, 2013, *Heads Up* for an overview of the 2013 Framework.

[2] Control environment, risk assessment, control activities, information and communication, and monitoring activities.

[3] The 2013 Framework contains the following new guidance on a major deficiency in internal control:

> "When a major deficiency exists, the organization cannot conclude that it has met the requirements for an effective system of internal control. A major deficiency exists in the system of internal control when management determines that a component and one or more relevant principles are not present or functioning or that components are not operating together. A major deficiency in one component cannot be mitigated to an acceptable level by the presence and functioning of another component. Similarly, a major deficiency in a relevant principle cannot be mitigated to an acceptable level by the presence and functioning of other principles."

SEC and Other Government Agencies Issue Final Rule on Credit Risk Retention

On October 22, 2014, the SEC and five other federal agencies[4] adopted a final rule that requires sponsors of securitizations, under certain conditions, to retain a portion of the credit risk associated with the assets collateralizing an asset-backed security (ABS).[5]

The rule was initially proposed in April 2011 and reproposed in September 2013. Both proposals received significant feedback, much of it negative. In response, the final rule eliminates the proposed cash flow restriction on eligible horizontal residual interests and the need to perform a fair value calculation to determine an eligible vertical interest (but retains the requirement for a horizontal interest). However, the rule does not address a number of concerns, such as the request by many constituents that the requirements provide a broad exemption for "open-market CLOs" in which the underlying assets are acquired in the market rather than originated by the sponsor.

Under the final rule, sponsors of securitizations would be:

- Required to retain no less than 5 percent of the credit risk of assets within an ABS offering.
- Prohibited from financing (other than on a full recourse basis), hedging or transferring the credit risk they are required to retain.

Thinking It Through

The risk retention requirements include restrictions on the sponsor's ability to transfer the credit risk it has retained. Under the requirements, a sponsor is prohibited from transferring any interest that it was required to retain under the rule to any person **other than a majority-owned affiliate**. The majority-owned affiliate requirement is receiving much attention. Of particular interest to constituents is whether a manager could comply with the risk retention rule by transferring the retained interest to a consolidated affiliate (i.e., the sponsor either owns a majority (51 percent) stake or a controlling interest under the VIE or limited partnership requirements) whose third-party investors own the other interests in the consolidated affiliate. If so, the sponsor's exposure could be effectively decreased (below 5 percent) when a portion of the risk is absorbed by the third-party investors of the consolidated affiliate.

The final rule permits sponsors of securitizations to select the form of risk retention obligation, which could be:

1. An eligible vertical interest (a proportionate 5 percent interest in every tranche of a securitization).
2. An eligible horizontal residual interest (an interest in the first loss tranche of a securitization with a market value equal to at least 5 percent of the market value of all the securities issued).
3. A combination of both or "L-shaped" interest (the combined interest is no less than 5 percent of the market value of all securities issued).

The final rule also includes a number of exemptions to the requirements related to 5 percent risk retention. For example, an ABS that is collateralized solely by "qualified residential mortgages" is exempt from the risk retention requirements.

[4] The other federal agencies are the Office of the Comptroller of the Currency in the Department of the Treasury, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, and the Department of Housing and Urban Development.

[5] The final rule was issued in response to a mandate of Section 941 of the Dodd-Frank Act, which added new credit risk retention requirements to Section 15G of the Exchange Act.

Thinking It Through

A sponsor is required to consolidate a VIE[6] if, under ASC 810-10-25-38A, it has a controlling financial interest in the entity. A reporting entity has a controlling financial interest in a VIE if it has both of the following characteristics:

a. The power to direct the activities of a VIE that most significantly impact the VIE's economic performance

b. 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**. The quantitative approach described in the definitions of the terms expected losses, expected residual returns, and expected variability is not required and shall not be the sole determinant as to whether a reporting entity has these obligations or rights. [Emphasis added]

Typically, the sponsor of a securitization structure has the power over the relevant activities of the entity (e.g., the sponsor acts as the special servicer or collateral manager of the entity). Consequently, the sponsor's consolidation conclusion will hinge on its economic exposure to the entity (under ASC 810-10-25-38A(b)) and whether its exposure could potentially be significant. While the term "could potentially be significant" is not defined in ASC 810, if the variability absorbed through the sponsor's fee arrangement and its other variable interests in the VIE exceeds, either individually or in the aggregate, 10 percent of the variability of the VIE, the condition in ASC 810-10-25-38A(b) would generally be considered met. The 10 percent threshold should not be viewed as a bright-line or safe-harbor definition of "insignificant," and entities should consider all facts and circumstances.

