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FINANCIAL REPORTING & REGULATORY UPDATE

FIRST QUARTER 2018

Welcome to the quarterly Financial Reporting and Regulatory Update, prepared by the Financial Executives Research Foundation (FERF) in collaboration with Crowe Horwath LLP.

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CONTENTS

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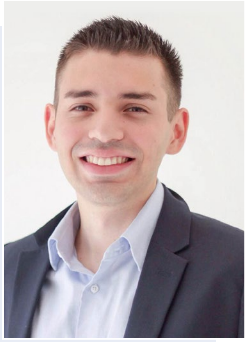
1.1

Lease Accounting Change Faces Real-World Challenges

A Q&A With Simon Little and Luis Lopez Garay of Crowe Horwath LLP

Simon Little

Simon Little is a senior manager in the Crowe risk advisory practice. He has more than 12 years of risk management experience and co-leads the Crowe accounting advisory practice advising clients on accounting guidance implementation with a focus on revenue recognition and lease accounting.



Luis Lopez Garay

Luis Lopez Garay is a senior consultant in the Crowe performance consulting practice. Mr. Lopez Garay started his career auditing publicly traded companies for several years and has recently moved to the Crowe technology arm with a new focus on creating tools to address technical accounting matters such as lease accounting and revenue recognition.

A Q&A With Simon Little and Luis Lopez Garay of Crowe Horwath LLP

During the first quarter of 2018 and into the remainder of the year, senior-level financial executives are finding themselves working through implementation of the new lease accounting standard. With revenue recognition in the rearview mirror for many public companies, the financial suite is discovering new and unique challenges when it comes to lease accounting changes.

The Financial Executive Research Foundation (FERF) spoke with Simon Little, senior manager with the Crowe risk advisory practice, and Luis Lopez Garay, senior consultant with the Crowe performance consulting practice.

Financial Executives Research Foundation: Several recent surveys reveal that few financial executives feel prepared to implement the new lease accounting standard. Where do you feel are the greatest pain points when it comes to implementation?

SIMON LITTLE: I think at the moment a lot of people are quite comfortable with the implementation of the revenue recognition standard. Several organizations probably are tapping the brakes on the leasing standard. We talked to a lot of organizations that tried to get out ahead of it, and then we followed up with them and found that they put it on the back burner.

I'm anticipating a lot of organizations are going to have the same response they did to rev rec: kicking the can down the road and then finding themselves scrambling to get implementation in place.

For leasing implementation, organizations first have to go about understanding where all their leases are. And it's all operating leases – not just real estate leases but those for copiers, printers, and computers that may be leased throughout the organization. Companies have to assess whether they have a process that can support the new lease standard going forward.

Many of the companies we started to talk to understand the two big aspects of the new standard: Operating leases are going on the balance sheet, and they probably will need software to help with that. But what they don't know at the moment is what all their operating leases are. And so, organizations are scrambling to figure out where they can initiate a lease. Where can they modify a lease? Where do all their leases reside? How is that going be affected under the new standard? How are they going to adapt their existing process to be able to take into consideration the accounting?

I definitely think organizations are behind. They have to put in a little more thought because this is an ongoing exercise. Organizations are going to have to implement new processes, new controls, and new systems down the road to do the accounting appropriately. And that may include additional resources that go on into the future.

I think pain points right now are just understanding answers to some questions: What's the total population of leases that are going be affected? Where do they start? How do they gather that information? How do they evaluate that? And then once they do, what's the impact on the entire process? Are they going to centralize it all? Or are they going to still have it decentralized and have each of the individual business units be able to engage the leases? And then if they do that, how's the new system going be implemented around it?

LUIS LOPEZ GARAY: I think that one of the largest challenges right now is that companies are really just focused so heavily on revenue recognition. Because of that, they're going to start almost in a delay with the lease accounting standard. I would encourage companies to pick up the lease accounting implementation effort as soon as they can. We know that the accounting department is going to be busy. We know that they are staffed to the max with the revenue recognition standard. But they should get started as early as possible so that they can be properly prepared for the upcoming deadlines.

A Q&A With Simon Little and Luis Lopez Garay of Crowe Horwath LLP

FERF: What industries or sectors do you see as the most advanced, and challenged, when it comes to lease accounting implementation?

LOPEZ GARAY: I've seen in the market that retailers and the transportation industry are definitely the most affected by the new standard. And this is because historically these are the industries that have a larger share of operating leases as a portion of their overall lease portfolio. However, because these operating leases are such an important portion of their ongoing operations, most of these companies and these industries have a good handle on their lease portfolio. And so a lot of these companies have lease accounting software in place. They have a centralized way to manage all their leases.

What we've seen in the market so far is that a lot of companies – especially manufacturing companies or other companies where the primary business is centered not around leases but around inventory – will have a lot of hidden leases, and they usually don't have any processes. They don't have any central repository for their leases, and those are the companies that will see the most effect. I think it's just because they are not as prepared as retailers and transportation companies are. They just don't have as good a handle on their operating leases right now.

LITTLE: I think another area to watch out for are larger organizations that acquired many smaller organizations and allowed them to operate independently. They are going to struggle with the standard. We have seen companies with several new acquisitions, and that means several new processes for initiating and modifying leases. Those companies have said, "We need to understand where all our leases are."

I think any decentralized organization is going to struggle with this. Ones that don't focus on having operating leases as a main component of their business are going to go out and do some training and do some research into all the potential leases that they have engaged into and what expenses they are seeing under the profit and loss statement that they need to find contracts for and ensure they get into whatever system they decide to implement?

Some organizations are well-managed when it comes to leases and have a centralized function, and those organizations tend to have a lot of real estate leases.

Others are very decentralized with a lot of individual divisions, groups, and operation timelines. That's going to create a lot of headaches when it comes to the accounting because the organization needs to know what point each lease is in the lease life. So that requires knowing the location of all leases, contracts, and potential embedded leases. And this is before even getting down to start tackling other areas such as what embedded leases exist, what options require estimates, and how often lease renewals happen.

FERF: How would you describe the technology vendors' ability to support implementation plans? Are they ready?

LOPEZ GARAY: I think that's a very important consideration companies should keep in mind when selecting their lease accounting vendor.

I like to draw an analogy here to get my point across. Many executives have hired outside firms in the past to perform a valuation on a new business they purchased or on a fixed asset. Part of the selection process is checking the credentials of the valuation experts. Organizations have to have the same mindset when selecting lease accounting software.

Companies and executives need to understand who is behind the system. A lot of the lease accounting software that's out there started as lease administration software. So these vendors have a lot of property managers and real estate executives behind their leasing software. When looking at vendors, companies really ought to make sure that the software can handle complex lease accounting, including modifications and early terminations. It would help to understand how the vendor employs technical accounting expertise to interpret the accounting guidance and translate it into software.

