FASB Update: Looking Back, Looking Forward
A View from the Standard-Setting Trenches

Gem State CPE Conference
December 16, 2016

Jeff Mechanick, Assistant Director—Nonpublic Entities, FASB
Email: jmechanick@fasb.org; Phone: (203)-956-5301

The views expressed in this presentation are those of the presenter. Official positions of the FASB are reached only after extensive due process and deliberations.

FASB Update: Looking Back, Looking Forward
A View from the Standard-Setting Trenches

Agenda
- Looking Back – The Past Decade
- Update on Recent FASB Activities
  - Major “Joint” Projects, Private Company Efforts, Simplification Initiative and Disclosure Framework, NFP Financial Statements, Other Recent ASUs and Ongoing Projects
- Looking Forward – Agenda Consultation
- Q&A

Looking Back – The Past Decade

Overview of FASB’s Agenda in Early 2006

Key “External” Developments: 2006-2016

International Convergence
The Financial Crisis
The Private Company GAAP “Revolution”
NFPs: Changing Endowment Laws

How I Imagined the FASB 10 Years Ago...
Key “Internal” Developments: 2006-2016

- Codification of U.S. GAAP
- Completion of Major “Joint” Projects:
  - Business Combinations
  - Revenue Recognition
  - Leases
  - Financial Instruments
- Launching of Private Company Initiative:
  - PCFRC, then PCC
  - Private Company Decision-Making Framework
  - Initial PCC alternatives within GAAP

Launching of Private Company Initiative:
- PCFRC, then PCC
- Private Company Decision-Making Framework
- Initial PCC alternatives within GAAP

Launching of NFP Initiative:
- “Rediscovering” Employee Benefit Plans
- Public Companies: investor liaisons, integration of XBRL activities
- “Right-sizing” GAAP for Everyone: Simplification Initiative, Disclosure Framework

Key “Internal” Developments: 2006-2016 (cont’d.)

- NAC, with NFP Resource Group
- NFP Financial Statements Project (first phase completed)
- NFP Grants Project (in initial deliberations)

“Rediscovering” Employee Benefit Plans

FASB Leadership

- Bob Herz
  Chairman, 2002-2010
- Leslie Seidman
  Chairman, 2010-2013
- Russ Golden
  Chairman, 2013-present
- Jim Kroeker
  Vice Chairman, 2013-present

IASB Leadership

- Sir David Tweedie
  Chairman, 2001-2011
- Hans Hoogervorst
  Chairman, 2011-present

PCFRC and PCC Leadership

- Judy O’Dell
  PCFRC Chair, 2007-2011
- Billy Atkinson
  PCC Chair, 2012-2015
- Candace Wright
  PCC Chair, 2016-present

Current FASB Agenda

Research Agenda

Note: Agenda as of December 2016; details on each project available on FASB website (see Technical Agenda tab). Agenda includes EITF and PCC projects.
Current FASB Advisory Groups

- FASAC: Financial Accounting Standards Advisory Council
  - FASB’s primary advisory group
- IAC: Investor Advisory Committee
- NAC: Not-for-Profit Advisory Committee
- SBAC: Small Business Advisory Committee
  - Recently reconstituted to provide input and feedback from a small public company perspective
- PCC: Key role: advisory group on private companies

Recent FASB Activities

Recent FASB Activities

- Major “Joint” Projects

Revenue Recognition (ASU 2014-09; Topic 606) – Objective

Objective: To develop a single, principle-based revenue standard for US GAAP and IFRS

The revenue standard aims to improve accounting for contracts with customers by:
- Providing a robust framework for addressing revenue issues as they arise
- Increasing comparability across industries and capital markets
- Requiring better disclosure

Substantially converged with IFRS on major provisions

Revenue Recognition (ASU 2014-09; Topic 606) – Scope

All contracts with customers, except

- Lease contracts
- Insurance contracts
- Financial instruments
- Guarantees
- Non-monetary exchanges in the same line of business to facilitate sales to customers

Contracts not with customers are excluded:

- Contributions
- FASB project on NFP grants and contracts
- Collaborative arrangements

Revenue Recognition (ASU 2014-09; Topic 606) – Recognition Model

Core Principle:

Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

Steps to apply the core principle:

1. Identify the contract(s) with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when (or as) a performance obligation is satisfied