The type of interest retained by the sponsor (i.e. vertical, horizontal, or L-shaped) will affect the sponsor's economic exposure to the securitization structure and, accordingly, the sponsor's consolidation conclusion. If a sponsor holds the subordinate horizontal tranche of a securitization structure rather than a vertical interest (or a combination), there is a greater risk that the structure would be consolidated by the sponsor under ASC 810. An entity's evaluation should take into account the sponsor's interests retained under the risk retention requirements in addition to any other interests held by the sponsor (e.g., fee arrangements and other interests). For more information, see the October 24, 2014, *Deloitte Accounting Journal* entry and the press release on the SEC's Web site. In addition, see the Consolidation section for information on the FASB's proposed changes to the consolidation requirements.

SEC Issues Proposed Rule Related to Treatment of Certain Communications Involving Security-Based Swaps

On September 8, 2014, the SEC issued a proposed rule under which "the publication or distribution of price quotes relating to security-based swaps that may be purchased only by persons who are eligible contract participants and are traded or processed on or through a facility that either is registered as a national securities exchange or as a security-based swap execution facility, or is exempt from registration as a security-based swap execution facility pursuant to a rule, regulation, or order of the Commission, would not be deemed to constitute an offer, an offer to sell, or a solicitation of an offer to buy or purchase such security-based swaps or any guarantees of such security-based swaps that are securities for purposes of Section 5 of the Securities Act."

Comments on the proposed rule were due by November 10, 2014.

[6] ABSs are typically considered VIEs because they do not have sufficient equity at risk (in accordance with ASC 810-10-15-14(a)) or the power to direct the entity's activities are granted through a contract unrelated to an equity investment (in accordance with ASC 810-10-15-14(b)(1)).

SEC Issues Final Rule on Asset-Backed Securities

On September 4, 2014, the SEC issued a final rule that is intended to enhance the disclosure requirements for ABSs. Specifically, the final rule requires "loan-level disclosure for certain assets, such as residential and commercial mortgages and automobile loans" and gives investors more time "to review and consider a securitization offering, revise[s] the eligibility criteria for using an expedited offering process known as 'shelf offerings,' and make[s] important revisions to reporting requirements."

The final rule will become effective on November 24, 2014.

For more information, see the September 3, 2014, Deloitte Accounting Journal entry and the press release on the SEC's Web site.

SEC Issues Final Rule on Nationally Recognized Statistical Rating Organizations

On August 27, 2014, the SEC issued a final rule that revises the requirements for NRSROs in response to a mandate of the Dodd-Frank Act. The amendments "address internal controls, conflicts of interest, disclosure of credit rating performance statistics, procedures to protect the integrity and transparency of rating methodologies, disclosures to promote the transparency of credit ratings, and standards for training, experience, and competence of credit analysts." The ultimate objective of these new requirements is "to enhance governance, protect against conflicts of interest, and increase transparency to improve the quality of credit ratings and increase credit rating agency accountability."

The final rule will become effective on November 14, 2014.

For more information, see the September 3, 2014, Deloitte Accounting Journal entry and the press release on the SEC's Web site.

SEC Issues Final and Proposed Rules Related to Money Market Funds

On July 23, 2014, the SEC issued a final rule that amends the way MMFs are regulated. The rule eliminates the use of penny rounding for institutional nongovernment MMFs and establishes a current NAV — or floating NAV — like that used in other mutual funds. Government and retail MMFs may continue using amortized cost to value a fund´s investments instead of calculating the fund´s value by using a floating NAV (i.e., they may continue to use a stable NAV, which is typically $1).

The final rule notes that MMFs with floating NAVs will be permitted to "continue to use amortized cost to value debt securities with remaining maturities of 60 days or less if fund directors, in good faith, determine that the fair value of the debt securities is their amortized cost value, unless the particular circumstances warrant otherwise." The final rule also includes provisions related to redemption gates and liquidity fees.

The SEC has also issued a reproposed rule related to (1) MMF communications to investors and (2) the replacement of credit rating references in Rule 2a-7 and Form N-MFP with other factors a fund would use to assess liquidity and creditworthiness of investments to comply with Section 939A of the Dodd-Frank Act.

The final rule became effective on October 14, 2014. Comments on the proposed rule were also due by October 14, 2014.

For more information, see the July 24, 2014, Deloitte Accounting Journal entry and the press release on the SEC's Web site.

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

On June 26, 2014, the SEC issued a final rule that explains "when a cross-border transaction must be counted toward the requirement to register as a security-based swap dealer or major security-based swap participant." In addition, the rule addresses "the scope of the SEC's cross-border anti-fraud authority."

The final rule became effective September 8, 2014.