A Q&A With Simon Little and Luis Lopez Garay of Crowe Horwath LLP

FERF: How would you describe the technology vendors' ability to support implementation plans? Are they ready? (cont.)	**LITTLE:** The only other aspect when it comes to software is understanding what capabilities are needed and scaling the software to meet those needs. So many service offerings exist right now; it's important to make sure that a vendor has some backing when it comes to the accounting space. Two types of organizations are coming at this. Some have a prior accounting focus, and some have a prior lease management focus. I think both are coming with good products. Organizations just need to think about which one meets their needs the best and whether they want to have some more of that lease functionality or just want to be really solid on accounting. And then they must determine what kind of functionality they want with regards to accessibility. Do they want to host or allow people to access via the web? Do they want it monitored and used by one group within the organization, or should multiple business units and accounting groups throughout the organization have access? Also, how will the company's management be able to assess and evaluate the processes and controls relevant to the software? Those are considerations that companies should go through before they even get to the software selection stage and start evaluating different software capabilities.
Has the Financial Accounting Standards Board's practical expedient proposal (from January 2018) for the lease accounting transition given enough breathing room for some preparers to implement the changes?	**LITTLE:** I think the portion of the proposal for transition relief, which we expect to be finalized by the FASB soon, definitely makes things easier having an option to adopt the standard through a cumulative effect adjustment in the period of adoption and not having to worry about grossing up the balance sheet in prior periods. While it may give organizations a reprieve within the transition process, I think the overall process remains significant. That's because it is just eliminating a portion of leases that companies were engaged in before the transition date. But they still have to go through all the process improvements, all the software implementations, and the reviews of the existing leases at transition. If they don't have the transition relief, organizations will have to account for the existing leases in the comparative period. It definitely does provide a little leniency. I think people feel more familiar with it because it aligns a little more with the revenue recognition approach of having the option to transition comparatively or in the period of adoption. **GARAY:** I think it does allow for some more breathing room, but comparability of financial statements also is important. And if companies do choose the optional cumulative effect approach as opposed to the modified retrospective, the year-to-year comparison will go away in the year of adoption. That is something companies will have to weigh.

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FERF: Will the lease accounting changes affect the way some companies do business? If so, where do you see the greatest impact?

LITTLE: The changes are better for the investors. But I also think they're going to drive improvements within organizations.

As they start to evaluate their lease initiatives and modification processes, organizations are starting to understand their individual leases and where they can find efficiencies in dealing with particular vendors, consolidating real estate, centralizing the population of agreements, and then streamlining processes and approvals. They certainly are going to be able to monitor costs and find synergies when engaging in new leases going forward. They'll be able to pull information from and get analytics out of centralized data, which I think is always a great thing for companies to improve on their operations.

The changes are going to benefit a lot of organizations – some more than others. I think the ones that are less mature in the lease accounting space or even the lease management space are probably going to benefit more than those companies Luis talked about earlier: the retailers and transportation companies that are pretty well-managed in those areas. But even those companies might start to see improvements in areas that they hadn't focused on before because they're going through this exercise. Anytime we implement one of these standards – and revenue recognition has proved this as well – it's a great way for organizations to re-examine things they haven't looked at in a long time. They're re-evaluating adjustments. They're educating their people on processes, and out of that always comes new efficiencies and better ways of doing business.

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2.1
FIRST QUARTER 2018

KEEPING YOU INFORMED

ACCOUNTING AND FINANCIAL REPORTING DEVELOPMENTS

During the first quarter of the 2018 calendar year, the Financial Accounting Standards Board (FASB) proposed and finalized a standard to provide an income tax accounting accommodation related to the recent federal income tax reform law, and it codified the Securities and Exchange Commission's (SEC's) disclosure guidance related to accounting for tax reform. The board issued three other final Accounting Standards Updates (ASUs) – one related to lease accounting and two related to classification and measurement of financial instruments.

The focus of SEC actions included cybersecurity disclosures and other technology-related matters.

This article covers these highlights from the quarter and more from the Public Company Accounting Oversight Board (PCAOB), the Center for Audit Quality (CAQ), the American Institute of CPAs (AICPA), and others.

FROM THE FASB

Final Standards

Financial Instruments – Classification and Measurement Clarifications

1. Technical Corrections

With the issuance of ASU No. 2018-03, "Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," on Feb. 28, 2018, the FASB clarified ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." Specifically, it clarified guidance for equity securities without a readily determinable fair value and financial liabilities for which the fair value option (FVO) is elected.

Equity securities without a readily determinable fair value

For equity securities without a readily determinable fair value, a measurement alternative is allowed under ASU 2016-01 – that is, cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The clarifications in the recent ASU primarily relate to those securities for which the measurement alternative is applied as follows:

- Another acceptable reason for discontinuing the measurement alternative for equity securities without a readily determinable fair value is provided. That is, an entity is allowed to change from the measurement alternative for these equity securities to a fair value method consistent with Topic 820, "Fair Value Measurement." The election is irrevocable and must be applied to all identical or similar investments of the same issuer including future purchases. Gains or losses resulting from the election should be recognized in earnings.
- Adjustments to the securities' value that reflect observable transactions for a similar security should be made as of the date that the observable transaction took place.
- Remeasurement of the entire value of forward contracts and purchased options is required when an observable transaction on the underlying equity investment occurs.
- Because of potential difficulties in determining the last observable transaction price for equity securities without a readily determinable fair value, the prospective transition approach is required when the measurement alternative is applied. For all other amendments in ASU 2016-01, the modified retrospective approach is required.

FVO financial liabilities

- Presentation of financial liabilities for which the FVO has been elected is required, and the presentation guidance in Accounting Standards Codification (ASC) 825- 10-45-5 should be applied whether the FVO was elected under ASC 825-10 for financial instruments or ASC 815-15 for embedded derivatives.
- The fair value change attributable to instrument-specific credit risk for FVO financial liabilities is required (by ASC 825-10-45-5) to be separately presented in other comprehensive income (OCI). For FVO financial liabilities denominated in a foreign currency, the fair value change for instrument-specific credit risk should first be measured in the currency of denomination when separately presented in OCI. Then, both fair value change components (for instrument-specific credit risk and for foreign currency) should be remeasured into the functional currency of the reporting entity.

Effective Dates

For public business entities (PBEs) with fiscal years beginning between Dec. 15, 2017, and June 15, 2018, adoption is not required until the interim period beginning after June 15, 2018, which first applies to the Sept. 30, 2018, interim financial statements, for calendar year-end PBEs. For PBEs with fiscal years beginning between June 15, 2018, and Dec. 15, 2018, adoption of this ASU is not required before ASU 2016-01. The board's intention is to allow entities to continue with their current adoption plans for ASU 2016-01.

For all other entities, the effective date is the same as the effective date in ASU 2016-01.

Early adoption is allowed for fiscal years beginning after Dec. 15, 2017, including interim periods within, as long as ASU 2016-01 has been adopted.

2. SEC Guidance

On Nov. 29, 2017, the SEC staff issued Staff Accounting Bulletin (SAB) No. 117, to eliminate guidance in SAB Topic 5.M, "Other Than Temporary Impairment of Certain Investments in Equity Securities." Because FASB ASC Topic 321, "Investments – Equity Securities" (codified by ASU 2016-01) eliminates the available for sale (AFS) classification for investments in equity securities, the SEC guidance in SAB Topic 5.M on classification and measurement for that security type is no longer applicable. Subsequent to an SEC registrant adopting ASC Topic 321, SAB Topic 5.M no longer will apply.