Recognize revenue when (or as) a performance obligation is satisfied
Rev. Rec. – Disclosures

- Qualitative and quantitative* disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors
- Opening and closing balances *
- Amount of revenue recognized from contract liabilities *
- Explanation of significant changes in contract balances *
- Transaction price allocated to remaining performance obligations *
- Quantitative or qualitative explanation of when amounts will be recognized as revenue *
- Quantitative disclosures *

* Optional for nonpublic entities

Revenue Recognition (ASU 2014-09; Topic 606) – Effective Date

Original effective dates
- CY 2017 (FY 2017-18) for public entities* (including interim)
- CY 2018 (FY 2018-19) for nonpublic entities (no interim, just annual period; interims in subsequent years)
- Nonpublic entities may adopt early, but no earlier than public entities

Deferred effective dates (via ASU 2015-14)
- CY 2018 (FY 2018-19) for public entities* (including interim)
- CY 2019 (FY 2019-20) for nonpublic entities (no interim, just annual period; interims in subsequent years)
- Early adoption permitted, but not before original effective date

* Public entities include Public Business Entities, as well as NFPs with publicly-traded conduit (or direct) debt and EBPs filing SEC Form 11-K

Rev. Rec. Transition Resource Group (TRG)

Group to support transition—does not issue authoritative guidance

Members include financial statement preparers, auditors and users, global representation

Provides a forum for stakeholders to learn about the new guidance from others involved with implementation

Public meetings with FASB (and IASB) to discuss implementation questions

Clear communication about next steps for each issue

Staff papers, meeting summaries and summary of stakeholder questions available on www.fasb.org

Rev. Rec. TRG Activities

- A majority of the TRG issues were educational
- Input from TRG led to amendments to clarify the Boards' intent for a handful of issues (next slide)

*Date as of November 2016

Rev. Rec. – FASB Recent Standard Setting

(Following discussions with TRG)

Identifying Performance Obligations and Licensing*

- Performance Obligations
  - Distinct in the context of the contract
  - Immaterial promises
  - Shipping and handling
- Licensing
  - Nature of license—over time vs. point in time
  - Scope of constraint on sales-based and usage-based royalties

Principal versus Agent (Reporting Revenue Gross versus Net)

- Control principle to provide (principal) vs. to arrange (agent)
- Unit of account
- Control principle in the context of services
- Control indicators
- Illustrative examples

Narrow-Scope Improvements and Practical Examinations*

- Narrow-Scope Improvements
  - Noncash consideration
  - Collectibility
  - Completed contracts at transition
- Practical Examinations
  - Contract modifications at transition
  - Sales tax presentation (net)

* ASU 2016-10 (issued April 2016)
* ASU 2016-08 (issued March 2016)
* ASU 2016-12 (issued May 2016)

Rev. Rec. – Resources to Help with Implementation

FASB technical inquiry service
AICPA industry task forces
Informal industry groups
FASB webcasts and other webcasts

Resources to help with implementation
FASB Transition Resource Group for Revenue Recognition

ASU 2014-09 (issued May 2014)
ASU 2014-10 (issued March 2014)
ASU 2014-11 (issued March 2014)
ASU 2014-12 (issued May 2014)
Leases (ASU 2016-02; Topic 842) – Overview

The key differences between current GAAP (that is, Topic 840, Leases) and the guidance in Topic 842 include, but are not limited to, the following:

- Topic 842 requires lessees to recognize lease assets and lease liabilities on the balance sheet for leases with lease terms of more than 12 months.
- Topic 842 requires additional disclosure requirements to help investors better understand the amount, timing, and uncertainty of cash flows arising from leases.
- Topic 842 provides targeted improvements to lessor accounting, including alignment, where necessary, with the lessee accounting model and with the updated revenue recognition guidance (that is, Topic 606, Revenue from Contracts with Customers).

Leases – Overall Approach

A lease contract conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Lessee Model

All leases (more than 12 months) are recognized on the lessee’s balance sheet.

<table>
<thead>
<tr>
<th>Current U.S. GAAP (IFRS)</th>
<th>IASB</th>
<th>FASB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital (Finance) Leases</td>
<td>Type A</td>
<td>Type A</td>
</tr>
<tr>
<td>Operating Leases</td>
<td>Type A</td>
<td>Type B</td>
</tr>
</tbody>
</table>

All leases are accounted for the same.