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

SEC Issues FAQs on Broker-Dealers

In April 2014, the SEC's Division of Trading and Markets issued two sets of FAQs (April 4 and April 15) that offer interpretive guidance on certain aspects of the broker-dealer provisions in the Exchange Act. The April 4 FAQs cover questions related to the SEC's July 30, 2013, final rule on the financial responsibility requirements for broker-dealers (specifically the amendments to Rule 17a-5), while the April 15 set addresses risk management controls for broker-dealers with market access under Rule 15c3-5, as outlined in the SEC's November 3, 2010, final rule on this topic.

SEC Proposes Rule for Covered Clearing Agencies

On March 12, 2014, the SEC issued a proposed rule that would amend the Exchange Act to establish additional regulations for "covered clearing agencies" (i.e., certain types of SEC-registered clearing agencies) that (1) the Financial Stability Oversight Council deems "systemically important" or (2) participate in "more complex transactions" (e.g., securities-based swaps). The new requirements would affect such agencies' financial risk management, operations, governance, and disclosures.

Comments on the proposed rule were due by May 27, 2014.

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

SEC Extends Exemptions Related to Security-Based Swaps

On February 7, 2014, the SEC published amendments extending the expiration date for "interim final rules that provide exemptions under the Securities Act of 1933, the Securities Exchange Act of 1934, and the Trust Indenture Act of 1939 for those security-based swaps that [1] prior to July 16, 2011 were security-based swap agreements and [2] are defined as 'securities' under the Securities Act and the Exchange Act as of July 16, 2011 due solely to the provisions of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act." The amendments affect the following interim final rules:

- Rule 240 of the Securities Act.
- Rules 12a-11 and 12h-1(i) of the Exchange Act.
- Rule 4d-12 of the Trust Indenture Act.

The new expiration date for the interim final rules is February 11, 2017.

SEC Issues Risk Alert on Investment Advisers' Use of Due Diligence

On January 28, 2014, the SEC's Office of Compliance Inspections and Examinations issued a risk alert summarizing its observations regarding the due-diligence procedures investment advisers follow when "recommending alternative investments to their clients." The SEC staff's observations fall into two main categories: (1) trends in investment advisers' due-diligence processes and (2) the extent to which the advisers have complied with applicable rules and regulations, including the Investment Advisers Act and the advisers' own codes of ethics that the Commission mandates for SEC-registered advisers.

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

SEC Issues Final Rule and Interpretive Guidance Related to Rules for Registration of Municipal Advisers

On January 13, 2014, the SEC issued a final rule granting a temporary stay on the Commission's rules for registration of municipal advisers, which "require municipal advisors to register with the Commission if they provide advice to municipal entities or certain other persons on the issuance of municipal securities, or about certain investment strategies or municipal derivatives." The new date by which municipal advisers must comply with the rules is June 1, 2014. The temporary stay is effective as of January 13, 2014.

In addition, on January 10, 2014, the SEC issued a series of FAQs in response to questions the Commission has received from market participants about the municipal adviser registration rules. Topics covered in the FAQs include:

- Content that entities are permitted to provide to a municipal entity to avoid having to register as a municipal adviser.
- How to provide a request for proposals or request for qualifications that is consistent with the exemption to the definition of a municipal adviser.
- Requirements for the independent registered municipal adviser exemption.
- Exclusions related to underwriters and registered investment advisers.
- Whether a broker-dealer that served as underwriter for an issuance of municipal securities can continue to rely on the underwriter exemption after the issuance and the underwriting period.
- Whether advice provided by remarketing agents is within the scope of the underwriter exclusion.
- Opinions offered by public officials and citizens.
- Effective and compliance dates of the final rules.

For more information, see the January 10, 2014, and January 13, 2014, press releases on the SEC's Web site.

SEC Releases Examination Priorities for 2014

On January 9, 2014, the SEC's Office of Compliance Inspections and Examinations published a document highlighting the Commission's examination priorities for 2014. The objective of the document is to inform SEC registrants and investors about issues that the Commission is planning to focus on for the remainder of the year. These issues include fraud detection and prevention, corporate governance and conflicts of interest, new laws and regulations, and the Commission's programs for investment advisers.

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

SEC Implements Volcker Rule

On December 10, 2013, the SEC, OCC, FDIC, and Federal Reserve jointly issued a final rule to implement Section 619 of the Dodd-Frank Act (also known as the "Volcker Rule"). The final rule "contains certain prohibitions and restrictions on the ability of a banking entity and nonbank financial company supervised by the [Federal Reserve] to engage in proprietary trading and have certain interests in, or relationships with, a hedge fund or private equity fund."

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

Appendixes

Appendix A — Glossary of Standards and Other Literature

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

AICPA Literature

Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*

FASB ASC References

For titles of *FASB Accounting Standards Codification* references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

FASB Accounting Standards Updates and Other FASB Literature

See the FASB's Web site for the titles of:

- Accounting Standards Updates.
- Proposed Accounting Standards Updates (exposure drafts and public comment documents).
- Pre-Codification literature (Statements, Staff Positions, EITF Issues, and Topics).
- Concepts Statements.