On March 9, 2018, the FASB codified SAB 117 by issuing ASU 2018-04, "Investments – Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update)."

Tax Reform

1. Reclassification of Stranded Tax Effects in AOCI

Under existing accounting guidance, deferred tax assets and liabilities (DTAs and DTLs) must be adjusted for tax law changes in the reporting period of the tax law's enactment, and the effect must be included in income from continuing operations. This guidance is applicable even in situations in which the related income tax effects of items in accumulated other comprehensive income (AOCI) were originally recognized in other comprehensive income. After President Donald Trump signed the tax reform law known as the *Tax Cuts and Jobs Act* (H.R. 1) on Dec. 22, 2017, stakeholders raised the issue to the FASB that applying this guidance would cause the tax effects of items within AOCI not to reflect the appropriate tax rates, resulting in "stranded tax effects."

In an expedited response on Jan. 18, 2018, the FASB issued a proposal, and on Feb. 14, it issued the final ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income." It allows entities to elect to reclassify the stranded tax effects from AOCI to retained earnings, limited only to amounts in AOCI that are affected by the tax reform law. This can include remeasuring DTAs (and related valuation allowances that were not originally charged to income from continuing operations) and DTLs related to items presented in AOCI at the newly enacted tax rate and other income tax effects on items remaining in AOCI.

Effective Dates

Early adoption is permitted, and it is expected that many institutions will early adopt the ASU because the tax rate change was effective on Dec. 22, 2017. For those institutions that do not elect to early adopt, the ASU is effective for fiscal years beginning after Dec. 15, 2018, and interim periods within, which is March 31, 2019, interim financial statements for calendar year-ends.

Certain disclosures are required in the period of adoption for all entities, whether they elect to apply this reclassification option or not.

2. SEC Guidance

After the president signed the tax reform law, the SEC's Office of the Chief Accountant and Division of Corporation Finance (Corp Fin) staff issued SAB 118, which includes interpretive guidance for public companies, auditors, and other stakeholders to consider as they contemplate disclosures for the accounting impacts of the tax act.

The SEC staff acknowledges that evaluating tax changes and accompanying financial reporting impacts of the act will take time for some entities. To that end, the guidance addresses the various levels of uncertainty in measuring the impact and allows an issuer to recognize provisional amounts, subject to certain criteria. It also addresses the disclosures that should accompany provisional amounts.

It provides the following measurement model and disclosure considerations:

- In scenarios where an entity's measurement of accounting for changes in tax laws is:
  - Complete (in whole or in part) – the effects should be recorded in the reporting period.
  - Incomplete but can be reasonably estimated – the provisional effects (or changes in the provisional effects) should be recorded in the reporting period. The provisional amount should be adjusted during the measurement period when certain criteria are met, and the measurement period should not extend beyond one year.
  - Incomplete and cannot be reasonably estimated – the entity should not record provisional amounts based on the act and should continue to record the effects based on the tax laws that were in effect immediately prior to the act being enacted. For those income tax effects for which an entity is not able to determine a reasonable estimate, the entity should record the effects in the first reporting period in which a reasonable estimate can be determined.
- Supplemental disclosures should accompany the provisional amounts, including the items recorded as provisional amounts, the reasons for the incomplete accounting, the additional information or analysis that still is required, other information relevant to why the registrant was not able to complete the accounting required under ASC 740 in a timely manner, and when the accounting is completed. Quantitative information also should be disclosed, including the provisional and incomplete tax amounts as well as the measurement period adjustments and their impact on the effective tax rate.

On March 13, 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)" to codify SAB 118.

Lease Accounting – Practical Expedient in Transition for Land Easements (Rights-of-Way)

In its first standard of the year, issued Jan. 25, 2018, ASU 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842," the FASB simplified transition to the lease accounting guidance specifically for land easements. A land easement is "a right to use, access, or cross another entity's land for a specified purpose," often referred to as a "right-of-way." The simplification is for entities that apply existing accounting guidance other than Topic 840, "Leases." Some entities use Topic 350, "Intangibles – Goodwill and Other," or Topic 360, "Property, Plant, and Equipment," to account for land easements, and for those entities, assessing whether existing or expired land easements meet the definition of a lease under the new guidance in Topic 842 would be costly and complex.

With the simplification in ASU 2018-01, entities may elect a practical expedient in transition for land easements that were not previously accounted for under Topic 840. For those existing or expired land easements only, the practical expedient allows entities to forego the lease evaluation under Topic 842 and continue applying current accounting policies. New or modified land easements will be evaluated prospectively under Topic 842.

Effective Dates

This ASU is effective consistent with ASU 2016-02, "Leases (Topic 842)," which generally is first effective for calendar year-end PBEs in the March 31, 2019, interim financial statements, and for calendar year-end non-PBEs in the Dec. 31, 2020, annual financial statements.

Proposals

Implementation Costs in Cloud Computing Arrangements (CCAs)

On March 1, 2018, the FASB issued a proposal, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements," which is a follow-up to ASU 2015-05, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement."

In ASU 2015-05, the FASB addresses whether fees paid in a CCA should be capitalized or expensed. The most common example of a CCA is software as a service, which uses internet-based application software hosted by a service provider or third party.

As a follow-up, stakeholders requested additional guidance on accounting for implementation costs associated with CCAs considered service contracts. Implementation costs include setup and other upfront fees to get the arrangement ready for use as well as training, creating, or installing an interface, reconfiguring existing systems, and reformatting data.

Under the proposal, the accounting for implementation costs for CCAs that are service contracts would align with the requirements in ASC Subtopic 350-40 for internal-use software, and implementation costs incurred in a CCA would be accounted for as follows:

- Costs in the preliminary project and post-implementation operation stages would be expensed, so entities would need to determine the project stage for their CCAs.
- Costs for integration with on-premise software, coding, and configuration or customization would be capitalized, and the capitalized amounts would be amortized over the term of the hosting arrangement. The amortization would run through the same income statement line item as the related fees, that is, in operating expense.
- Data conversion and training costs would be expensed.

The definition of a hosting arrangement would be revised to replace "licensing of" with "accessing and using," which is expected to broaden the scope of contracts that would need to be assessed under the guidance.

Disclosure about implementation costs would be required.

Comments were due April 30, 2018.

Hedge Accounting – Permissible U.S. Benchmark Interest Rates

On Feb. 20, 2018, the FASB issued an exposure draft, "Derivatives and Hedging (Topic 815): Inclusion of the Overnight Index Swap (OIS) Rate Based on the Secured Overnight Financing Rate (SOFR) as a Benchmark Interest Rate for Hedge Accounting Purposes." Benchmark interest rates frequently are used in accounting hedge designations of existing or forecasted issuances or purchases of fixed-rate financial assets or liabilities. The proposal to add OIS based on SOFR as a benchmark rate was at the request of the Federal Reserve (Fed) Board and Bank Alternative Reference Rates Committee due to concerns for the sustainability of the London Interbank Offered Rate (Libor).