Classification is based on existing U.S. GAAP/IFRS

Lessor Accounting Overview

Classification is similar to the classification in Topic 840

Recognition and measurement exemption for short-term leases

Other than public business entities may use risk-free rates for measurement of all lease liabilities

Identifying a Lease

(The new primary determinant for on/off balance sheet treatment)

- An identified asset
- The right to control the use of the asset during the lease term
- The ability to obtain substantially all of the economic benefits from the use of the asset
- Decision-making authority over the use of the asset

Lessor Accounting Overview

Classification is similar to the classification in Topic 840

1 Selling profit is recognized at lease commencement for sales-type leases and over the lease term for direct financing leases (note: selling profit is rare for direct financing leases)
Leases – Effective Date

Public Companies*

- Fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (CY 2019; FY 2019-20)

All Other Organizations

- Fiscal years beginning after December 15, 2019 and interim periods beginning after December 15, 2020 (CY 2020; FY 2020-21)

Early Application

- Permitted for all organizations

* “Public Companies” refer to the following: (1) public business entities, (2) a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or over-the-counter market, and (3) an employee benefit plan that files or furnishes statements with or to the SEC (Same Here as Revenue Recognition Standard)

Leases – Implementation

Unlike other recently issued ASUs (such as revenue recognition and credit losses), the FASB did not create a formal TRG for purposes of Leases.

The staff have identified some possible technical corrections that are minor corrections and clarifications and can be addressed through the FASB’s standing project on Technical Corrections and Improvements.

Based on the inquiries received to date, the staff continues to think that a TRG is not necessary for leases and the staff believes that no question or issue, raised to date, requires formal standard setting for purposes of implementation.

Accounting for Financial Instruments – Recognition and Measurement (ASU 2016-01; Topic 825)

Disclosures: FV of Financial Instruments not recognized at FV in Balance Sheet

ASU 2016-01 extends to all entities other than Public Business Entities the exemption from having to disclose the information originally required by FAS 107.

Thus, no NFPs or private companies would have to provide these disclosures:

- Currently, NFPs with more than $100 million in assets or with any derivatives (e.g., interest rate swaps) provide these disclosures.

ASU is effective for NFPs and private companies for CY 2019 (FY 2019-20), one year after PBEs. This provision may be early adopted for all financial statements not yet issued.

ASU 2016-01: Other Noteworthy Changes

All equity investments (under than consolidated or equity method) at FV through net income

Cost-based practical expedient for nonmarketable equity securities

AFS (Other-than-Trading) classification thus now limited to debt securities

This provision may not be early adopted.

FV Option retained, but changes from instrument-specific credit risk on own debt would be presented in OCI rather than net income

ASU is effective for NFPs and private companies for CY 2019 (FY 2019-20), one year after PBEs. This provision may be early adopted for all financial statements not yet issued.

ASU 2016-13: Current Expected Credit Losses (CECL) Scope

- Debt instruments (amortized cost)
- Trade and lease receivables
- Reinsurance receivables
- Loan commitments
- Financial guarantees
- AFS debt securities
- Defined contribution employee benefit plan loans
- Policy loan receivables of insurance entity
- Pensions to gain (loss) recognition of NFPs
- Related party loans between entities under common control

CECL

AFS Credit Loss Model (Targeted changes to Topic 320)

CECL does not apply

Current Expected Credit Losses (CECL)

Each reporting date, the allowance will reduce the net carrying value to the amount an entity expects to collect.

- Reflects management expectations based on past events, current conditions, and reasonable and supportable forecasts.
- Reflects the use of forward looking information.
- Incorporates expected losses over remaining life at the reporting date.

Amortized cost...

Book the difference as Allowance

Amount expected to be collected...