PCAOB Literature

PCAOB AU Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

PCAOB Auditing Standard No. 11, *Consideration of Materiality in Planning and Performing an Audit*

SEC Final Rules

33-9616, *Money Market Fund Reform; Amendments to Form PF*

33-9638, *Asset-Backed Securities Disclosure and Registration*

34-63241, *Risk Management Controls for Brokers or Dealers With Market Access*

34-70072, *Financial Responsibility Rules for Broker-Dealers*

34-71288, *Registration of Municipal Advisors; Temporary Stay of Final Rule*

34-72472, *Application of "Security-Based Swap Dealer" and "Major Security-Based Swap Participant Definitions to Cross-Border Security-Based Swap Activities"*

34-72936, *Nationally Recognized Statistical Rating Organizations*

34-73407, *Credit Risk Retention*

BHCA-1, *Prohibitions and Restrictions on Proprietary Trading and Certain Interests In, and Relationships With, Hedge Funds and Private Equity Funds*

SEC Interim Rule

33-9545, *Extension of Exemptions for Security-Based Swaps*

SEC Proposed Rules

33-9643, *Treatment of Certain Communications Involving Security-Based Swaps That May Be Purchased Only by Eligible Contract Participants*

34-71699, *Standards for Covered Clearing Agencies*

IC-31184, *Removal of Certain References to Credit Ratings and Amendment to the Issuer Diversification Requirement in the Money Market Fund Rule*

SEC Staff Accounting Bulletins

SAB 99, codified as SAB Topic 1.M, "Materiality"

SAB Topic 13, "Revenue Recognition"

International Standards

See Deloitte's IAS Plus Web site for the titles of:

- International Financial Reporting Standards.
- International Accounting Standards.
- Exposure documents.

Appendix B — Abbreviations

Abbreviation	Description
ABS	asset-backed security
AFS	available for sale
AICPA	American Institute of Certified Public Accountants
ASC	FASB Accounting Standards Codification
ASU	FASB Accounting Standards Update
CDO	collateralized debt obligation
CDSC	contingent deferred sales charge
CFE	collateralized financing entity
CLO	collateralized loan obligation
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
ED	exposure draft
EITF	Emerging Issues Task Force
FAQs	frequently asked questions
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FVTNI	fair value through net income
FVTOCI	fair value through other comprehensive income
GAAP	generally accepted accounting principles
GP	general partner
IAS	International Accounting Standard
IASB	International Accounting Standards Board

Abbreviation	Description
ICFR	internal control over financial reporting
IFRS	International Financial Reporting Standard
LP	limited partner
MMF	money market fund
NAV	net asset value
NRSROs	nationally recognized statistical rating organizations
OCC	Office of the Comptroller of the Currency (U.S. Department of the Treasury)
OCI	other comprehensive income
OSP	outsourced service providers
PCAOB	Public Company Accounting Oversight Board
repos	repurchase agreements
RIC	registered investment company
ROU	right of use
SAB	SEC Staff Accounting Bulletin
SEC	Securities and Exchange Commission
TBA	to be announced
TRG	Transition Resource Group
SSAE	AICPA Statement on Standards for Attestation Engagements
VIE	variable interest entity

The following is a list of short references for the Acts mentioned in this publication:

Abbreviation	Act
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
Exchange Act	Securities Exchange Act of 1934
Investment Advisers Act	Investment Advisers Act of 1940
Sarbanes-Oxley Act	The Sarbanes-Oxley Act of 2002
Securities Act	Securities Act of 1933
Trust Indenture Act	Trust Indenture Act of 1939

Appendix C — Other Resources

Deloitte Publications

Register to receive other Deloitte industry-related publications by going to www.deloitte.com/us/subscriptions, choosing the Industry Interests category, and checking the boxes next to your particular interests. Publications pertaining to your selected industry (or industries), along with any other Deloitte publications or webcast invitations you choose, will be sent to you by e-mail.

Dbriefs

We also offer *Dbriefs* webcasts, which feature discussions by Deloitte professionals and industry specialists on critical issues that affect your business. Aimed at an executive-level audience, *Dbriefs* are designed to be timely, relevant, interactive, convenient, and supportive of your continuing professional education objectives. For more information about *Dbriefs*, please visit www.deloitte.com/us/dbriefs.

Technical Library and US GAAP Plus

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In addition, be sure to visit US GAAP Plus, our free Web site that features accounting news, information, and publications with a U.S. GAAP focus. It contains articles on FASB activities and updates to the *FASB Accounting Standards Codification*™ as well as developments of other U.S. and international standard setters and regulators, such as the PCAOB, the AICPA, the SEC, the IASB, and the IFRS Interpretations Committee. Check it out today!