Existing benchmarks under Topic 815 include U.S. Treasury, the Libor swap rate, the OIS rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate. The OIS rate based on SOFR would be the fifth U.S. benchmark rate. Similar to the Fed Funds OIS rate, which is a swap rate based on the underlying overnight Fed Funds Effective Rate, the OIS rate based on SOFR will be a swap rate based on the underlying overnight SOFR rate.

Including the OIS based on SOFR as a benchmark interest rate will help institutions transition away from Libor by providing an alternative rate.

The exposure draft does not yet include an effective date.

Comments were due March 30, 2018.

Lease Accounting Simplifications

On Jan. 5, 2018, the FASB issued a proposed ASU, "Leases (Topic 842): Targeted Improvements," to simplify implementation of the leases standard by providing the following:

- An optional transition method would allow an entity to apply the transition provisions at its adoption date rather than at the earliest comparative period presented in its financial statements. Under this transition method, an entity would initially apply the requirements to all leases that exist at the adoption date, with the cumulative effect recognized as an adjustment to retained earnings as of the adoption date. The FASB is proposing this additional transition method in response to preparers experiencing unanticipated costs and complexities associated with the modified retrospective transition method, particularly the comparative period reporting requirements.
- For lessors, a practical expedient would allow them to not separate nonlease components from the related lease components if certain criteria are met (that is, the pattern of recognition must be the same and it must be an operating lease). Examples of nonlease components include equipment maintenance services, common area maintenance services in real estate, or other goods or services provided to the lessee apart from the right to use the underlying asset. The FASB is proposing this option in response to stakeholder observations that, except for presentation and disclosure, the timing and pattern of revenue recognition would be the same regardless of whether the nonlease components are separated from the lease component. It would be elected by class of underlying assets, and would require certain disclosures.

Comments were due Feb. 5, 2018.

Other Projects on Our Watch List

Tax Reform – Staff Q&As

At its Jan. 10, 2018, and subsequent meetings, the FASB discussed the financial reporting effects of the *Tax Cuts and Jobs Act*. The FASB addressed six implementation questions related to tax reform, resulting in the issuance of one ASU (2018-02), as previously noted, and five FASB Staff Q&As.

On Jan. 12, 2018, the FASB finalized the first Staff Q&A:

- "Topic 740, No. 1: Whether Private Companies and Not-for-Profit Entities Can Apply SAB 118"
  - » Based on the longstanding position of private companies electing to apply SABs, there is no objection to private companies and not-for-profit entities applying SAB 118. For more on SAB 118, see the previous "Tax Reform" section within "From the FASB."

The remaining four FASB Staff Q&As were discussed at the Jan. 18, 2018, Emerging Issues Task Force (EITF) meeting, and the staff noted it received minor changes to the initial drafts. On Jan. 22, 2018, the FASB finalized those four Staff Q&As:

- "Topic 740, No. 2: Whether to Discount the Tax Liability on the Deemed Repatriation"
  - » The tax liability recorded for the one-time deemed repatriation of foreign earnings and profits, which can optionally be paid over eight years, should not be discounted.
- "Topic 740, No. 3: Whether to Discount Alternative Minimum Tax Credits That Become Refundable"
  - » The tax act made substantial changes to the corporate alternative minimum tax (AMT), and questions arose over whether AMT tax credits should be discounted. These amounts should not be discounted.
- "Topic 740, No. 4: Accounting for the Base Erosion Anti-Abuse Tax"
  - » Entities subject to the base erosion anti-abuse tax (BEAT) in future years should record it as a period cost. They should continue to record DTAs and DTLs at the regular statutory rate, even if they expect to be subject to BEAT indefinitely.
- "Topic 740, No. 5: Accounting for Global Intangible Low-Taxed Income"
  - » Entities required to include in taxable income their global intangible low-taxed income (GILTI) are allowed to make a policy choice of whether to recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to include the tax on GILTI as tax expense in the year incurred.

Tax Reform Resource

Refer to the Crowe Horwath LLP article "Financial Reporting for Tax Reform: The SEC and FASB Weigh In," published Jan. 23, 2018.

FROM THE SEC

Technology and Cybersecurity Matters

Cybersecurity Disclosure Guidance

On Feb. 21, 2018, the SEC released interpretive guidance on cybersecurity disclosures, "Commission Statement and Guidance on Public Company Cybersecurity Disclosures," which reiterates what is already included in Corp Fin's Disclosure Guidance: Topic No. 2 issued in 2011. It expands upon Corp Fin's existing guidance by emphasizing the need for disclosure controls and procedures for material cybersecurity events and for insider trading policies in the context of nonpublic cyber event information. The guidance is for both companies that have experienced cyberattacks and those that have not yet been the target of a cyberattack.

As an interpretive release, the guidance includes the SEC's views on cybersecurity risk and incident disclosure obligations under existing securities laws, including on Forms 10-K, 10-Q, and 8-K. As an SEC interpretation, approved by the SEC commissioners, as compared to the previous Corp Fin disclosure guidance (which represents only Corp Fin's views), it implicitly raises the bar on the authoritative nature of the guidance.

The interpretive release enumerates the applicable disclosure rules and related matters for public companies to consider as they evaluate their cybersecurity disclosures. It also includes the SEC's expectations with regards to detailed, timely, accurate, and specific disclosure, as well as acceptable and unacceptable limitations of cybersecurity disclosures.

Disclosure matters addressed by the guidance include the following:

- Examples of costs and negative consequences from cyberattacks or incidents (pages 3-4)
- Disclosure obligations – materiality (pages 7-13)
  - » Periodic reporting on Forms 10-K and 10-Q (page 8) Registration statements (page 9)
  - » Current reports on Form 8-K (page 9)
  - » Acceptable and unacceptable limitations of disclosure (pages 11-13)
    - Level of detail should not compromise cybersecurity (page 11)
    - Impact of ongoing internal/external investigations (page 12)
    - Correction of untrue statements (page 12)
    - Generic versus specific disclosure (page 13)
- Risk factors (pages 13-15)
- Management's discussion and analysis (MD&A) (pages 15-16)
- Description of business (page 16)
- Legal proceedings (page 16)
- Financial statement disclosure (page 17)
- Board risk oversight (pages 17-18)
- Disclosure controls and procedures (pages 18-20)
- Insider trading laws and company policies (pages 21-22)
- Regulation FD – when certain material nonpublic information is required to be publicly disclosed (pages 22-24)

Finally, according to the interpretive release and Chairman Jay Clayton's statement, Corp Fin staff will remain focused on registrants' disclosures in this area as part of their filing reviews.

Potentially Unlawful Online Platforms for Trading Digital Assets – Enforcement Statement

In a statement on March 7, 2018, the SEC's Division of Enforcement and Division of Trading and Markets signaled to entities involved directly or indirectly in online trading of digital (or virtual) assets that they might be subject to a gamut of securities regulation. For example, a trading platform that operates as an "exchange," as defined by the federal securities laws, is required to register as a national securities exchange unless an exemption applies, and a platform that is not an exchange but offers other trading-related services might be required to register under the securities laws as a broker-dealer, transfer agent, or clearing agency.