What is the difference?

\[ A - B = C \]
Available-for-Sale Debt Securities

Would apply modified impairment guidance in Topic 320

- Allowance approach would be used for recognizing impairment losses, which would allow for credit loss reversals
- Allowance will be limited to the difference between amortized cost and fair value
- Requirement to consider the length of time that fair value of the security has been below amortized cost would be eliminated
- When estimating whether a credit loss exists, an entity must still consider whether it will be MLTN to sell the security before recovery of amortized cost

Effective Date for Final Standard

- Public Business Entities that are SEC Filers (Annual and Interim)
  - Reporting Periods beginning after Dec. 15, 2019
  - Other Entities (Annual and Interim)
  - Reporting Periods beginning after Dec. 15, 2021

- Public Business Entities that are SEC Filers
  - Reporting Periods beginning after Dec. 15, 2019
  - Other Entities (Annual and Interim)
  - Reporting Periods beginning after Dec. 15, 2021

Credit Losses TRG – Overview

To ensure a smooth transition to the new standard, the FASB formed a credit losses Transition Resource Group (TRG) in 2016.

The TRG consists of preparers from large and small banks, credit unions, and insurance companies, as well as auditors with various client bases, and users.

The purpose of the TRG is:
- To solicit, analyze, and discuss stakeholder issues arising from implementation of the new guidance
- To inform the FASB about those implementation issues, which will help the Board determine what, if any, action will be needed to address those issues
- To provide a forum for stakeholders to learn about the new guidance from others involved with implementation.

Credit Losses TRG – April 2016 Meeting

The first public meeting of the TRG was held in April 2016.

TRG members reviewed drafts of the standard and illustrations to help ensure the standard was clear and could be applied.

The feedback received at the April 2016 meeting indicated that overall the standard is clear and operational.

Credit Losses TRG – Post-Issuance

No TRG issues have been received to date; however, the staff has responded to technical inquiries asking for clarification of the submitter’s understanding of the following areas:
- CECL methodology
- Pooling of assets and credit quality characteristics
- Loan renewals in historical loss information and vintage disclosures
- Collateral maintenance agreements
- AFS security credit loss methodology
- PCD methodology

Future meetings will be scheduled based on the TRG issues that are received.

Hedge Accounting – Current GAAP

- Effective portion of changes in FV of hedging derivative deferred in OCI
- “Ineffective” portion recognized in earnings immediately
- Effective portion reclassified into earnings in the reporting period when the hedged item affects earnings
- Derivative marked to fair value through earnings
- Basis of hedged item adjusted for changes in FV attributable to hedged risk—also through earnings
- Basis adjustment offsets derivative mark to earnings

Stakeholders have said that these and other aspects of the model are overly complex and don’t match the underlying economics of the transaction!
Hedge of Nonfinancial Item
Swap fixed rate to floating

Hedge of forecasted purchase or sale
Swap floating rate to fixed

Risk Hedge

Cash Flow Hedge

Hedge Accounting – Targeted Improvements ED

For Qualifying Hedging Relationships:
- Derivative marked to fair value through earnings
- NEW: Entire derivative gain or loss is deferred in OCI
- Basis of hedged item adjusted for changes in FV attributable to the hedged risk through earnings
- Basis adjustment offsets derivative mark to earnings

NEW: Gain or loss previously deferred in OCI is reclassified into earnings in the same income statement line item as the hedged item in the reporting period when the hedged item affects earnings.

- Derivative marked to fair value through earnings
- NEW: Entire derivative gain or loss is required to be presented in the same income statement line item as the hedged item
- Basis of hedged item adjusted for changes in FV attributable to the hedged risk through earnings
- Basis adjustment offsets derivative mark to earnings

For Qualifying Hedging Relationships*
*The highly effective qualifying threshold (80%-125%) of current GAAP will be retained

The concept of separately recording “ineffectiveness” would be eliminated from hedge accounting.

Hedge of Financial Instrument

Hedge of Nonfinancial Item

What is an entity allowed to designate as the hedged item?

NEW: Contractually Specified Component

Component hedging will now be allowed for both types of hedged items

No changes to designated risks for financial instruments. Component hedging will now be allowed for both types of hedged items

Interest Rate Risk
Credit Risk
Foreign Exchange Risk

Variability in total cash flows (CF Hedges) or Overall changes in fair value (FV Hedges)

What rates can be hedged – ED

Some Other Proposed Simplifications
A concern of many constituents relates to the complex and burdensome nature of complying with certain existing requirements. In response to these concerns, the ED included the following proposed changes to Topic 815:

- Qualitative Testing: For all hedging relationships that do not meet the requirements for the shortcut or critical terms methods, an initial quantitative assessment of hedge effectiveness would be required (same as current GAAP). However, in all subsequent periods an entity may qualitatively assess hedge effectiveness unless facts and circumstances change.
- Hedge Documentation: An entity may perform the quantitative testing portion of hedge documentation before or at the three-month effectiveness testing period. The quantitative testing does not have to be at hedge inception. The timing of the preparation of all other hedge documentation elements would not change.
- Shortcut Method: An entity may apply a long-haul method if use of the shortcut method was or is no longer appropriate, as long as the hedge is highly effective from inception of the hedging relationship through the assessment date.

Hedges of Interest Rate Risk

What rates can be hedged – ED

Variable rate financial instruments
- Benchmark definition related to fixed rate – add SIFMA to list
- Separate approach for variable rate financial instruments
- Benchmark definition retained for fixed rate – add SIFMA to list

- Extends cash flow hedging to Prime and SIFMA

Allowed
- Libor
- Swap Rate
- Overnight Index Swap Rate (OIS)
- U.S. Treasury Rate
- SIFMA Prime Rate

Not Allowed
- LIBOR Rate
- Swap Rate
- Overnight Index Swap Rate (OIS)
- U.S. Treasury Rate
- SIFMA Prime Rate

Allowed
- Contractually Specified Rate*

Hedge Accounting – Next Steps

Redeliberate (after considering feedback from comment letters, roundtables, other outreach)

Private Company Efforts

Issue Final ASU

Component Hedging

Variable rate
- Financial instruments
- Benchmark definition related to fixed rate – add SIFMA to list

Allowed
- Variable rate financial instruments
- Benchmark definition related to fixed rate – add SIFMA to list
- Variable rate financial instruments

Not Allowed
- Derivative marked to fair value
- NEW: Entire derivative gain or loss is deferred in OCI
- NEW: Gain or loss previously deferred in OCI is reclassified into earnings in the same income statement line item as the hedged item in the reporting period when the hedged item affects earnings.

Allowed
- Fixed rate financial instruments
- Benchmark definition related to fixed rate – add SIFMA to list
- Fixed rate financial instruments

Not Allowed
- Derivative marked to fair value
- NEW: Entire derivative gain or loss is deferred in OCI
- NEW: Gain or loss previously deferred in OCI is reclassified into earnings in the same income statement line item as the hedged item in the reporting period when the hedged item affects earnings.

Allowed
- Fixed rate financial instruments
- Benchmark definition related to fixed rate – add SIFMA to list
- Fixed rate financial instruments

*Extends cash flow hedging to Prime and SIFMA
FASB and PCC Consider Private Company Decision-Making Framework

**Differential Factors**
- Number of primary users and their access to management
- Investment Strategies
- Ownership and Capital Structure
- Accounting Resources
- Learning about new financial reporting

**Modules**
- Recognition & Measurement
- Display (Presentation)
- Disclosures
- Effective Date
- Transition Method

*Principle: Consider cost and complexity but focus on user relevance*

Finalized PCC Alternatives

**Amortization of Goodwill (ASU 2014-02)**
- Amortize goodwill over 10 years; simplified 1-step impairment
- Prospective application – existing goodwill amortized over 10 years or less

**Intangible Assets (ASU 2014-18)**
- Do not recognize non-compensation agreements or customer-related intangibles unless capable of being sold or licensed
- Prospective application

**Plain Vanilla Interest Rate Swaps (ASU 2014-03)**
- Simplified Hedge Accounting
- Settlement Value

**Leasing Arrangements Under Common Control (ASU 2014-07)**
- Leasing entity under common control scoped out if certain criteria are met
- More disclosure
- Prospective application

Effective Date and Transition Guidance (ASU 2016-03)

Removed the effective dates from ASUs 2014-02, 2014-03, 2014-07, and 2014-18

- No preferability assessment the first time an alternative is elected
- Transition guidance extended indefinitely

Consolidations - Existing GAAP – VIE Guidance Recap

<table>
<thead>
<tr>
<th>Legal Entity?</th>
<th>Variable Interest?</th>
<th>Variable Interest Entity?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope Exception?</td>
<td>Primary Beneficiary</td>
<td>Related Party Tie-breaker?</td>
</tr>
</tbody>
</table>

Does VIE Guidance Apply?

Who has Controlling Financial Interest?