The statement also provides resources for investors and other participants in the digital asset markets.

Cybersecurity – Commissioner Robert J. Jackson Jr.

In a speech on March 15, 2018, Commissioner Robert Jackson Jr. covered cyberrisk and the limited amount of disclosure that is provided by public companies related to cyberattacks. He shared his recommendation to his colleagues that Form 8-K requirements governing cyber events should be re-evaluated. He also highlighted the need for policies and procedures to deter insider trading on nonpublic cybersecurity information as well as the risk of hackers profiting from their own cyberattacks. In addition, he covered the requirement to develop internal controls to address cybersecurity, which will require lawyers (and other professionals) to interact with IT experts.

RegTech Data Summit – Commissioner Michael S. Piwowar

In a speech on March 7, 2018, Commissioner Michael Piwowar addressed the 2018 RegTech Data Summit, providing his views on the SEC's recent activity in the technology space. He covered the Enforcement Division's report on decentralized autonomous organizations (the DAO report) that presented its view that the federal securities laws apply to virtual entities that issue securities by using distributed ledger or blockchain technology (see also the following section, "Offerings of Virtual Securities – Chairman Jay Clayton"). Piwowar also discussed the use of extensible business reporting language (XBRL) data by various market stakeholders, HyperText Markup Language (HTML) hyperlinks in the exhibit index of SEC filings, the SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) redesign program, and various technologies used by the SEC to monitor the securities markets.

Offerings of Virtual Securities – Chairman Jay Clayton

In a testimony on distributed ledger technologies including cryptocurrencies and initial coin offerings (ICOs), SEC Chairman Jay Clayton emphasized the role and responsibilities of professional gatekeepers to protect Main Street investors in the securities markets. Speaking before the Senate Committee on Banking, Housing, and Urban Affairs on Feb. 6, 2018, Clayton said that to the extent that ICOs represent an offer and sale of securities (and he believes most do), they are subject to the securities laws. However, many ICOs are not currently being conducted under the securities laws, and, therefore, investors in those offerings are not benefiting from the protections offered by those laws. The SEC is seeking to enforce the securities laws for ICOs as evidenced by recent enforcement actions referenced in Clayton's testimony. Cryptocurrencies, on the other hand, are more akin to money than a security and are not under the SEC's jurisdiction.

Prior to testifying before the Senate committee, Clayton delivered opening remarks at the Securities Regulation Institute on Jan. 22, 2018, where he provided his expectations for market professionals in the ICO space.

Corp Fin Matters

Director's Speech on Corp Fin's Agenda

On Feb. 1, 2018, William Hinman, director of Corp Fin, delivered the keynote address at the Practising Law Institute's Seventeenth Annual Institute on Securities Regulation in Europe. In his address, Hinman covered recent Corp Fin actions that reflect efforts to facilitate capital formation in the public markets, such as these:

- Expanding the confidential review process to all issuers conducting initial public offerings, initial *Securities Act and Exchange Act* registrations, and certain follow-on offerings within a year of initial registration
- Allowing non-EGCs (non-emerging growth companies), in addition to EGCs, to omit annual and interim financial information that they reasonably believe will not be required when the registration statement is filed publicly
- Assisting companies with the pay ratio disclosure by providing guidance for the calculation and use of statistical sampling
- Clarifying certain Form 8-K filing requirements related to implementing recent tax reform
- Reminding entities of the option to submit requests to Corp Fin under Rule 3-13 of Regulation S-X for modified financial statements

As for future Corp Fin actions, Hinman signaled that the following are on the agenda:

- Disclosure guidance for cybersecurity risks and incidents (see the previous "Cybersecurity Disclosure Guidance" section)
- Rulemaking recommendations to raise the smaller reporting company (SRC) threshold, which potentially would allow more companies to qualify as SRCs
- Rulemaking recommendations for disclosure simplification across a broad array of existing SEC rules and guidance
- Proposal recommendations for financial statements of other entities, such as Rule 3-05 (for significant acquired entities) and Rule 3-10 (for guarantors) of Regulation S-X
- Recommendations to update Industry Guide 3 for financial institutions

New Corp Fin Chief Accountant

On Feb. 15, 2018, the SEC announced that Kyle Moffatt is the new Corp Fin chief accountant. He has been the acting chief accountant since January, and prior to that, he was an associate director in Corp Fin's disclosure review program.

Other SEC Matters

Mandatory Arbitration Provisions for Shareholders – Investor Advocate Rick Fleming and Commissioner Jackson

In a speech on Feb. 24, 2018, Rick Fleming, Investor Advocate, presented his views on the risks and potential consequences of including mandatory arbitration provisions in IPO issuers' articles of incorporation or corporate bylaws.

Subsequently, in a speech on Feb. 26, 2018, Commissioner Jackson shared his views and concerns on the topic of requiring investors to rely on mandatory private arbitration rather than public courts.

Investment Product Complexity – Commissioner Kara M. Stein

In a speech on Feb. 23, 2018, Commissioner Kara Stein shared her views on the increasing complexity of certain investment products. She addressed the difficulty in understanding the complex products as well as recommendations for exchanges and professional gatekeepers to consider.

Perpetual Dual-Class Stock – Commissioner Robert J. Jackson Jr.

In a speech on Feb. 15, 2018, Commissioner Jackson covered his views on dual- class capital structures. He discussed inherent risks and historical performance of certain entities with dual-class stock ownership, as well as considerations for limitations on those capital structures in stock index requirements and exchange listing standards.

Relationships Between Corporations and Shareholders – Commissioner Kara M. Stein

In a speech on Feb. 13, 2018, Commissioner Stein discussed the relationship between investors and the companies they own. She covered the topics of cybersecurity, board composition and diversity, shareholder activism, and dual-class capital structures, sharing her views on the need to restore mutualism (which she defined as "a symbiotic relationship between individuals ... in which both benefit from the association") to the corporation-shareholder relationship.

FROM THE PCAOB

New Chairman and Board Members

On Dec. 12, 2017, the SEC appointed a new board of four members and a chairman. Since then, the chairman and board members have been sworn into office at the Public Company Accounting Oversight Board (PCAOB).

On Jan. 2, 2018, William D. Duhnke III was sworn into office as chairman of the PCAOB. He previously served as the staff director and general counsel to the U.S. Senate Committee on Rules and Administration.

On the same day, Kathleen M. Hamm was sworn in as a board member. She recently served as the global leader of securities and financial technology solutions and senior strategic adviser on cyber solutions at Promontory Financial Group.

On Feb. 1, 2018, J. Robert Brown was sworn in as a board member. He was previously a professor of corporate governance and director of the corporate and commercial law program at the University of Denver.

On March 1, 2018, James G. Kaiser was sworn in as a board member. He recently retired as a partner from PricewaterhouseCoopers, where he was the global assurance methodology and transformation leader.

On April 9, 2018, Duane M. DesParte was sworn in as a board member. In March 2018, he retired as senior vice president and corporate controller of Exelon Corporation.

FROM THE CAQ

Non-GAAP Measures

On March 16, 2018, the CAQ released a new tool, "Non-GAAP Measures: A Roadmap for Audit Committees," that public company audit committees can use to enhance their oversight of management's use of non-generally accepted accounting principles (non-GAAP) measures. The road map includes themes that came up during a series of roundtables in 2017. It also presents leading practices for assessing whether a company's use of non-GAAP measures provides a balanced perspective of its performance. When presented appropriately – that is, when they are transparent, consistent, and comparable to measures disclosed by other companies – information about non-GAAP measures is useful to investors.

To add context and give some real-life examples, the CAQ also released a companion video featuring interviews with audit committee chairs.

FROM THE AICPA

Cybersecurity Examinations Paper

The AICPA released a paper, "SOC 2 Examinations and SOC for Cybersecurity Examinations: Understanding the Key Distinctions," to clarify the differences between a System and Organization Controls (SOC) for cybersecurity examination (that is, an examination based on the AICPA's attestation guide, "Reporting on an Entity's Cybersecurity Risk Management Program and Controls") and a SOC 2 examination. According to the paper, both examinations can provide useful information about an entity's cybersecurity risk management program and related controls, but key differences exist.

The SOC for cybersecurity examination guide was released by the AICPA on April 26, 2017, as one of three parts in a framework for reporting on an entity's cybersecurity risk management program and controls. A SOC for cybersecurity examination addresses an entity's cybersecurity risk management program and controls, and the examination report is designed to be a general use report, which means the report is not restricted to specified parties. This type of examination requires a description of an entity's cybersecurity risk management program and controls that satisfies the AICPA's "Description Criteria for Management's Description of an Entity's Cybersecurity Risk Management Program."

The SOC 2 examination, on the other hand, addresses controls at a service organization (that is, a third-party service provider) that cover the service organization's systems used to process a particular entity's data or information, and the report typically is restricted to specified users. In addition, the SOC 2 examination is specific to pre-established control criteria (that is, the AICPA's trust services criteria) that address data security, availability, processing integrity, confidentiality, or privacy.

Checklist A

ASU Effective Dates for Public Business Entities (PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Tax Reform – SEC Accounting and Disclosure Guidance (ASU 2018-05) Codifies the SEC's SAB 118, which provides guidance on accounting for income tax effects of the *Tax Cuts and Jobs Act* (H.R. 1). Provisional amounts should be recorded for tax effects that are incomplete and can be reasonably estimated at the end of the reporting period, and disclosure should accompany the incomplete tax effects.	**Dec. 22, 2017 – enactment of H.R. 1, included in the Dec. 31, 2017, annual financial statements**	Not applicable
Revenue Recognition (ASU 2014-09) For all entities, the transaction- and industry-specific recognition methods are eliminated and revenue is recognized by applying a defined principles-based approach. Clarifying standards: **ASU 2015-14** – Deferral of Effective Date **ASU 2016-08** – Principal Versus Agent Considerations (Gross Versus Net Reporting) **ASU 2016-10** – Identifying Performance Obligations and Licensing **ASU 2016-11** – Rescission of Certain SEC Guidance in Topic 605 (Staff Announcements at March 3, 2016, EITF Meeting) **ASU 2016-12** – Narrow-Scope Improvements and Practical Expedients **ASU 2016-20** – Technical Corrections and Improvements **ASU 2017-14** – Rescission of SEC SAB Topics 8 and 13 and bill-and-hold guidance; revision of SAB Topic 11.A and SEC guidance for certain vaccine manufacturers	**March 31, 2018**[1]	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within
Derecognition and Partial Sales of Nonfinancial Assets (ASU 2017-05) Primarily applies to the real estate industry but can impact other entities. Clarifies the scope of Subtopic 610-20 by defining an "in substance nonfinancial asset," and provides guidance on partial sales, such as when an entity retains an equity interest in the entity that owns the transferred nonfinancial assets.	**March 31, 2018, consistent with ASU 2014-09**	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within
Service Concession Arrangements for Operators of Public Infrastructure (ASU 2017-10) In all service concession arrangements between a public sector entity and the operator of the public sector entity's infrastructure, the public sector entity (or the grantor) should be identified as the customer.	**March 31, 2018** **(unless ASU 2014-09 was previously adopted)**	Permitted, including in an interim period

1 As codified in ASU 2017-13, in an SEC staff announcement at the July 20, 2017, EITF meeting, specifically related to PBEs that qualify as a PBE solely due to a requirement to include or the inclusion of its financial statements or financial information in another entity's SEC filing ("certain PBEs"), the SEC stated that it will allow certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition and lease accounting standards only. For certain PBEs, the revenue recognition guidance is effective for Dec. 31, 2019, annual financial statements for calendar year-end entities.

Checklist A

ASU Effective Dates for Public Business Entities (PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Recognition and Measurement (ASU 2016-01) Applies to the classification and measurement of financial instruments. Removes the AFS category for equities. Equities (excluding equity method and consolidated investments) will be carried at fair value; however, the changes will run through the income statement rather than OCI. For PBEs, requires the use of exit pricing in fair value disclosure for instruments carried at amortized cost. Clarifying standards: **ASU 2018-03** – Clarifications for equity securities without a readily determinable fair value and FVO liabilities **ASU 2018-04** – (SAB 117) Rescission of SEC guidance on AFS equities	**March 31, 2018** **For ASU 2018-03, Sept. 30, 2018**	Not permitted, except for two provisions For ASU 2018-03, permitted, including in an interim period, if ASU 2016-01 has been adopted
Breakage for Prepaid Cards (ASU 2016-04) Applies to prepaid stored-value products that are redeemable for monetary values of goods or services but also may be redeemable for cash, such as certain prepaid gift cards, prepaid telecommunication cards, and traveler's checks.	**March 31, 2018**	Permitted, including in an interim period
Statement of Cash Flows: Certain Clarifications (ASU 2016-15) Provides guidance on how eight specific cash flows should be classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments, insurance settlement proceeds, company- owned life insurance (COLI) policy settlements and premiums, equity method investee distributions, beneficial interests in securitization transactions, and predominance principle for receipts and payments.	**March 31, 2018**	Permitted, including in an interim period
Income Taxes for Intra-Entity Asset Transfers (ASU 2016-16) Applies to asset transfers between legal entities, including related parties (e.g., bank and investment subsidiary); transferor recognizes the current and deferred tax effects when the transfers occur.	**March 31, 2018**	Permitted as of the beginning of an annual period for which financial statements have not been issued
Statement of Cash Flows: Restricted Cash (ASU 2016-18) Requires that restricted cash and cash equivalents be presented in total cash and cash equivalents in the statement of cash flows, and the nature of restrictions on restricted cash and cash equivalents be disclosed.	**March 31, 2018**	Permitted, including in an interim period
Definition of a Business (ASU 2017-01) Applies to the analysis of whether an asset or business is acquired (which determines whether goodwill is recognized), as well as asset derecognition and business deconsolidation transactions.	**March 31, 2018**	Permitted for certain transactions
Presentation of Net Periodic Pension and Postretirement Benefit Costs (ASU 2017-07) Rather than reporting pension expense as a net amount, the service cost component will be presented consistent with similar compensation for the same employees, and the other components will be separately presented in the income statement.	**March 31, 2018**	Permitted as of the beginning of an annual period, in the first interim period