PCC Issue 15-02: Variable Interest Entities Under Common Control

**Concerns**
- Widespread diversity in private company practice when VIE guidance is applied to entities under common control.
- VIE guidance is difficult to understand and apply to private companies in general.
- Lack of implementation guidance and illustrations relevant to “typical” private company scenarios.
- Most examples within the guidance pertain to VIEs involved in securitization, asset-backed securities, or structured investment vehicles.

Engine Co. Example

**OWNER**
- 100% Equity

**Car Co.**
- Purchases 90% of Engines Produced
- $15k Loan
  - Engine Co. has insufficient equity (Equity + 5% of funding)
  - Industry standard for sufficient equity is 20%
  - Loan to Engine Co. represents 15% of funding
  - Engine Co financed remaining 80% with Bank ABC
  - Car Co makes significant decisions
  - Arm's length pricing
PCC agreed that common control consolidation issues are very pervasive among private companies. At the April 2016 PCC meeting, PCC voted to recommend FASB add this project to its own agenda.

- Members felt the project needed to be more comprehensively addressed than just at the private company level.

FASB Board will consider this recommendation at a future meeting.

- FASB staff has continued to perform preagenda research for FASB on this issue, looking at both private and public companies.
- At the September 2016 PCC meeting, PCC discussed and indicated general preference for a scope exception for private companies here.

**Current Status – PCC Issue No. 15-02**

**Some Other Key Projects on which PCC Has Been Advising FASB**

- Simplifying the Balance Sheet Classification of Debt
- Simplifying the Equity Method of Accounting
- Liabilities & Equity Short-Term Improvements: “Down Rounds”
- Disclosure Framework: Materiality, Pensions, FV Measurements, Income Taxes, Inventory
- Classification of Certain Cash Receipts and Cash Payments (EITF)
- Disclosure of Government Assistance by Business Entities
- Improving the Presentation of Net Periodic Pension/Postretirement Benefit Cost
- Clarifying the Definition of a Business

**Simplification Initiative and Disclosure Framework**

**Simplification Initiative Objective**

Reduce cost & complexity while maintaining or improving the usefulness of the information

Projects include narrow-scope items that the FASB can complete in the short term

Not always so SIMPLE!!

**Simplification Initiative—ASUs Issued**

- Eliminating the Concept of Extraordinary Items (ASU 2015-01)
- Presentation of Debt Issuance Costs (ASU 2015-03)
- Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement (ASU 2015-05)
- Disclosures for Investments in Certain Entities That Calculate NAV per Share (ASU 2015-07)
- Measurement of Inventory (ASU 2015-11)
- Employee Benefit Plan Reporting (part 1) (ASU 2015-12)
- Measurement-Period Adjustments (ASU 2015-16)
- Balance Sheet Classification of Deferred Taxes (ASU 2015-17)
- Equity Method of Accounting (ASU 2016-07)
- Employee Share-Based Payments (ASU 2016-09)
- Income Taxes on Intra-Entity Transfers of Assets (ASU 2016-16)

**Business Combinations: Measurement-Period Adjustments (ASU 2015-16)**

Current GAAP

- Rstart prior year for adjustments to provisional acquisition-related amounts that have been identified after year end but within one-year measurement period

Simplification

- Reflect adjustment in the subsequent year but separately present or disclose what would have been the effect on the prior year

**Effective Date and Transition:**

- Public business entities: annual periods beginning after December 15, 2015, and interim periods within those annual years
- All other entities: annual periods beginning after December 15, 2016, and interim periods thereafter
- Early adoption permitted; Prospective application
**Simplifying Accounting for Employee Share-Based Payments (ASU 2016-09)**

### Simplifications

- **Minimum statutory vesting requirements (classification, cash flow statement presentation)**
- **Accounting for forfeitures**
- **Accounting for income taxes upon award vesting settlement**
- **Presentation of excess tax benefits on cash flow statement**
- **Expected Term (nonpublic entities only)**
- **Intrinsic Value (new opportunity) (nonpublic entities only)**

### Effective Date and Transition

- **Public business entities:** annual periods beginning after December 15, 2016, and interim periods within those annual years.
- **All other entities:** annual periods beginning after December 15, 2017, and interim periods after December 15, 2018.

### Early Adoption

- Early adoption permitted; Prospective or Retrospective application (varies by area).