Checklist A

ASU Effective Dates for Public Business Entities (PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Share-Based Payment Modification Accounting (ASU 2017-09) Requires modification accounting when an award's fair value, vesting provisions, or classification changes subsequent to a modification of the award.	**March 31, 2018**	Permitted, including in an interim period
Leases (ASU 2016-02) Revises recognition and measurement for lease contracts by lessors and lessees; operating leases are recorded on the balance sheet for lessees. Replaces Topic 840 with Topic 842. Clarifying standards: **ASU 2018-01** – Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840.	**March 31, 2019** [2]	Permitted
Premium Amortization on Purchased Callable Debt (ASU 2017-08) Shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, instead of to the maturity date.	**March 31, 2019**	Permitted, including in an interim period
Financial Instruments With Down-Round Features (Part I) and Scope Exception for Certain Mandatorily Redeemable Financial Instruments (Part II) (ASU 2017-11) Part I – Simplifies the accounting for certain financial instruments with down-round features by eliminating the requirement to consider the down-round feature in the liability or equity classification determination. For entities that present earnings per share (EPS), requires the effect of the down-round feature in a warrant or other freestanding equity-classified instrument to be presented as a dividend and an adjustment to EPS when it is triggered. Regardless of whether the entity presents EPS, requires the effect of the down-round feature in a convertible instrument such as debt or preferred stock to follow existing guidance for contingent beneficial conversion features and be presented as a discount to the convertible instrument with an offsetting credit to paid-in capital when it is triggered. Part II – Changes the indefinite deferral available to private companies with mandatorily redeemable financial instruments and certain noncontrolling interests to a scope exception, which does not have an accounting effect.	**March 31, 2019**	Permitted, including in an interim period
Hedging Activities (ASU 2017-12) Expands the nonfinancial and financial risk components that can qualify for hedge accounting and simplifies financial reporting for hedging activities.	**March 31, 2019**	Permitted, including in an interim period
Certain Deferred Taxes for Steamship Entities (ASU 2017-15) Requires steamship entities to recognize any remaining deferred taxes on certain statutory reserve deposits in accordance with Topic 740.	**March 31, 2019**	Permitted, including in an interim period

2 As codified in ASU 2017-13, in an SEC staff announcement at the July 20, 2017, EITF meeting, specifically related to PBEs that qualify as a PBE solely due to a requirement to include or the inclusion of its financial statements or financial information in another entity's SEC filing ("certain PBEs"), the SEC stated that it will allow certain PBEs to elect to apply the non-PBE effective dates for the revenue recognition and lease accounting standards only. For certain PBEs, the lease accounting standard is effective for Dec. 31, 2020, annual financial statements for calendar year-end entities.

Checklist A

ASU Effective Dates for Public Business Entities (PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End PBEs	Early Adoption
Tax Reform – Reclassification of Stranded Tax Effects in AOCI (ASU 2018-02) If elected, an entity may reclassify stranded tax effects in AOCI specifically affected by the *Tax Cuts and Jobs Act* from AOCI to retained earnings, instead of recognizing those effects in earnings.	**March 31, 2019**	Permitted, including in an interim period
Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test.	**For SEC filers, tests performed on or after Jan. 1, 2020** **For PBEs that are <u>not</u> SEC filers, tests performed on or after Jan. 1, 2021**	Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017
Credit Losses (ASU 2016-13) Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables.	**For SEC filers, March 31, 2020** **For PBEs that are not SEC filers, March 31, 2021**	Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within

Checklist B

ASU Effective Dates for Non-Public Business Entities (Non-PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Tax Reform – SEC Accounting and Disclosure Guidance (ASU 2018-05) Codifies the SEC's SAB 118, which provides guidance on accounting for income tax effects of the *Tax Cuts and Jobs Act* (H.R. 1). Provisional amounts should be recorded for tax effects that are incomplete and can be reasonably estimated at the end of the reporting period, and disclosure should accompany the incomplete tax effects.	**Dec. 22, 2017 – enactment of H.R. 1, included in the Dec. 31, 2017, annual financial statements**	Not applicable
Share-Based Payment Modification Accounting (ASU 2017-09) Requires modification accounting when an award's fair value, vesting provisions, or classification changes subsequent to a modification of the award.	**March 31, 2018**	Permitted, including in an interim period
Classification of Deferred Taxes (ASU 2015-17) Simplifies classification of deferred taxes in a classifi d balance sheet. Classification as noncurrent only is required.	**Dec. 31, 2018**	Permitted as of the beginning of an interim or annual period
Derivative Novations (ASU 2016-05) Applies when there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument.	**Dec. 31, 2018**	Permitted, including in an interim period
Contingent Puts and Calls on Debt Instruments (ASU 2016-06) Applies to debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded put or call options. When those options are contingently exercisable, there is no requirement that an entity must assess whether the event that triggers the ability to exercise the options is related to interest rates or credit risks.	**Dec. 31, 2018**	Permitted, including in an interim period
Share-Based Payments (ASU 2016-09) Applies to share-based payment awards issued to employees and offers simplification in several areas including income taxes, forfeitures, minimum statutory tax withholding requirements, cash flow presentation, and practical expedients for nonpublic entities to use intrinsic value measurement for liability-classified awards and to estimate expected term for certain awards.	**Dec. 31, 2018**	Permitted, including in an interim period
Not-for-Profit Entities – Financial Statements (ASU 2016-14) Represents major changes to not-for-profit financial statement presentation standards; focuses on improving the current net asset classification requirements and information presented in financial statements and notes to assess liquidity, financial performance, and cash flows.	**Dec. 31, 2018**	Permitted
Certain Deferred Taxes for Steamship Entities (ASU 2017-15) Requires steamship entities to recognize any remaining deferred taxes on certain statutory reserve deposits in accordance with Topic 740.	**March 31, 2019**	Permitted, including in an interim period
Tax Reform – Reclassification of Stranded Tax Effects in AOCI (ASU 2018-02) If elected, an entity may reclassify stranded tax effects in AOCI specifically affected by the *Tax Cuts and Jobs Act* from AOCI to retained earnings, instead of recognizing those effects in earnings.	**March 31, 2019**	Permitted, including in an interim period

Checklist B

ASU Effective Dates for Non-Public Business Entities (Non-PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Revenue Recognition (ASU 2014-09) For all entities, the transaction- and industry-specific recognition methods are eliminated and revenue is recognized by applying a defined principles-based approach. Clarifying standards: **ASU 2015-14** – Deferral of Effective Date **ASU 2016-08** – Principal Versus Agent Considerations (Gross Versus Net Reporting) **ASU 2016-10** – Identifying Performance Obligations and Licensing **ASU 2016-11** – Rescission of Certain SEC Guidance in Topic 605 (Staff Announcements at March 3, 2016, EITF Meeting) **ASU 2016-12** – Narrow-Scope Improvements and Practical Expedients **ASU 2016-20** – Technical Corrections and Improvements **ASU 2017-14** – Rescission of SEC SAB Topics 8 and 13 and bill-and-hold guidance; revision of SAB Topic 11.A and SEC guidance for certain vaccine manufacturers	**Dec. 31, 2019**	Permitted only as of annual periods beginning after Dec. 15, 2016, including interims within
Derecognition and Partial Sales of Nonfinancial Assets (ASU 2017-05) Primarily applies to the real estate industry but can affect other entities. Clarifies the scope of Subtopic 610-20 by defining an "in substance nonfinancial asset," and provides guidance on partial sales, such as when an entity retains an equity interest in the entity that owns the transferred nonfinancial assets.	**Dec. 31, 2019**	Permitted only as of annual periods, consistent with ASU 2014-09 beginning after Dec. 15, 2016, including interims within
Service Concession Arrangements for Operators of Public Infrastructure (ASU 2017-10) In all service concession arrangements between a public sector entity and the operator of the public sector entity's infrastructure, the public sector entity (or the grantor) should be identified as the customer.	**Dec. 31, 2019 (unless ASU 2014-09 has been adopted)**	Permitted, including in an interim period
Recognition and Measurement (ASU 2016-01) Applies to the classifi ation and measurement of financial instruments. Removes the available-for-sale category for equities. Equities (excluding equity method and consolidated investments) will be carried at fair value; however, the changes will run through the income statement rather than OCI. Clarifying standards: **ASU 2018-03** – Clarifications for equity securities without a readily determinable fair value and FVO liabilities **ASU 2018-04** – (SAB 117) Rescission of SEC guidance on AFS equities	**Dec. 31, 2019**	Not permitted, except for two provisions For ASU 2018-03, permitted, including in an interim period, if ASU 2016-01 has been adopted
Breakage for Prepaid Cards (ASU 2016-04) Applies to prepaid stored-value products that are redeemable for monetary values of goods or services but also may be redeemable for cash, such as certain prepaid gift cards, prepaid telecommunication cards, and traveler's checks.	**Dec. 31, 2019**	Permitted, including in an interim period

Checklist B

ASU Effective Dates for Non-Public Business Entities (Non-PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Statement of Cash Flows: Certain Clarifications (ASU 2016-15) Provides guidance on how eight specific cash flows should be classified in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of zero-coupon bonds, contingent consideration payments, insurance settlement proceeds, company- owned life insurance (COLI) policy settlements and premiums, equity method investee distributions, beneficial interests in securitization transactions, and predominance principle for receipts and payments.	**Dec. 31, 2019**	Permitted, including in an interim period
Income Taxes for Intra-Entity Asset Transfers (ASU 2016-16) Applies to asset transfers between legal entities, including related parties (e.g., bank and investment subsidiary); transferor recognizes the current and deferred tax effects when the transfers occur.	**Dec. 31, 2019**	Permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance
Statement of Cash Flows: Restricted Cash (ASU 2016-18) Requires that restricted cash and cash equivalents be presented in total cash and cash equivalents in the statement of cash flows, and the nature of restrictions on restricted cash and cash equivalents be disclosed.	**Dec. 31, 2019**	Permitted, including in an interim period
Definition of a Business (ASU 2017-01) Applies to the analysis of whether an asset or business is acquired (which determines whether goodwill is recognized), as well as asset derecognition and business deconsolidation transactions.	**Dec. 31, 2019**	Permitted for certain transactions
Employee Benefit Plan Master Trust Reporting (ASU 2017-06) Applies to disclosures of plans that have an interest in a master trust, which is a trust that a regulated financial institution serves as a trustee or custodian and in which assets of more than one plan sponsored by an employer or employers under common control are held.	**Dec. 31, 2019**	Permitted
Presentation of Net Periodic Pension and Postretirement Benefit Costs (ASU 2017-07) Rather than reporting pension expense as a net amount, the service cost component will be presented consistent with similar compensation for the same employees, and the other components will be separately presented in the income statement.	**Dec. 31, 2019**	Permitted as of the beginning of an annual period, in the first interim period if interim financial statements are issued
Leases (ASU 2016-02) Revises recognition and measurement for lease contracts by lessors and lessees; operating leases are recorded on the balance sheet for lessees. Replaces Topic 840 with Topic 842. Clarifying standards: **ASU 2018-01** – Provides a practical expedient in transition to not evaluate existing or expired land easements under Topic 842 that were not previously accounted for as leases under Topic 840.	**Dec. 31, 2020**	Permitted

Checklist B

ASU Effective Dates for Non-Public Business Entities (Non-PBEs)

Accounting Standards Update (ASU)	Effective Dates for Dec. 31 Year-End Non-PBEs	Early Adoption
Premium Amortization on Purchased Callable Debt (ASU 2017-08) Shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, instead of to the maturity date.	**Dec. 31, 2020**	Permitted, including in an interim period
Financial Instruments With Down-Round Features (Part I) and Scope Exception for Certain Mandatorily Redeemable Financial Instruments (Part II) **(ASU 2017-11)** Part I – Simplifies the accounting for certain financial instruments with down-round features by eliminating the requirement to consider the down-round feature in the liability or equity classification determination. For entities that present EPS, requires the effect of the down-round feature in a warrant or other freestanding equity-classified instrument to be presented as a dividend and an adjustment to EPS when it is triggered. Regardless of whether the entity presents EPS, requires the effect of the down-round feature in a convertible instrument such as debt or preferred stock to follow existing guidance for contingent beneficial conversion features and be presented as a discount to the convertible instrument with an offsetting credit to paid-in capital when it is triggered. Part II – Changes the indefinite deferral available to private companies with mandatorily redeemable financial instruments and certain noncontrolling interests to a scope exception, which does not have an accounting effect.	**Dec. 31, 2020**	Permitted, including in an interim period
Hedging Activities (ASU 2017-12) Expands the nonfinancial and financial risk components that can qualify for hedge accounting and simplifies financial reporting for hedging activities.	**Dec. 31, 2020**	Permitted, including in an interim period
Credit Losses (ASU 2016-13) Replaces the incurred loss model with the current expected credit loss (CECL) model for financial assets, including trade receivables, debt securities, and loan receivables.	**Dec. 31, 2021**	Permitted as of the fiscal years beginning after Dec. 15, 2018, including interim periods within
Goodwill Impairment Testing (ASU 2017-04) Removes step two – the requirement to perform a hypothetical purchase price allocation when the carrying value of a reporting unit exceeds its fair value – of the goodwill impairment test.	**Tests performed on or after Jan. 1, 2022**	Permitted for interim or annual goodwill impairment tests performed on testing dates on or after Jan. 1, 2017

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