---

**Income Taxes: Classification of Deferred Taxes (ASU 2015-17)**

### Simplifications

- **Deferred taxes classified as current or noncurrent based on classification of related asset or liability (if there is one)**
- **Classify all deferred tax assets and liabilities as noncurrent**

### Effective Date and Transition

- **Public business entities:** annual periods beginning after December 15, 2016, and interim periods within those annual years.
- **All other entities:** annual periods beginning after December 15, 2017, and interim periods after December 15, 2018.
- Early adoption permitted; Prospective or Retrospective application.

---

**Simplifying the Method of Accounting for Income Taxes**

### Current GAAP

- **Basis difference:** The difference between the cost of an investment and the amount of underlying equity in net assets.
- **Increase in ownership:** Entities previously accounted for on other-than-equity-method of accounting which now qualify for the equity method.
- **Current method:** Use retrospective application of the equity method.

### Simplifications

- Proposal Exposed:
  - Remove consideration of basis difference (removed from FASB agenda; potential POC relook for private companies).
  - Remove retroactive application requirement (finalized as ASU 2016-07).

### Effective Date and Transition for ASU 2016-07:

- **Public business entities:** annual periods beginning after December 15, 2016, and interim periods within those annual years.
- **All other entities:** annual periods beginning after December 15, 2017, and interim periods after December 15, 2018.

### Early Adoption

- Early adoption permitted; Prospective application.

---

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

### Current GAAP

- **Tax consequences not recognized until item is sold to a third party (exception to general principle of comprehensively recognizing current and deferred taxes)**

### Simplifications

- **Recognize tax consequences (current and deferred taxes) at the time of intra-entity transfer of assets other than inventory.**
  - e.g., IFRS, intangible for intellectual property.
  - For combo-fair-share, the ED performed not to change GAAP for intra-entity transfers of inventory.

### Effective Date and Transition

- **Public business entities:** annual periods beginning after December 15, 2017, and interim periods within those annual years.
- **All other entities:** annual periods beginning after December 15, 2018, and interim periods after December 15, 2019.

### Early Adoption

- Early adoption permitted; Modified Retrospective application.

---

**Simplifying the Balance Sheet Classification of Debt (In Progress)**

### Current GAAP

- **The term current liability is defined in Topic 210 (Balance Sheet); but the term noncurrent is not explicitly defined.**
- **Topic 470 (Debt) includes narrow-scope guidance on various debt transactions.**
- **Balance sheet classification is based on face and circumstances as of the financial statement date; for some debt transactions, that is all of the balance sheet date for others.**
- **Current GAAP allows the application of judgement about intent and probability.**

### Simplification

- Debt would be classified as a current if one or both of the following criteria are met as of the balance sheet date:
  - The liability is contractually due to be settled more than 12 months after the balance sheet date.
  - The entity has a contractual right to defer settlement of the liability for at least 12 months (or operating cycle, if longer) after the balance sheet date.
- Exception for defaults/waivers.
- SACs/MACs reflected only when triggered.

---

**Disclosure Framework: Phase I – Board’s Decision Process**

- **Board issued Proposed Concepts in 2014:**
  - Issues addressed included:
    - Purpose of notes.
    - General limitations (relevance, costs, certain info omitted to future).
    - Info that could be appropriate for inclusion in notes.
    - Considerations for interim reporting.
    - Methodology to be utilized by Board: series of questions.

- **Board currently beta-testing Proposed Concepts through four areas:**
  - Definition of Defined Benefit Plans, Fair Value Measurement, Income Taxes, ED to come on Inventory.
Issued Exposure Draft (proposed ASU) on Assessing Materiality in Disclosures in September 2015

- Would provide guidance in Topic 230 for applying materiality to disclosures, and improve language in disclosure sections of individual topics so as not to hinder such application.

At same time, issued Exposure Draft to amend Conceptual Framework

- As with the proposed ASU, would clarify that materiality is a legal concept

Comment period for both EDs ended in December 2015.

Disclosure Framework: Phase II – Entity’s Decision Process

Roundtables
- Address materiality
- Discuss application of concepts via beta tests

Redeliberate

Disclosure Framework – Next Steps

NFP Financial Statements

Project Objective:
Simplify and improve how an NFP classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. (“Help it better tell its financial story”)

Items left for Phase 2 include:
- As a result of feedback received on the Exposure Draft, the Board split this project into 2 phases. ASU 2016-14 is the culmination of Phase 1.

Key Provisions of ASU 2016-14

- No longer required to present indirect method reconciliation if present direct method
- Streamlines net asset classes (with and without donor restrictions)
- Reemphasizes disclosure requirements about net asset restrictions
- Adds disclosure requirements about net asset designations
- Requires accounting/ augments disclosures for underwater endowments
- Eliminates implied time restrictions for capital gifts

Key Provisions of ASU 2016-14 (cont’d)

- Qualitative information about how an NFP manages its liquid available resources and its liquidity risk
- Qualitative information that communicates the availability of an NFP’s financial assets at the balance sheet date to meet cash needs for general expenditures within one year

- Requires reporting of expenses by nature as well as by function, including an analysis (choice of location)
- Qualitative information about cost allocation
- Improves guidance on allocation from M&G Expenses
Key Provisions of ASU 2016-14 (cont’d)

- Requires reporting net of external and direct internal investment expenses
-Eliminates disclosure requirement for netted investment expenses, investment return components

Increasing transparency about effect of internal actions on operating measures (if reported)

ASU 2016-14: Effective Date, Early Adoption, and Transition

- Effective Date: For fiscal years beginning after 12/15/2017 (e.g., CY 2018, FY 2018-19)
- Interim financials the following year
- Early Adoption: Permitted, but must apply the regular transition provisions.
- For year of adoption: apply all provisions.
- For comparative years presented: apply all provisions, except can choose not to present:
  - Analysis of expenses by nature and function*, and/or
  - Disclosures around liquidity and availability of resources

* Unless already required to do so under current GAAP

Cash Flow Classification Issues (EITF Issue 15-F)

1. Debt prepayment or extinguishment costs
2. Settlement of zero-coupon bonds
3. Contingent consideration payments made after a business combination
4. Proceeds from the settlement of insurance claims
5. Proceeds from the settlement of life settlement contracts
6. Distributions received from equity method investees
7. Beneficial interests in securitization transactions
8. Application of the predominance principle
9. Restricted cash*

* Spun off into EITF Issue 16-A, ASU 2016-18

Some Other Recent ASUs and Ongoing Projects

1. Debt prepayment or extinguishment costs
2. Settlement of zero-coupon bonds
3. Contingent consideration payments made after a business combination
4. Proceeds from the settlement of insurance claims
5. Proceeds from the settlement of life settlement contracts
6. Distributions received from equity method investees
7. Beneficial interests in securitization transactions
8. Application of the predominance principle
9. Restricted cash*

* Spun off into EITF Issue 16-A, ASU 2016-18

Disclosures about Government Assistance to Business Entities

Current GAAP

- No explicit guidance
  - No guidance on accounting for or the disclosure of government assistance received by business entities.

Proposed Update (November 2015)

- Required annual disclosures for certain transactions
  - Nature of assistance, related accounting policy and effect on financial statement amounts.
  - Significant terms and conditions of the agreement which might include:
    - Duration of agreement
    - Interest rates
    - Penalties or recapture
    - Provisions for recapturing government assistance

Project Stage: In redeliberations

Some Other Noteworthy Projects in the Pipeline

- Goodwill Impairment
- Definition of a Business
- Improving the Presentation of Net Periodic Pension/Postretirement Benefit Cost
- Simplifying Employee Benefit Plan Reporting (part 2): Master Trusts
- Nonemployee Share-Based Payments
Looking to the Future – Agenda Consultation

FASB—Major Projects of the Future: Agenda Consultation

Recent Invitation to Comment (ITC) to solicit public feedback to help determine the next generation of major FASB projects.

Described and asked questions about 4 topics identified by FASB’s advisory groups:

- Intangible Assets
- Pensions and Other Postretirement Benefits
- Distinguishing Liabilities from Equity
- Reporting Performance and Cash Flows

ITC also asked respondents for other suggestions.

Public roundtable in December and agenda decisions in early 2017.

Staying Current

Best ways to stay current:

- Sign up for electronic Action Alert
- FASB on Twitter
- www.fasb.org
  - Project summaries
  - FASB in Focus executive summaries
  - Podcasts
  - Webcasts

Questions?